



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 06-May-2022 | Report No: PIDA33864



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
India	P178329	Second Tamil Nadu Housing Sector Strengthening Program Development Policy Loan (P178329)	P172732
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
SOUTH ASIA	22-Jun-2022	Urban, Resilience and Land	Development Policy Financing
Borrower(s)	Implementing Agency		
India	Finance Department of the Government of Tamil Nadu, Housing and Urban Development Department of the Government of Tamil Nadu		

Proposed Development Objective(s)

To support the Government of Tamil Nadu to increase access to and sustainability of affordable housing by deepening policy reforms and strengthening institutions.

Financing (in US\$, Millions)

SUMMARY

Total Financing	200.00
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DETAILS

Total World Bank Group Financing	200.00
World Bank Lending	200.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

1. **India's rapid urbanization is an engine for sustained economic growth and poverty alleviation, where the provision of affordable housing is now an acute challenge, and Tamil Nadu's predicament is no exception.** The proposed US\$200 million Development Policy Loan (DPL) is the second in the series of the World Bank's programmatic engagement to support housing sector transformation in Tamil Nadu. It is estimated that over 30 percent of Indians will live in urban areas and by 2030, and 70 percent of new employment is expected to be generated in cities, where the provision of affordable housing is now an acute challenge. In India, the provision of formal **affordable** housing is largely led by the public sector and very limited, while most formally built housing by the private sector remains highly unaffordable. A total housing shortage of ten million units is estimated in urban areas of India¹, and over 90 percent of this deficit is concentrated in the Economically Weaker Section (EWS) and Low-Income Group (LIG)² population segments.³ In rapid-urbanizing Tamil Nadu, nearly half (48.4 percent) population lives in cities, and this portion is expected to raise to 63 percent by 2030. Its total housing shortage was estimated at 1.2 million in 2017. Although Tamil Nadu ranks lower than other Indian states in terms of the poverty headcount ratio⁴, analysis shows that there are few housing units provided by market that are affordable to households below the 6th decile⁵.

2. **Recognizing the importance of the housing sector in a rapid urbanization context, the Government of Tamil Nadu (GoTN) embarked on a journey to structurally reform the affordable housing sector in the state.** The World Bank has been supporting this journey through a programmatic engagement. The First Tamil Nadu Housing Sector Strengthening Project (1st TNHSSP) ushered in the first Tamil Nadu Affordable Urban Housing and Habitat Policy (TNAUHHP) 2020, which sets the long-term vision and articulates the subsequent reforms. The Policy aims to shift the government's role from that of a 'provider' of affordable housing to that of an 'enabler' of the housing market. The proposed 2nd TNHSSP is set to deliver incremental shifts in institutions, systems, programs, and regulations as per the government's road map supported under the 1st TNHSSP, as well as some new policy priorities of Tamil Nadu's the current government that took office in May 2021. The new administration confirmed the vision of a housing eco-system where the private sector is delivering diverse housing solutions to meet the varying demands of most of the population, while scarce fiscal resources are prioritized for the poorest and the most vulnerable. The latest policy directions of the Government of Tamil Nadu (GoTN) are specified in the Policy Note 2021–22,⁶ most notably on addressing climate change challenges and promoting sustainable urban growth in the state.

3. **India's macroeconomic policy framework is considered adequate for the proposed Development Policy Financing (DPF) reflecting solid fundamentals and capacity to respond.** While global spillovers from the Russia-Ukraine conflict will impede growth recovery in India, the economy is expected to grow by 8 percent in FY22/23, amid considerable uncertainty about the oil price shock and moderating global growth. Fiscal policy will chart a path of gradual fiscal consolidation with greater focus on infrastructure spending. India's external debt is moderate at around 21 percent of GDP, and rollover risks are limited. Despite remarkable progress in reducing absolute poverty in recent years, the COVID-19 outbreak has delayed the course of poverty reduction in India⁷. Between 2012 and 2017, India's poverty rate declined from 22.5 percent⁸ to values ranging from 8.1 to 11.3 percent⁹. However, recent projections of GDP per capita growth, considering the impact of the pandemic, suggest that poverty rates in 2020 have likely reverted to estimated levels in 2016¹⁰. Labor market indicators from high frequency surveys suggest that vulnerability has increased, particularly for urban households. Overall, the pandemic and its economic impacts are estimated to have raised urban poverty, creating a set of "new poor" likely to be engaged in the non-farm sector.

4. **Tamil Nadu's macroeconomic policy framework is considered adequate for the proposed DPL as well.** With an expected recovery in economic activity and gradual fiscal consolidation, the debt-to-GSDP ratio is projected to increase, but it will remain at low levels. The main risks to the government's debt trajectory include lower GDP growth (due to newer strains of COVID-19) and a higher deficit (if contingent liabilities materialize in the form of losses of the state power distribution company, which may require the state government to step in as it did in FY16/17). Even under such adverse alternative scenarios, Tamil Nadu's debt remains sustainable. The risks are mitigated by the realistic growth estimates of the government (in line with historical growth trends) and the resilience of economic activity to the pandemic. The state has a fiscal buffer (a reserve of USD 976 million with the RBI in the form of a Consolidated Sinking Fund) and will not have a problem financing increased fiscal needs,¹¹ if they arise.



Relationship to CPF

5. **The proposed DPL2 is consistent with the approach of the World Bank Group Country Partnership Framework (CPF) FY18-22 for India** (Report No. 126667-IN July 25, 2018, discussed by the Board on September 20, 2018). Green, livable, productive, and resilient cities are an integral part of the focus area 1 of the CPF, namely facilitating growth and poverty reduction, while promoting greater resource efficiency. The proposed operation is fully aligned with the CPF on three fronts: it aims to strengthen institutions, regulations and financing in the housing sector that are much needed in a context of fast-growing urban areas, while supporting efforts to enhance state capabilities to change the business-as-usual business model towards a more sustainable path; it is aligned with the CPF's focus on impact multipliers by promoting increased private sector participation in the affordable housing sector. As the challenges faced by the housing sector in Tamil Nadu are similar to those in other states in India, the lessons can be shared with other states, and the proposed policy interventions can potentially be replicated.

C. Proposed Development Objective(s)

6. To support the Government of Tamil Nadu to increase access to and sustainability of affordable housing by deepening policy reforms and strengthening institutions.

Key Results

7. Through strengthening policy, institutions, and regulations of the housing sector, the proposed operation is expected to bring out the following key results, among others: a) **Expanded demand-responsive affordable housing solutions for Economically Weaker Section (EWS) households**, to move the government housing program away from a one-size-fits-all solution to a set of supply-side segmented solutions that respond to household affordability concerns. The introduction of smaller-sized units and the consequential reduced co-payment for households will significantly benefit those households in bottom two deciles – who would have been potentially excluded otherwise. Moreover, the GoTN will facilitate access to housing finance for interested EWS beneficiaries with the final credit decision residing with the lenders. Such measures will enable more efficient use of public resources: within the same budget envelope, government subsidies can now be better utilized to generate more units¹², as they are better targeted to serve the poorest and most vulnerable households, and private capital are leveraged to finance housing solutions.¹³ b) **Enhanced sustainability and climate resilience in the housing sector with private sector engagement**: First, the empowerment of Residential Welfare Associations (RWAs) and strengthened provisions in the Apartment Ownership Act will mobilize residents and apartment owners to improve operation and maintenance (O&M) of their housing units. Better O&M will then lead to enhanced climate adaptation, increased housing durability, improved energy efficiency in buildings and reduced household and institutional costs. Second, mandatory compliance to Eco-Niwas Samhita 2018 Code in government-led affordable housing will lead to improved thermal comfort and greater resource efficiency in these buildings as well as potential savings in maintenance costs for residents. Lastly but not least, the revised Master Plan for Chennai Metropolitan Planning Area Rules will steer the urban and regional planning practice in the Chennai Metropolitan Area (CMA) towards more sustainable and climate resilient urban growth for decades to come.

¹ Source: Ministry of Housing and Urban Affairs, November 2017.

² 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 GoI (PMAY-HFA Urban Scheme Guidelines).

³ The Report of the Technical Group (11th Five Year Plan: 2012-2017) on Estimation of Urban Housing Shortage (2011).

⁴ In 2012, the poverty rate for urban Tamil Nadu was 5.3 percent, lower than the urban India average of 9.7 percent

⁵ World Bank assessment.

⁶ https://cms.tn.gov.in/sites/default/files/documents/hud_e_pn_2021_22.pdf

⁷ World Bank projections. The Government of India has deployed significant resources for social assistance, including towards urban poor households and migrants.

⁸ Consumption Expenditure Survey 2011-12, National Sample Survey Office (NSSO), Government of India.

⁹ World Bank estimates. Source: Poverty and Shared Prosperity Report, 2020.

¹⁰ World Bank estimates. Source: Macro Poverty Outlook, 2020.

¹¹ Even though the central government does not explicitly guarantee the states' domestic borrowings, in FY20/21 states were supported by increased grants from the central government, additional borrowing space and even on-lending of funds borrowed by the central government. States can also take short-term loans from the RBI (less than 1 year) to meet short-term liquidity constraints.

¹² Smaller tenement units consume less land and less (absolute) subsidies.

¹³ Subsidies finance a higher cost portion in case of smaller units and a lower cost portion in case of larger units.



D. Project Description

8. The proposed 2nd Tamil Nadu Housing Sector Strengthening Program is part of a programmatic engagement to support the state government's plans to transform the housing sector in Tamil Nadu. Following the successful implementation of the first TNHSSP DPL, the second DPL will deepen and promote measures to ensure the long-term sustainability and climate resilience of the housing sector by nudging new institutional architecture for the sector and adopting diversified housing products and programs to expand access to affordable housing. This proposed DPL2 continues with the original two pillars of that of DPL1 and strengthens the third pillar to bring in the resilience angle. Of the nine policy triggers identified under DPL1, one has been achieved and six are retained as prior actions; two new prior actions are included to incrementally build on policy prior actions under DPL1.

9. The **first pillar aimed at strengthening policies and institutions for increased access to affordable housing**. It continues to support GoTN's efforts to redefine its role and mandate as an enabler in creating efficient and inclusive housing markets, through moving the Tamil Nadu Housing Board away from a direct provider role to a market-making role for the underserved market segments, better targeting of GoTN's fiscal resources to the poorest and most vulnerable by introducing a menu of housing solutions that consider affordability of the bottom income deciles and leveraging private housing finance; institutionalizing community-driven O&M, and introducing state housing information system to enable informed decision making in the housing sector. The **second pillar aimed at enhancing the enabling environment to increase affordable housing supply**. It will address regulatory and administrative constraints critical to unlock the supply of affordable housing, including removing barriers for O&M of multi-storied apartments and mandating a single-window approval system for issuing planning and building permits. The **third pillar aimed at promoting sustainability and climate resilience**. It supports the new GoTN's priority to mainstream measures for improved sustainability and climate resilience into the regulations and housing policy making processes and more broadly in managing urban development.

E. Implementation

Institutional and Implementation Arrangements

10. **The proposed operation will be implemented by the Finance Department and Housing and Urban Development Department (HUDD) of the GoTN**, with the former responsible for disbursement of funds and the latter for coordinating the implementation of various policy actions, technical activities, and results monitoring and evaluation. Under the direction of HUDD, the two leading government agencies responsible for providing affordable housing in Tamil Nadu are the TNUHDB (targeting eligible EWS households), and the TNHB (serving in particular LIG and MIG households). These two institutions will carry out interventions and activities in accordance with the proposed policy and program reforms to ensure that the expected outcomes of the proposed operation can be achieved. Additionally, the Chennai Metropolitan Development Authority (CMDA) will be responsible for the proposed Prior Action 8 on the revision of the master plan rules. **The proposed Directorate of Housing under HUDD will coordinate the monitoring and evaluation of the result indicators of the proposed operation.**

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

11. **Overall, the proposed operation will generate positive poverty and social impacts, benefitting the poorest segments by increasing the availability of affordable homes and increasing their access to services.** Increasing the availability of affordable homes will increase household's disposable income, leading to a possible reduction of poverty and social inequalities. The two new government orders GO54/2021 and GO55/2022 have expanded housing program differentiation and introduced two smaller-unit categories and more flexible payment schedules, which will enhance inclusiveness and the efficiency of the government's EWS housing program. The availability of a menu of housing solutions, particularly the introduction of smaller sized units allows the bottom 10% households, who were previously excluded, to have access to government's housing programs. Improved access to services affects the socio-economic condition of households in three ways: reduced expenditure on housing, safe and secure living space, and security of tenure. Meanwhile, measures to promote housing sustainability and climate resilient urban growth will also benefit the urban poor, through reduced utility costs and loss to climate shocks and disasters as well as improved access to



employment/economic opportunities. Policy reforms that enhance O&M, resilience-informed building and development regulations, such as inclusionary zoning for affordable housing and promotion of energy efficiency in TNCDBR are designed towards this end. Finally, strategic spatial planning that encourages compact mixed-use in urban growth and fosters affordable housing supply in built urban areas will lead to reduction in transport costs, increased access to jobs, improved access to services for urban poor households, compared to being priced out to the outskirts.

Environmental, Forests, and Other Natural Resource Aspects

12. **Prior actions under the DPL2 are expected to have overall positive environmental effects.** The proposed DPL2 will further embed sustainable development and climate resilience principles in various policy reforms and development related acts and will align the new institutional architecture to build the overall capacity of the affordable housing sector in Tamil Nadu (including active small developers) from an environmental perspective. Specific actions proposed under the operation will help the GoTN tackle housing sustainability challenges through an inclusive and strategic spatial planning approach in the Chennai Metropolitan area's Master Plan, inclusive and resilience measures in amended regulations and improved O&M mechanisms. Community-driven O&M systems will lead to enhanced asset life (durability), safety, and resilience of government sponsored EWS housing units. Platforms for knowledge exchange and increased transparency through the Tamil Nadu Integrated Housing Information System are expected to increase the overall efficiency of this sector and build capacity of the private sector. The government order to mandate thermal comfort and energy efficiency in all new TNHB and TNUHDB housing projects through application of Eco-Niwas Samhita 2018 Code is expected to have significant positive environmental effects.

G. Risks and Mitigation

13. **The overall risk associated with the operation is Moderate.** As the second and last of the two-tranche DPL series, this Operation is designed under the existing reform framework in collaboration with the government institutions in the housing sector whose capacity has been largely enhanced through the first DPL and the ongoing Tamil Nadu Housing and Habitat Development Project (TNHHDP). The concepts and actions proposed in deepening the housing sector reform are well understood by the key counterparts and have been well internalized in the sector strategies and policies. Therefore, all risk categories except for Environmental and Social risks and the stakeholder risks are rated as moderate. **Environmental and social risks are Substantial.** The prior actions under the proposed DPL have a special focus on sustainability through improving O&M of housing units, enforcing compliance to energy efficiency building code, and integrating climate resilience in master planning process. Nevertheless, there remains a risk that these adopted measures may not be adequately incorporated in implementation by different agencies. This risk will be mitigated through the technical assistance under the TNHHDP. **Stakeholder risk is considered as Substantial.** The proposed policy reforms under this DPL have been proceeded through public consultations and citizen engagement via different forums. HUDD has initiated consultations with the private sector, civil societies, academia, and development partners. However, there remains a risk that citizens, civil societies, and NGOs are not fully satisfied that the adopted policies and program well reflected their views. To mitigate this risk, the WB team has supported the GoTN to establish a social sustainability and grievance management framework to ensure that meaningful and effective stakeholder engagements will be carried out on a continuous basis and that citizen feedback will be collected and addressed during policy implementation. Any residual risk will be mitigated by the ongoing TNHHDP, which aims to sustain a dialogue with wider stakeholders and support implementing the prior actions introduced under DPL1 and the proposed DPL2.

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APPROVAL

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Approved By

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