



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 02-Mar-2022 | Report No: PIDC33228

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

Country India	Project ID P178329	Project Name Second Tamil Nadu Housing Sector Strengthening Program Development Policy Loan (P178329)	Parent Project ID (if any) P172732
Region SOUTH ASIA	Estimated Board Date Jul 20, 2022	Practice Area (Lead) Urban, Resilience and Land	Financing Instrument Development Policy Financing
Borrower(s) Government of India	Implementing Agency 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 preparation to continue

B. Introduction and Context**Country Context**

1. **India's Gross Domestic Product (GDP) growth was already slowing when the COVID-19 outbreak unfolded.** Real GDP growth moderated from an average of 7.4 percent during FY15/16-FY18/19 to an estimated 3.7 percent in FY19/20¹. The growth deceleration was mostly due to (i) shocks to the financial sector, and (ii) decline in private consumption

¹ National Accounts Data, National Statistical Office, Ministry of Statistics and Program Implementation (MOSPI).



growth². Against this backdrop of pre-existing weaknesses, the outbreak of COVID-19 had a significant impact, with real GDP contracting by 6.6 percent in FY20/21³. On the fiscal side, the general government deficit widened significantly in FY20/21, owing to higher spending and low revenues⁴. With the easing of Covid-19 restrictions, GST collections have crossed INR 1 trillion mark every month from July to December 2021. The robust Goods and Services Tax (GST) revenues are expected to continue as the economic recovery gathers momentum. Given the significant uncertainty pertaining to epidemiological developments, the real GDP growth⁵ for FY21/22 is likely to be in the range of 7.5 to 12.5 percent, while growth in FY22/23 is expected to be 8.7 percent⁶. The expected recovery will put India among the world's fastest-growing economies over the next two years.

2. **Although India has made remarkable progress in reducing absolute poverty in recent years, the COVID-19 outbreak has delayed the course of poverty reduction⁷.** Between 2012 and 2017, India's poverty rate is estimated to have declined from 22.5 percent⁸ to values ranging from 8.1 to 11.3 percent⁹. However, recent projections of GDP per capita growth, taking into account 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 -including from the Centre for Monitoring Indian Economy (CMIE)- 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" that are relatively more likely to be engaged in the non-farm sector and to have received at least secondary education.

3. **India's economic development has been driven by urbanization which creates more productive jobs and catalyzes economic transformation, yet cities are also facing challenges in delivering adequate basic services and affordable housing needed for a growing urban population.** 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 India¹¹, and over ninety percent of this deficit is concentrated in the Economically Weaker Section (EWS) and Low-Income Group (LIG)¹² population segments.¹³ As the trend of urbanization continues, the deficit in housing provision is likely to increase further, unless corrective steps are taken. Nearly half (48.4 percent) of Tamil Nadu's population of 72.1 million lives in cities.¹⁴ Rapid urbanization in the state is expected to raise the urban population to 63 percent by 2030.¹⁵ Its total housing shortage was estimated at 1.2 million

² National Accounts Data, National Statistical Office, MOSPI.

³ National Accounts Data, National Statistical Office, MOSPI.

⁴ Union budget 2021, 2022, Ministry of Finance.

⁵ World Bank Global Economic Prospects, January 2022.

⁶ World Bank real GDP forecasts for FY22/23 are broadly in line with the projections of the Government of India.

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

¹² 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).

¹³ The Report of the Technical Group (11th Five Year Plan: 2012-2017) on Estimation of Urban Housing Shortage (2011) estimated housing shortage at 18.76 million units in urban areas, of which 96 percent pertained EWS (56 percent) and LIG (40 percent).

¹⁴ 2011 National Census Report.

¹⁵ IPE Global Team, Housing Diagnostic Report on Tamil Nadu, 2020.



in 2017. Although Tamil Nadu ranks lower than other Indian states in terms of the poverty headcount ratio¹⁶, analysis shows that there are few housing units provided by market that are affordable to households below the 6th decile¹⁷.

4. **Responding to these challenges, the Government of Tamil Nadu (GoTN) embarked on a journey to structurally reform the affordable housing sector in the state.** The GoTN envisioned a housing ecosystem where scarce government fiscal resources would be prioritized for the most vulnerable, and where the non-government sector (private developers, housing finance institutions, and beneficiaries) would be encouraged to bring expertise and capital to the sector to increase housing options for all. The First Tamil Nadu Housing Sector Strengthening Project (TNHSSP) – the first development policy loan (DPL) operation in a series of two DPL programmatic operation – saw the Government of Tamil Nadu (GoTN) adopt the Tamil Nadu Urban Affordable Housing and Habitat Policy 2020 (TNUAHHP) which set in place a vision and key principles for the proposed reforms. Through the first TNHSSP, GoTN ushered in immediate reform actions while laying out subsequent reforms required through policy triggers of the second proposed DPL operation. Through the second TNHSSP, GoTN is set to deliver these incremental shifts in institutions, systems, programs, and regulations, and as their prerequisites are met. The second TNHSSP also allows for incorporating the new government’s vision for development as well as course-correction, taking learnings from the first phase of reforms to achieve the overall vision set out by the TNUAHHP.

Relationship to CPF

5. **The Country Partnership Framework (CPF) for India, under its focus area 1, will support sectors and areas that are critical for facilitating growth and poverty reduction while promoting greater resource efficiency.** Green, livable, productive and resilient cities are an integral part of this agenda. Furthermore, the CPF recognizes that India could be missing out on the opportunities and gains associated with urbanization due to its ‘messy’ urban growth characterized by rapid urban sprawl, outdated land use regulations, low level of infrastructure investments, and dysfunctional housing markets. The CPF calls for the need to address these challenges while leveraging private finance and strengthening public sector institutions—two catalytic areas that will allow the WB to deliver results at scale. To this end, the proposed operation is fully aligning with the CPF on three fronts. First, it aims at strengthening institutions, regulations and financing in the housing sector, while supporting efforts to enhance state capabilities intended to change the business-as-usual business model towards a more sustainable path. Second, the proposed operation is aligned with the CPF’s focus on impact multipliers by promoting increased private sector participation in the affordable housing sector. And third, as challenges facing the housing sector in Tamil Nadu are common in other states in India, the proposed policy interventions can potentially be replicated, and lessons can be shared with other states.

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. **Key results expected from the proposed operation include:**
- **Creation of demand-responsive solutions in affordable housing provision** that allows the government program

¹⁶ In 2012, the poverty rate for urban Tamil Nadu was 5.3 percent, lower than the urban India average of 9.7 percent

¹⁷ World Bank assessment.



targeting EWS households to move away from a one-size-fits-all solution to a set of supply-side segmentation solutions (location, size-based, etc.) that respond to household affordability concerns. The introduction of smaller sized units and corresponding more affordable co-payment ensures that households in bottom two deciles – potentially excluded – are supported through the new government program. Moreover, the new program will facilitate access to housing finance for interested beneficiaries with the final credit decision residing with the lenders. These measures would allow a reduction in relative subsidies with increasing unit size, while not increasing absolute subsidies. This is expected to leverage both household resources and private lenders' financing such that scarce public resources are deployed to the poorest and most vulnerable EWS households.

- **Enhanced sustainability and climate resilience with private sector engagement** through measures that incentivize private homeowners to rent out vacant units, as well shifting to a single window clearance for building and development permits thereby reducing processing time and increasing transparency. Climate resilience will be strengthened through improved operation and maintenance (O&M) of government EWS tenements as well as private apartments leading to enhanced climate adaptation and increased asset life while bringing in energy efficiency in buildings leading to reduced carbon emissions and increasing household and institutional savings.

D. Concept Description

8. The proposed 2nd Tamil Nadu Housing Sector Strengthening Program is part of the GoTN's and the World Bank Group's programmatic engagement to support the transformation of the housing sector in Tamil Nadu. The programmatic housing sector DPL series was conceptualized in 2019 as the vehicle to support an incremental housing sector reform agenda, expected to lead to transformative sectoral changes in the medium to long term. The 1st operation under this programmatic series ushered in the first Tamil Nadu Affordable Urban Housing and Habitat Policy (TNUAHHP) 2021, which set guiding principles and outlined needed shifts in housing policy and institutions, regulations, and programs. The Policy aimed to shift the role of the government from that of being a 'provider' of affordable housing to that of being an 'enabler' of the housing market. GoTN envisioned a housing ecosystem where scarce fiscal resources are prioritized for the most vulnerable, and where the private sector (developers, financial institutions and beneficiaries) is encouraged to bring expertise and capital to the sector to increase housing options for all. This vision involves a long-term transition that will require institutional realignment, new housing programs, and stronger capacity from GoTN's for housing market facilitation. Of the nine policy triggers identified under the 1st TNHSSP, six are retained as prior actions under the 2nd TNHSSP. Two new prior actions are included to incrementally build on first generation policy prior actions taken up under the 1st TNHSSP. The eight proposed prior actions are listed below.

Pillar 1: Strengthening policies and institutions for increased access to affordable housing

9. The first pillar continues to support GoTN's efforts to transform the housing sector from a state-led model to a state-facilitated model that enables a move towards development of a suite of demand-based solutions for responding to the multiple needs of its citizens, creating space for private sector to provide tailored affordable housing solutions, and deploy public resources more efficiently and sustainably by targeting households with the most pressing housing needs. The following prior actions are proposed:

PA #1: To align the institutions with the Tamil Nadu Urban Affordable Housing and Habitat Policy, GoTN has submitted to the State Legislative Assembly for approval thereof the updated TNSCB and TNHB Acts.

PA #2: To enhance efficiency and inclusiveness of government's EWS housing program, GoTN's has adopted and published a Government Order to offer a menu of housing solutions which take into account affordability for participatory



self-selection by households, and to facilitate access to private housing finance solutions.

PA #3: To promote the sustainability and climate resilience of new assets, GoTN has issued a Government Order mandating the establishment of community driven operation and maintenance systems in new government sponsored EWS housing units.

PA #4: To improve monitoring and performance of the housing sector, GoTN has issued a regulation to mandate: (i) the establishment of an integrated information system; and (ii) the publication of an annual state of housing sector report.

Pillar 2: Enhancing the enabling environment to increase affordable housing supply

10. The second pillar aims to support the reform agenda laid down by GoTN on unlocking regulatory barriers that will effectively increase the supply of affordable housing in Tamil Nadu. The following prior actions are proposed:

PA #5: To improve the operation and maintenance in multistoried apartments and promote climate adaptation, GoTN has enacted amendments to the Tamil Nadu Apartment Ownership Act.

PA #6: To incentivize long term rental, GoTN has issued a Government Order mandating a reduction in stamp duty and registration charges for all rental agreements of more than 12 months.

Pillar 3: Mainstreaming regulations to promote sustainability and climate resilience in the housing sector

11. The third pillar aims to support GoTN's intention of enabling greater non-government and private sector engagement in increasing access to housing. The following prior actions are proposed:

PA #7: To enhance business environment, GoTN has issued a Government Order mandating all planning authorities to move to an online single window approval system for issuing building and planning permits.

PA #8: To enhance affordable housing provisions and promote energy efficiency in planning and building design, GoTN has enacted amendments to the Tamil Nadu Combined Development and Building Rules.

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

Poverty and Social Impacts

12. **The overall poverty and social impacts of the policies supported by this DPL are expected to be positive.** The actions supported by this operation draw upon lessons learnt from the previous DPL. The proposed DPF is expected to promote efficient and inclusive housing market development and increase the supply of affordable housing that is better equipped to respond to increasing demand in low and middle-income segments. Improved access affects the socio-economic condition of households in three ways – reduced expenditure on housing, safe and secure living space, and security of tenure. Affordable housing results in a reduction of household expenditure on housing and poor households spend these extra savings on better health, nutrition, and education. The beneficiary of increased expenditure are mostly children, women, and young adults. Creating a safe and secure living space has a positive impact on the educational attainment and mental health of children and young adults. Tenure security has tangible as well as intangible benefits for the households. The positive impact of affordable housing goes beyond the families owning the house and has a positive externality for the community and the city in general. An increase in affordable housing supply has a direct effect on the number of jobs in the construction sector and connected industries and enables economies to bounce back faster in the post-pandemic context.

Environmental, Forests, and Other Natural Resource Aspects



13. **The proposed operation is expected to have overall positive environmental effects and are consistent with the broader vision of mainstreaming environmental sustainability and climate resilience in the affordable housing sector.** The design of the proposed DPL draws upon the lessons learned from the implementation of the first DPL and the ongoing Tamil Nadu Housing and Habitat Development Project. Strengthening of environmental management approaches in affordable housing sector through implementation of the Environment Management Framework (EMF) by TNUHDB, and adoption of an environmental and social management system for the Shelter Fund (ESGMS; managed by TNIFMC) has already initiated the mainstreaming of environmental considerations in the affordable housing sector. The current DPL will further deepen sustainable development principles and climate resilience in various policy reforms and will align the new institutional architecture to build capacity of the affordable housing sector in the state from an environmental perspective.

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APPROVAL

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