



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Jan-2020 | Report No: PIDC28377



BASIC INFORMATION

A. Basic Project Data

Country India	Project ID P172732	Project Name Tamil Nadu Housing Sector Strengthening Program (P172732)	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Board Date May 18, 2020	Practice Area (Lead) Urban, Resilience and Land	Financing Instrument Development Policy Financing
Borrower(s) Republic 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 strengthen policy, institutions, and programs of the housing sector.

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 economic growth is closely associated with urbanization.** Cities in India have offered a pathway to rapid poverty alleviation, sustained economic growth, and achievement of middle-income status. It is estimated that over 30 percent of Indians already live in urban areas and by 2030, 70 percent of new employment is expected to be generated in cities. Indian cities will need to accommodate 18 million new urban dwellers per year. While urbanization is placing cities as the main engines of economic opportunities and shared prosperity, to maximize gains from urbanization, it is critical for India to strengthen urban institutions, increase access adequate basic services and affordable housing. Nearly 90 percent of India’s 10 million housing unit deficit is concentrated in the Economically Weaker Section (EWS) and Low-



Income Group (LIG) population segments, and its shortage has contributed to spatially uncoordinated and unplanned urbanization, with nearly one quarter of the population living in slums.

2. **Recognizing the relevance of the housing sector, the Government of India (GoI) launched in 2015 the national flagship mission, Pradhan Mantri Awas Yojana-Urban (PMAY-U), to address the rising housing needs of the growing urban population, especially those of low-income groups.** PMAY-Urban (PMAY-U) consolidates previous urban housing schemes¹ and aims to achieve ‘Housing for All’ by the year 2022. PMAY-U set out to close the housing shortage of about 20 million in India and had allocated about US\$6 billion. However, for the ambitious national Government’s program to make a scalable and meaningful impact on the ground, and to incentivize the housing market to become more efficient, sustainable, and inclusive, state-level interventions to tackle key policy, institutional, and regulatory constraints are important.

3. **Tamil Nadu, the leading urbanizing state among the large states in India, has struggled to meet the increased demand for housing and urban services.** Supply-side constraints, insufficient resources, and weak institutions are some of the challenges experienced in Tamil Nadu and shared across different states in India. Housing shortage in the state was estimated at 1.2 million in 2017, and urban population is expected to grow, only increasing pressure on housing provision. The Government of Tamil Nadu (GoTN) has tried to address this shortage exclusively through public provision, but this has not been enough. Lack of an affordable housing market in the State has led to insufficient supply of affordable housing units to meet needs of the growing urban population. The lack of a formal housing policy, institutions with an outdated mandate, and regulations devised two-three decades back with minor revisions since exacerbate the challenges of creating a robust housing market needed to expand affordable housing.

4. **The Government of Tamil Nadu (GoTN) has identified access to housing as a key priority within the state’s Strategic Plan for Infrastructure Development, Vision Tamil Nadu 2023, and recognizes that the current business as usual approach is unsustainable and insufficient to meet demand.** The Strategic Plan was launched in 2012 with 10 vision themes², including universal access to housing³ and provision of good quality infrastructure in the state. In 2014, this plan was translated into projects and budgets. To operationalize the “slum-free city programs” across Urban Tamil Nadu, *Vision Tamil Nadu 2023* builds synergies with the PMAY-U national ‘Housing for All’ Program, with national funds complementing state financing for a slum-free state. However, results from the Vision Tamil Nadu have not been as strong as expected. The GoTN recognizes that the current business as usual approach of providing free affordable housing is not sustainable and will be insufficient to address the growing demand. The pace and scale of housing provision by the State in a business-as-usual scenario is not adequate to address the existing stock deficit. GoTN is committed to addressing supply-side constraints to ensure the provision of affordable housing at the scale needed to accommodate anticipated urban growth, and towards this has initiated preparation of the first Housing and Habitat Policy as well as reviewed existing regulations with efforts to revise these towards meeting current urbanization patterns and market requirements.

5. **India’s macroeconomic policy framework is considered adequate for the proposed Development Policy Financing (DPF).** Economic growth may have decelerated but it remains robust, and the economy has proven to be resilient to external shocks. Monetary and fiscal policy management have remained prudent even in the face of short-term pressures. Structural reforms, including efforts to address financial sector weaknesses are expected to pay-off over time. In recent years, the monetary policy framework has been strengthened. While fiscal consolidation is slower than

¹ Such as Jawaharlal Nehru National Urban Renewal Mission, 2005; Rajiv Aawas Yojana 2013

² Economic prosperity, inclusive growth, health for all, world class infrastructure, healthy investment climate, knowledge hub and innovation capital of India, creating conducive environment for human development, nurturing a rich heritage and preserving the ecology, protecting against vulnerability, and improving the quality of institutions and governance.

³ Vision Tamil Nadu 2023 stated that 2.5 million affordable houses were needed to create hut free villages and slum free cities.



anticipated, especially at the central level, it is noteworthy that India's states have been increasingly prudent fiscally in recent years (the combined fiscal deficit for states has come down from 3.5 percent in FY16/17 to 2.4 percent in FY18/19). Moreover, the 15th Finance Commission is expected to mandate a fiscal consolidation glide path for both the center and each state that will provide an anchor for fiscal policy in the coming years. Debt and deficit levels are relatively high, but ample domestic funding is available and refinancing risks are moderate. India's exposure to external volatility has increased, but so have buffers given high reserve levels and limited external financing needs. **Tamil Nadu's macroeconomic policy framework is also considered adequate for the proposed DPF.** With robust economic growth and gradual fiscal consolidation, the debt/GSDP ratio is expected to increase but at a slowing pace. This outlook is subject to some risks, as it assumes that the state will be able to consolidate expenditure on subsidies and improve own tax revenue collection. While the outlook for nominal GDP growth is conservative relative to growth rates achieved in the past, in the context of the recent economic slowdown at the national level, there is some risk that GDP growth falls below the projected mark.

Relationship to CPF

6. 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. Importantly, 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 World Bank to deliver results at scale. The proposed operation will aim at strengthening institutions, regulations and financing in the housing sector, much needed in a context of fast-growing urban area, while supporting efforts to enhance state capabilities intended to change the business-as-usual business model towards a more sustainable path. Challenges facing housing sector in Tamil Nadu are common in other states in India and the proposed policy interventions can potentially be replicated and lessons shared with other states. Finally, the proposed operation is also aligned with the CPF's focus on impact multipliers by promoting increased private sector participation in the affordable housing sector.

C. Proposed Development Objective(s)

7. The Program Development Objective (PDO) of the proposed operation is **to support the Government of Tamil Nadu to strengthen the policy, institutions, and programs of the housing sector.** With a strong ownership from the GoTN and its commitment to implement the needed reforms, the policy, regulatory, and institutional changes supported under the proposed DPF will be introduced in a phased manner. The first DPF will focus on putting in place adequate policy, regulatory, 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.

Key Results

8. **Key results expected from this operation** include (i) strengthening policy and institutions to support inclusive and efficient housing market, (ii) improving regulatory environment to increase the supply of affordable housing, and (iii) crowding in private sector participation in affordable housing. **Key result indicators** are: number of additional EWS/LIG households with access to affordable housing; number of housing sector indicators available to public; proportion of



grievances resolved in accordance with the guideline of the sustainability framework; proportion of housing units of the TNSCB that implement the procedure for O&M; number of projects that are registered in RERA; number of additional rental units available for LIG/EWS segments; number of rental housing registered; average time to obtain building and development permits; amount of Shelter Charge mobilized for supply of EWS housing; amount of private sector investment mobilized for affordable housing projects; and number of projects that are supported by the Shelter Fund.

D. Concept Description

9. The proposed operation is a part of the Bank's programmatic engagement to support the housing sector transformation in Tamil Nadu including two single-tranche programmatic DPFs prepared concurrently with the proposed Tamil Nadu Housing and Habitat Development Project (TNHHDP) - an Investment Project Financing (IPF) loan - aimed at supporting the transformation of the housing sector in Tamil Nadu by strengthening institutional and technical capacity of concerned state authorities, and providing selected technical support necessary to achieve policy triggers proposed under the second DPF operation.

10. The proposed first DPF operation will aim to support the development of a well-functioning housing market by gradually shifting the role of the State from main provider to enabler, prioritizing limited public resources for the most needed, unlocking supply-side constraints, and increasing private sector participation in housing provision. The reform program supported by this DPF stems from the strategic priorities set by the Government of Tamil Nadu in its Vision 2023, considering lessons learned since its inception, implementation of the PMAY-U program in the state, and initial work undertaken towards drafting of the first Housing and Habitat Policy for the state. The proposed DPF operations will be structured around three inter-linked pillars. The **first pillar of strengthening policies and institutions** supports GoTN's efforts to redefine its role and mandate as an enabler in creating efficient and inclusive housing markets, moving away from being the sole provider of housing solutions for the poor achieved primarily through the first Tamil Nadu Housing and Habitat Policy. The **second pillar of enabling environment** will aim to address key regulatory constraints critical to unlock the supply of affordable housing and well-functioning housing sector achieved through a set of regulatory changes that address the supply-side constraints including regulations aimed at achieving transparency in the real estate sector, promoting rental housing and incentivizing the formalization of rental housing, and simplifying urban regulations to maximize land utilization for affordable housing provision. The **third pillar of increased private sector participation** will aim to support GoTN's efforts to bring in private sector financing in affordable housing, by fully operationalizing the Shelter Fund-II and adopting standards and sustainability for environmental and social management.

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

Poverty and Social Impacts

11. **The overall poverty and social impacts of the policies supported by this operation are expected to be positive.** The actions supported by this operation seek to achieve a deeper, more progressive, inclusive and transparent housing market that is better equipped to respond to an increasing demand in low and middle-income segments. Importantly, the redefinition of the role of the housing sector by the proposed Tamil Nadu Housing and Habitat Policy is expected to increase the Government's focus and prioritization of government programs on the poorer segments through better targeting and product differentiation while creating incentives for increased private sector participation in the supply of formal urban affordable housing. The compounded result of the prior actions supported under the program are expected to benefit the poorest segments by increasing the availability of affordable homes thereby increasing their access to safe shelter, but also by increasing their access to services, such as water, sanitation, and electricity. These outcomes can lead to net (monetary and multidimensional) poverty reduction. Increasing the availability of affordable homes will also allow low-income beneficiaries to access a relatively low-risk financial investment otherwise inaccessible to them. It will also



increase their disposable income and thus their consumption, leading to a possible reduction of poverty and social inequalities. In addition, promotion of real-estate activities can create new employment opportunities for low-income unskilled workers. The Poverty and Social Impact Assessment (PSIA) is being carried out, documenting these expected impacts from a social, gender and distributional perspective, relying in the revision of relevant literature, analysis of limited data sources (particularly those that are representative at State level), and consultations and stakeholder assessments. The PSIA is expected to contribute to identification of areas for strengthening social and poverty outcomes within state systems through the parallel proposed IPF (technical assistance) project.

Environmental, Forests, and Other Natural Resource Aspects

12. **Prior actions under the proposed operation are expected to have positive environmental effects on the environment and are consistent with building urban resilience.** Policy reforms will be implemented in an existing well-developed legal context for environment and natural resources management. Prior reforms linked to institutional reforms are expected to significantly strengthen the environmental capacity of the affordable housing sector, as well as build urban resilience. Strengthening of environmental management approaches in affordable housing in the public sector through TNSCB, and adoption of an environment social management system for the Shelter Fund aimed at catalyzing private sector participation are will lead to environmental mainstreaming in the affordable housing sector with the potential to bring about significant positive environmental effects. An Environment Analysis is being carried out with the objectives of determining whether (and how) new policies and institutional reforms being planned or codified recently are likely to cause significant effects on the state and/or nation’s environment and other natural resources as well as to identify gaps in implementation of country/state systems and determine how to best to address these before and/or during the implementation through the parallel proposed IPF (technical assistance) project.

CONTACT POINT

World Bank

Yoonhee Kim
Sr Urban Economist

Borrower/Client/Recipient

Republic of India

Implementing Agencies

Finance Department of the Government of Tamil Nadu
Krishnan Saranyan
Additional Chief Secretary, Finance
finsec@tn.gov.in

Housing and Urban Development Department of the Government of Tamil Nadu



Rajesh Lakhoni
Principal Secretary, HUDD
hud@yn.gov.in

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Yoonhee Kim
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Approved By

Country Director:	Sumila Gulyani	10-Jan-2020
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