



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 20-Mar-2020 | Report No: PIDA28621



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
India	P172732	First Tamil Nadu Housing Sector Strengthening Program Development Policy Loan (P172732)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
SOUTH ASIA	18-May-2020	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 the access to affordable housing by strengthening policy, institutions, and regulations 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 team to appraise and negotiate

B. Introduction and Context

Country Context

- India’s economic growth is closely associated with rapid 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 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 in a rapid urbanization context, 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. The PMAY-U comprises 4 modalities, three of which are demand-side schemes and one intended for developers to support supply of affordable housing. However, supply-side constraints have been identified as one of the key challenges in delivering housing solutions under the PMAY-U. For the national Government's ambitious 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 needed.

3. **Tamil Nadu is the leading urbanizing state among the large states in India, and as other rapid urbanizing states, it 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 mandates, 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 the pace and scale of housing provision by the State will be insufficient to address the growing demand and the existing stock deficit. Showing its commitment to enable a sustainable affordable housing market, the GoTN is about to issue the first Affordable Urban Housing and Habitat Policy in the State and is reviewing existing regulations with efforts

¹ Such as Jawaharlal Nehru National Urban Renewal Mission, 2005; Rajiv Awas 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.



to promote an enabling environment in the affordable housing market and crowding in private sector participation.

5. **India's macroeconomic policy framework is considered adequate for the proposed Development Policy Financing (DPF).** After slowing in FY19/20, India's economic growth is expected to recover gradually. India's external position is robust, and the current account deficit has narrowed. 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. The general government (center plus states) deficit is expected to reach 6.5 percent of GDP in FY19/20 (from 6.2 percent in FY18/19). However, general government debt remained broadly stable —at around 69 percent of GDP – and sustainable, being largely domestic and long term. Moreover, the risk of a decline in the devolution of taxes by the central government is mitigated to a large extent by the 15th Finance Commission's interim recommendation to (i) maintain the states' share of pooled revenues at 41 percent and (ii) award a sizeable revenue deficit grant for the state for FY20/21. 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 high reserve levels and limited external financing needs provide adequate buffers. **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. Under all scenarios, Tamil Nadu's debt to GSDP ratio remains below the 25 percent ceiling prescribed in the TNFRA and suggested by the Fourteenth Finance Commission (below which states are eligible for additional borrowing of 0.25 percent of GSDP each year). In addition, Tamil Nadu has room to reduce capital expenditures, if required, in the event of a revenue shortfall.

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 increase access to affordable housing by strengthening policy, institutions, and regulations 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) strengthen policy and institutions for increased access to affordable housing, (ii) enabling environment to increase supply of affordable housing, and (iii) increased private sector participation in affordable housing. **Key result indicators** are: Annual increase in the available housing solutions for EWS/LIG segments; Annual review of housing policy implementation and progress is disclosed by the TN Housing Advisory Committee; Annual sector monitoring and performance using housing indicators is published; Number of EWS households in at risk areas; Percentage of complaints channeled through the GRS resolved in less than 60 days; Percentage of EWS/LIG beneficiaries that are Female Headed Households; Percentage of households contributing to O&M mechanisms; Number of projects that are registered in RERA; Percentage of buildings that register under the Apartment Owners Act; Number of rental housing contracts registered; Average time to obtain building and development permits; Number of housing units provided with the increased FSI; Number of new EWS housing units supported under the mixed income development; Amount of Shelter Charge mobilized for supply of EWS housing; Amount of investment mobilized for affordable housing projects; Number of investors participating in TNSF; Number of housing units supported under TNSF that receive green housing certification.

D. Project 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 (TNHDP) - 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 to achieve transformative measures needed in the affordable housing sector.

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 segments of the population, 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 the first Housing and Habitat Policy for the state. The proposed DPF operations will be structured around three inter-linked pillars. The **first pillar aimed at strengthening policy 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 establishment of an Advisory Committee to enable coordination between relevant stakeholders in the housing sector, and the adoption of sustainability frameworks applicable to all TNSCB EWS/LIG housing projects. The **second pillar aimed at strengthening the enabling environment** will address key regulatory constraints critical to unlock the supply of affordable housing and support the emergence of a well-functioning housing sector through regulations aimed at achieving transparency in the real estate sector, promoting rental housing, incentivizing the formalization of rental housing, and simplifying urban regulations to maximize land utilization for affordable housing provision. The **third pillar aimed at crowding 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 and adopting standards and sustainability frameworks for projects co-financed by the Shelter Fund.

E. Implementation



Institutional and Implementation Arrangements

11. The Housing and Urban Development Department (HUDD) of the Government of Tamil Nadu will implement the development policy financing and monitor progress, coordinating the monitoring and evaluation of the result indicators of the proposed operation. The World Bank will monitor the status of implementation through biannual implementation support missions and tracking of results indicators. As part of the monitoring and evaluation process, the World Bank will track the baseline and output indicators provided in the policy and results matrix. The outcomes of supervision missions will be reflected in the Implementation Status and Results Reports.

F. 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 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 combined 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.

Environmental, Forests, and Other Natural Resource Aspects

13. **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. Key findings from the environmental analysis are: (1) though overall positive from an environment and resilience perspective, there are also negative environmental effects – particularly due to housing densification - but these are not significant; (2) These negative effects pertain largely to the ongoing operation and maintenance phase of housing projects; (3) The state has a well-established regulatory system in place but no proponent-driven systems / framework for environmental management; (4) TNSCB's Environmental Framework (Prior Action#3) and TNIFMC's ESGMS (Prior Action#9) have contributed towards addressing these gaps; (5)



Though environmental regulatory systems are established in the state, enforcement is weak primarily due to staff shortage in the regulatory agency; and lastly, (6) a capacity strengthening initiative comprising a range of TA activities pertaining to environmental management was found to be required. The parallel IPF, Tamil Nadu Housing and Habitat Development Project (P168590), includes a technical assistance program to ensure the enhanced sustainability and address findings from the environmental analysis.

G. Risks and Mitigation

14. The risk of the overall proposed operation is considered as substantial. The proposed operation introduces a fundamental shift in the role of the State from a housing provider to an enabler of the housing market and redefines the institutional architecture of existing housing authorities, to better align with new housing policy objectives. While there is a strong political commitment to the new strategic direction for the housing sector, the proposed reforms may face inertia from existing institutions and stakeholders and resistance from possible vested interests. The breadth and depth of policy actions supported under the programmatic DPFs pose additional risk for the existing institutional capacity to absorb and ensure adequate implementation and sustainability. Finally, housing sector reforms have a lasting impact across stakeholder groups, not only public sector but also private sector, civil society and citizens. This will require extensive consultation with diverse stakeholders to ensure support and buy-in. The risk associated with the proposed operation is partially mitigated by the proposed and complementary investment operation, the TNHHDP, which will provide technical support and assistance to the Government and will accompany the reform dialogue and its implementation. The proposed TNHHDP also provides the Bank a vehicle for sustained policy dialogue and engagement with relevant institutions and stakeholders, providing further opportunities to mitigate potential risks from the extensive transformative agenda.

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APPROVAL

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