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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$200 MILLION TO

INDIA

FOR THE

First Tamil Nadu Housing Sector Strengthening Program Development Policy Loan

April 21, 2020

Urban, Resilience And Land Global Practice
South Asia Region

Public Disclosure Authorized

India

GOVERNMENT FISCAL YEAR

April, 1 – March, 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 01, 2020)

Currency Unit = Indian Rupee (INR)

US$ 1.00 = INR 76.3

ABBREVIATIONS AND ACRONYMS

AHP	Affordable housing in partnership	ISSR	In-situ slum redevelopment
AIF	Alternate Investment Fund	LDP	Letter of Development Policy
ADB	Asian Development Bank	LIG	Low-Income Group
BLC	Beneficiary-led construction	LLP	Limited Liability Partnership
C&AG	Comptroller and Auditor General of India	MIG	Middle income group
CG	Corporate Governance	MOF	Ministry of Finance
CLSS	Credit-linked subsidy scheme	NBFC	Nonbanking financial company
CMA	Chennai Metropolitan Area	NPAs	Nonperforming assets
CMDA	Chennai Metropolitan Development Authority	O&M	Operation and maintenance
CPF	Country Partnership Framework	PDO	Project Development Objective
CPI	Consumer Price Index	PMAY-U	Pradhan Mantri Awas Yojana-Urban
DDOs	Drawing & Disbursing Officers	PPM	Private placement memorandum
DPF	Development Policy Financing	PPP	Public-private partnerships
EBR	Extra-budgetary resources	PSBs	Public sector bank
ECBC	Energy Conservation Building Code	PSIA	Poverty and Social Impact Assessment
ESMS	Environmental, Social and Governance Management Systems	RAY	Rajiv Aawas Yojana
EWS	Economically Weaker Section	RBI	Reserve Bank of India
FGD	Focus group discussions	RERA	Real Estate Regulatory Authority
FRBM	Fiscal Responsibility and Budget Management	RWAs	Resident welfare associations
FSI	Floor Space Index	SCD	Systematic Country Diagnostic
GDP	Gross Domestic Product	SDR	Special Drawing Rights
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit	SEBI	Securities and Exchange Board of India
GNP	Gross National Product	TA	Technical Assistance
GNPA	Gross NPA	TANGEDCO	Tamil Nadu Generation and Distribution Corporation
GoI	Government of India	TNCDBR	Tamil Nadu Combined Development and Building Rules
GoTN	Government of Tamil Nadu	TNFRA	Tamil Nadu Fiscal Responsibility Act
GRS	Grievance Redress Service	TNHAC	Tamil Nadu Housing Advisory Committee

GSDP	Real Gross State Domestic Product	TNHB	Tamil Nadu Housing Board
GST	Goods and Services Tax	TNHHDP	Tamil Nadu Housing and Habitat Development Project
GSVA	Gross State Value Added	TNIF	Tamil Nadu Infrastructure Fund
HFCs	Housing finance companies	TNIFMC	Tamil Nadu Infrastructure Fund Management Corporation
HUDD	Housing and Urban Development Department	TNSAPCC	Tamil Nadu State Action Plan for Climate Change
IBRD	International Bank for Reconstruction and Development	TNSCB	Tamil Nadu Slum Clearance Board
IC	Investment Committee	TNSF	Tamil Nadu Shelter Fund
ICSSR	Indian Council of Social Science Research	UDAY	Ujwal Discom Assurance Yojana
IDA	International Development Association	ULBs	Urban Local Bodies
IFC	International Finance Corporation	VAT	Value added tax
IM	Investment Manual	WAL	Water as Leverage
IMF	International Monetary Fund	WB	World Bank
IPF	Investment Project Financing	WBG	World Bank Group

Regional Vice President:	Hartwig Schafer
Country Director:	Junaid Kamal Ahmad
Regional Director:	John A. Roome
Practice Manager (s):	Catalina Marulanda
Task Team Leader (s):	Yoonhee Kim

INDIA

FIRST TAMIL NADU HOUSING SECTOR STRENGTHENING PROGRAM DEVELOPMENT POLICY LOAN

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The First Tamil Nadu Housing Sector Strengthening Program Development Policy Loan is being prepared by a multi-sector team led by Yoonhee Kim, TTL and Admin responsible, Senior Urban Economist (SSAU1); Angelica Nuñez, co-TTL, Senior Operations Officer (OPSIL); and Abhijit Sankar Ray, co-TTL, Senior Urban Development Specialist (SSAU1); and consists of Sanjay Srivastava, Lead Environmental Specialist (SSADR); Mohan Gopalakrishnan, Senior Financial Management Specialist (ESAG2); Nadeem M. Karmali, Senior Economist (EECF1); Tushar Arora, Senior Financial Sector Specialist (ESAF1); Mridula Singh, Senior Social Development Specialist (SSASO); Victor Ordoñez, Senior Finance Officer (WFACS); Maria Beatriz Orlando, Lead Social Development Specialist (SSAS1); Rangeet Ghosh, Economist (ESAMU); Sutirtha Sinha Roy, Economist (ESAPV); Helene Bertaud, Lead Counsel (LEGES); Roderick M. Babijes, Senior Program Assistant (SSAU1); Jyoti Sriram, Senior Program Assistant (SACIN); Vaideeswaran S., Environmental Consultant (SSAE1); Seetha Raghupathy, Urban Development Consultant, (SEAU1); Tanvir Malik, Financial Management Consultant (ESAMU); Kaushik Sarkar, Financial Management Consultant (ESAF1); Aline Weng, Consultant (SSAU1); Diana Cristina Tello Medina, Urban Development Consultant (SLCUR).

The peer reviewers are: Abhas K. Jha, Practice Manager (SEAU1); Simon Christopher Walley, Lead Financial Sector Specialist (EFNLT); Taimur Samad, Program Leader (SLCDR); and Sumeet Shukla, Investment Officer (CTAPS).

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P172732	Yes	1st in a series of 2

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.

Organizations

Borrower:	INDIA
Implementing Agency:	FINANCE DEPARTMENT OF THE GOVERNMENT OF TAMIL NADU, HOUSING AND URBAN DEVELOPMENT DEPARTMENT OF THE GOVERNMENT OF TAMIL NADU

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**200.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	200.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Results

Indicator Name	Baseline	Target
Results Indicator #1: Increase in the available housing solutions for EWS/LIG segments	0	20
Results Indicator #2: Proportion of EWS/LIG beneficiaries receiving government support that are Female Headed Households	4	8
Results Indicator #3: Annual Review of affordable urban housing and habitat policy implementation and progress is disclosed by Housing and Urban Development Department, GoTN	No	Yes
Results Indicator #4: Annual sector monitoring and performance using housing indicators is published.	No	Yes
Results Indicator #5: The targeting and eligibility criteria established by GoTN for the new housing programs include explicit support and provisions for female headed households	No	Yes
Results Indicator #6: Reduction in number of EWS households in at-risk areas	0	4,000
Results Indicator #7: Proportion of complaints channeled through the GRS resolved in less than 60 days.	40	70
Results Indicator #8: Proportion of households in TNSCB tenements contributing to O&M mechanisms	0	60
Results Indicator #9: Proportion of affordable housing projects that are registered in RERA	25	60
Results Indicator #10: Number of apartments that register under the updated Apartment Ownership Act	0	1000
Results Indicator #11: Number of rental housing units registered in Rent Portal of Tamil Nadu	3,500	10,000
Results Indicator #12: Average time to obtain building and development permits	2-4 months	Less than 45 days
Results Indicator #13: Number of housing units provided with increased FSI	2000	8000
Results Indicator #14: Number of new EWS/LIG housing units supported under the mixed income development	0	1000
Results Indicator #15: Amount of Shelter Charges mobilized for supply of EWS housing	US$ 26.1 million	US$ 34.7 million
Results Indicator #16: Amount of investment mobilized for affordable housing projects	US$ 21 million	US$ 150 million
Results Indicator #17: Number of investors participating in TNSF	1	5
Results Indicator #18: Proportion of housing projects supported under TNSF that receive green housing certification	0	75

IBRD PROGRAM DOCUMENT FOR A PROPOSED DEVELOPMENT POLICY LOAN TO INDIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This Program Document presents a proposed Development Policy Financing (DPF) in the amount of US$200 million for the Government of Tamil Nadu (GoTN), the first in a series of two single-tranche programmatic DPFs**. The objective of the proposed operation is to support the Government of Tamil Nadu to increase the access to affordable housing by strengthening policy, institutions, and regulations of the housing sector. It supports a set of state-level policy, regulatory, and institutional reforms that are expected to promote efficient and inclusive housing market development and to increase the supply of affordable housing. The proposed DPF is structured in three pillars: (i) strengthening policies and institutions to support inclusive and efficient housing sector development; (ii) developing an enabling environment to increase the supply of affordable housing; and (iii) crowding private sector participation in affordable housing.

2. **The proposed operation is a part of the World Bank Group's programmatic engagement to support the transformation of the housing sector in Tamil Nadu**. The first DPF focuses on reforms for housing policy, institutions, and regulatory environment that are building blocks to create a housing market and to increase access to affordable housing. The second DPF will build upon the enabling policy, institutional, and regulatory environment and deepen policy reforms targeted to make affordable housing sector more efficient and inclusive, by introducing new housing programs and implementing the new institutional architecture while ensuring long-term sustainability of the housing sector. The proposed DPF is prepared concurrently with the Tamil Nadu Housing and Habitat Development Project (TNHHDP, P168590), an Investment Project Financing (IPF) loan in the amount of US$50 million. The IPF will complement the proposed DPF series by strengthening key housing institutions for increased access to affordable housing and improved sustainability, which would allow to sustain and deepen reforms supported under the two DPFs.[1] In particular, the proposed TNHHDP will support the newly created Tamil Nadu Shelter Fund by providing an initial equity contribution and by strengthening its institutional capacity as a market maker to increase access to affordable housing (See paragraph 68 for details). IFC has been active in its advisory role and provided complementary technical support on the Excellence in Design for Greater Efficiencies (EDGE) green building program in Tamil Nadu. There is a potential for IFC to further engage in downstream investment in TNSF once the TNSF's business model is fully developed and its capacity is strengthened under the proposed TNHHDP.

3. **The COVID-19 emergency has underscored the importance of the proposed operation**. The COVID-19 pandemic put urban households at unprecedented risk of increased poverty, loss of human capital, assets and livelihoods, with effects that may be irreversible. The impact will be most acute among the poor, particularly those living in overcrowded slums with limited access to basic services. The Program will enable delivery of safe housing solutions with improved access to living conditions at a scale needed to respond to needs of the vulnerable and marginalized population. Policy measures supported under the proposed Program intends to address policy, institutional and regulatory constraints needed to develop the state's affordable housing market and provide an enabling environment to expand the access to affordable housing for the urban poor. The proposed Program will provide general budgetary support at the time when the GoTN accelerates its efforts to address the socio-economic impact of COVID-19 pandemic. In particular, the real estate

[1] The PDO of the IPF is to strengthen the housing sector institutions of Tamil Nadu for increased and sustainable access to affordable housing. Its two components are: (i) Enabling private sector participation in affordable urban housing provision, and (ii) Strengthening Tamil Nadu's urban housing institutions for enhanced sustainability. First component will support the newly created Tamil Nadu Shelter Fund (TNSF) by providing an initial equity contribution towards mobilizing additional external financing. The TNSF was established to act as a market maker to increase access to affordable housing through the financing of mixed-income and mix-use developments where middle-income units cross-subsidize low-income units, thereby creating a new asset class that does not exist yet in Tamil Nadu. The second component will support institutional strengthening and capacity building of key housing sector institutions including Tamil Nadu Slum Clearance Board, the state's main provider of affordable housing; Chennai Metropolitan Development Authority, the planning authority for the Chennai Metropolitan Area (CMA); and Tamil Nadu Infrastructure Fund Management Corporation, the asset management company of TNSF.

sector which accounts for a significant share of the local economy has been adversely affected by the ongoing pandemic. The budgetary support is likely to act as a stimulus and contribute to the speedier recovery of the real estate sector.

4. **India's continued rapid economic growth is associated with urbanization. Cities in India have offered a pathway to rapid poverty alleviation, sustained economic growth, and achievement of middle-income status.** India has witnessed impressive economic growth over the last 25 years and is expected to continue to grow at rates higher than 6 percent in the coming years. 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.

5. **One of the key challenges of India's urbanization is access to affordable housing and adequate basic services.** India faces a housing shortage of 10 million units in urban areas[2], and over ninety percent of this deficit is concentrated in the Economically Weaker Section (EWS) and Low-Income Group (LIG)[3] population segments.[4] A shortage of affordable housing has contributed to spatially uncoordinated and unplanned urbanization, with nearly one quarter of the Indian population living in slums characterized by precarious and overcrowding conditions and low access to basic services. This figure, however, describes only a static image of the housing deficit, which increases continuously as a result of continuing demographic and urbanization trends. The provision of formal affordable housing is very limited and most formally-built housing remains highly unaffordable.

6. **Tamil Nadu is the leading urbanizing state among the large states in India, and it exemplifies many of the challenges that India's rapid growth and urbanization are posing for urban housing, especially for the low-income segments.** Nearly half (48.4 percent) of Tamil Nadu's population of 72.1 million lives in cities.[5] Rapid urbanization in the state is expected to raise the urban population to 63 percent by 2030.[6] The majority of the state's GDP is generated in urban areas, as reflected in the contribution of the services and industry/manufacturing sectors to the state's economy, 58 and 30 percent respectively. The State has not been able to meet the increased demand for housing and urban services. Affordability, supply-side constraints, and weak institutions are some of the main challenges experienced in Tamil Nadu. The expected growth in urban population in Tamil Nadu, the housing shortage (which was estimated at 1.25 million in 2012) is expected to increase further. The Government of Tamil Nadu (GoTN) has so far tried to address this shortage exclusively through public provision. For low-income segments, the GoTN builds an insufficient number of "one-size-fits-all" housing units, which it provides with minimum beneficiary contribution. The State has not played an active role in promoting the development of a market where the private sector has adequate incentives to participate in the provision of affordable housing. The ultimate result is that the supply of affordable housing units has not been able to meet neither the quantity nor the characteristics[7] of the growing urban population[8], leaving the slums as the only viable option for the poor. This leads to the proliferation of informal settlements with poor living conditions in city centers, and unplanned growth in peri-urban areas, far from jobs, basic services and urban amenities, further worsening spatial disparities.

7. **The GoTN wants to move away from a State-led model and create a robust affordable housing market, one that specifically addresses the need of the poor.** The GoTN aims to support increased access to affordable housing by gradually

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

[3] EWS households are defined as households with annual income up to INRs. 300,000 (US$4,285), LIG 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).

[4] 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).

[5] 2011 National Census Report.

[6] IPE Global Team, Housing Diagnostic Report on Tamil Nadu.

[7] Demand for affordable housing is not uniform – there is a need to understand disaggregated housing demand, which is determined by multiple factors: household size and characteristics, income/affordability, willingness to pay, preference (ownership vs rental, size, design layout, amenities), location, etc. Now, the government provides a standard configuration and size of 40 m2 for all new housing construction units.

[8] It is estimated that over 50% of Indians already live in cities, with 90 million additional people estimated to migrate to India's urban areas from 2001 to 2011 (census).

shifting the role of the State from main provider to enabler, prioritizing limited public resources to the most needed, unlocking supply-side constraints, and increasing private sector participation in affordable housing provision. This situation within the housing sector in Tamil Nadu is pervasive across India. At the national level, substantial resources and efforts are being made under the PMAY-U to support access to housing through demand-side interventions (see para 32 and Box 2 for more). Yet, as mentioned below, the results have been made mostly in the self-construction modality since supply-side constraints limit large-scale housing development. These demand-side measures need to be complemented with supply side measures - which primarily need to happen at State and local government level - to unlock supply at the scale required. Thus, the transformational initiatives supported under this DPF series will aim to complement existing national demand-side programs with supply side policies that will increase access to formal housing for the citizen of Tamil Nadu. In time, they can also provide examples that are relevant and replicable to other states facing similar challenges.

8. **The risk of the overall proposed operation is considered as *substantial*.** While the COVID-19 crisis is expected to have a substantial impact on the economic growth in India and Tamil Nadu, the macroeconomic risk to achieving the objective of the operation is assessed as moderate. The substantial overall risk stems from the risks associated with sector strategies and policies, institutional capacity, environmental and social aspects, and stakeholders. 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. While there is a strong political commitment to the new strategic direction for the housing sector, the proposed reforms may face inertia and resistance from existing institutions and stakeholders. 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 mitigated by the proposed TNHHDP, which will provide technical support and assistance to the GoTN's reform efforts and ensure sustained policy dialogue and engagement with relevant institutions and stakeholders.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

9. **Over the past decade India has been one of the fastest growing emerging market economies, however, output growth has moderated in recent years**. Real Gross Domestic Product (GDP) growth has moderated from an average of 7.4 percent during FY16-FY19 to an estimated 5.0 percent in FY19/20, and it expected to slow further during the current fiscal year. The slowdown is due to the combined effects of (i) unresolved domestic issues (impaired balance sheets in the banking and corporate sectors, compounded by stress in the non-banking segment of the financial sector), and (ii) significant headwinds following, first the global synchronized slowdown, and second the COVID-19 outbreak.

10. **The COVID-19 pandemic has brought about major disruptions to economic activity, including as a result of deliberate global and domestic policy actions to contain it.** Until mid-March 2020, India was impacted mostly indirectly. External spillover effects dominated as key imported inputs to domestic production, especially from China,[9] were impeded and supply chains were disrupted. Thereafter, domestic supply and demand were affected by restrictions on the movement of goods and people. The union government implemented a 'lockdown' of the country, starting on March 25 and extended until early May, to contain domestic contagion, and several states imposed additional curfew measures. As a result, economic activity -particularly outside of agriculture - slowed down. Finally, there has also been some negative impact on financial markets via weak investor sentiment, which impacted capital flows and equity markets negatively.

11. **The Reserve Bank of India (RBI) has relaxed its stance to address the fallouts of the COVID-19 outbreak.** Following

[9] which accounts for about 15 percent of total imports and supplies key inputs in pharmaceuticals, auto, electronics and apparels sectors

the adoption of inflation targeting by the RBI in FY16/17, headline Consumer Price Index (CPI) inflation largely remained within the 4 (±) 2 percent target. Inflation averaged 3.3 percent in the first half of FY19/20 allowing the RBI to ease monetary policy, through repo rate cuts. However, following a spike in food prices and in inflation (which reached 7.6 percent in January 2020), the RBI eschewed further monetary easing until March 2020. With core inflation declining, low oil prices and the onset of the national lockdown in the wake of the COVID-19 outbreak, the RBI, as part of a broader package of measures, undertook significant easing, including through a 75 basis points cut (to 4.4 percent) to the repo rate, targeted long-term repo operations (TLTRO) of up to INR 1 trillion, a 100-basis point (bps) cut in the cash-reserve ratio (CRR) and easier borrowing requirements under the marginal standing facility (MSF) window.

12. Credit growth was modest in FY18/19, and weaker still in the first ten months of FY19/20. Credit to industry remained burdened by a legacy of non-performing assets (NPAs) in the banking sector, and fragility in the non-banking segment of the financial sector. Non-food credit growth slowed from 12.3 percent in nominal terms in FY18/19 to an average of 8.5 percent over the first ten months of FY19/20, which is particularly low. While the government introduced measures to address the prevalence of NPAs in the banking sector[10], the regulatory action to address financial weaknesses of one of the largest private banks in March 2020, compounded the effects of the earlier failure of a large non-banking financial company (NBFC)[11] in late 2018. The effects of the COVID-19 outbreak exacerbated these persisting weaknesses. Consequently, elevated risk aversion levels in the banking sector and severe constraints to accessing liquidity for financial institutions and firms prompted the RBI to not only ease overall liquidity via open market operations, but also to relax regulatory requirements, including a 3-month moratorium on outstanding loans.

13. India's external position remained robust, and the current account deficit has narrowed significantly as a result of muted domestic demand and low oil prices. India's external position improved significantly during the first three quarters of FY19/20, with the current account deficit declining to 1.0 percent due to a reduction in the trade deficit, as a result of a large contraction in imports. On the capital account, net FDI inflows stood at US$ 40.6 billion over April-February of FY19/20, higher than the US$ 30.0 billion recorded over the corresponding period of the previous year. There was a net inflow of US$ 15.9 billion in portfolio flows over April-February of FY19/20, as compared to an outflow over the same period of the previous year. As a result, as of end-February 2020, foreign reserves stood at a comfortably high level of US$ 481.5 billion (equivalent to around 10 months of imports). With the onset of the COVID-19 India experienced significant net capital outflows, but their effect on the BoP has been offset by a sharp decline in imports (relatively more significant than the decline in exports). The RBI, meanwhile, has made calibrated interventions in the market to prevent a sharp fall in the value of rupee, which has depreciated, relative to the US dollar, by around 6 percent since the start of 2020.

14. The fiscal situation is likely to be affected reflecting the growth slowdown in FY19/20 and early impacts of the COVID-19 outbreak. Prior to the COVID-19 outbreak and already faced with a shortfall in revenue, the union government invoked a provision of the fiscal rule to deviate from the consolidation path, presented in the FY19/20 budget. For FY19/20, the fiscal deficit of the Central Government was revised to 3.8 percent of GDP (from 3.3 percent), and for FY20/21 it was budgeted at 3.5 percent of GDP (from an initial target of 3.0 percent). At the subnational level, detailed state-level fiscal data for FY19/20 is not yet available. However, the combined deficit of states is expected to have remained high in FY19/20, above the FY18/19 level of 2.9 percent of GDP), on account of lower than expected growth and the early impacts of COVID-19 related restrictions. As a result, the general government (center and states) fiscal deficit is expected to have widened to 7.5 percent of GDP in FY19/20. Consequently, the general government debt, though being largely domestic and long term, is also expected to have risen[12].

[10] including the Insolvency and Bankruptcy Code, combined with a ₹ 2.1 trillion bank recapitalization program

[11] Infrastructure Leasing and Financial Services (IL&FS)

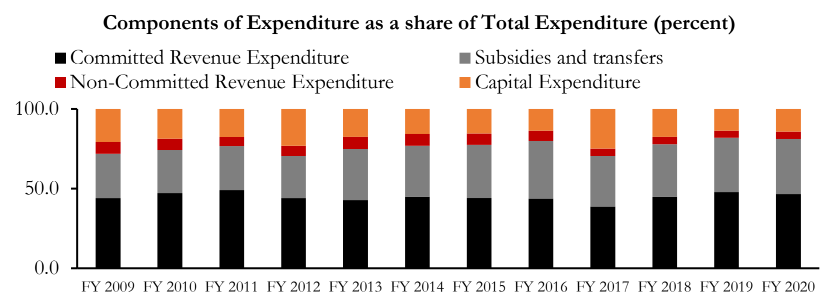
[12] This implies that the baseline numbers for central government finances have changed compared to those presented in the Union Budget 2020-21 in February. Table 2 reports the new baseline.

Recent Economic Developments: State of Tamil Nadu[13]

15. **With a well-diversified economy, Tamil Nadu has grown faster than the Indian average in recent years.** The state's per capita income is well-above the national average.[14] The annual average growth rate of real Gross State Domestic Product (GSDP) was 7.7 percent, in the decade between FY10/11 and FY18/19, well above the 7.1 percent national average. Over the last two years, it averaged 7.9 percent and was mainly supported by fast expansion of the services sector. Services accounted for over 50 percent of total gross state value added (GSVA) in FY18/19, and the sector has grown at an average rate of about 7.6 percent over FY17/18 and FY18/19.

16. **Tamil Nadu has consistently achieved its fiscal deficit target since the adoption of a fiscal responsibility law in 2003.** The Tamil Nadu Fiscal Responsibility Act (TNFRA), adopted in 2003, sets a fiscal deficit target of 3 percent of GSDP. Historically, Tamil Nadu has shown exemplary compliance with this threshold. The fiscal deficit has remained below 3 percent in every year since the adoption of the Act, except in FY16/17 when it expanded to 4.3 percent of GDP. This deviation was due to a one-off increase in capital expenditure as a result of the Ujwal Discom Assurance Yojana (UDAY) program (whereby the government took on the outstanding debt of the Tamil Nadu Generation and Distribution Corporation). Against this backdrop of overall fiscal discipline, however, the revenue deficit[15] has expanded from 0.6 percent of GSDP in FY14/15 to 1.4 percent (estimated[16]) in FY19/20, contributing to an increase in the fiscal deficit, from 2.5 percent to 3 percent over the same period.

Figure 1. Composition of expenditure[17]



17. **The gradual increase in the deficit -within FRBM limits- has been mostly driven by relatively slow revenue growth.** Revenue collection declined as a share of GSDP from 11.4 percent in FY14/15 to 10.3 percent in FY19/20. The decline was mostly driven by slow own-tax revenue[18] growth (with the share of own-tax revenues falling as a share of GSDP, from 7.3 percent in FY14/15 to 6.5 percent in FY19/20). By contrast to other states, Tamil Nadu was not significantly affected by the introduction of the Goods and Services Tax (GST) in FY17/18, but the state did avail itself of the compensation provisions in the following two fiscal years.

18. **The state's public debt increased as a result of UDAY and remained relatively constant since.** The state's debt-to-GSDP ratio was 17.3 percent in FY14/15. Thereafter it increased to 21.8 percent of GSDP in FY16/17, when the state government assumed the liabilities of TANGEDCO under UDAY. Since then, the debt-to-GSDP ratio has remained relatively

[13] Estimates of GSDP growth and fiscal indicators may vary from those published by the state government; we use nominal GDP estimates as published by the Central Statistics Office, Ministry of Statistics and Programme Implementation (which vary marginally from those obtained from GoTN).
[14] it was over INR 150,000 in FY16/17 compared with the national average of about INR 105,000
[15] The revenue deficit is the difference between current expenditure and current revenue receipts.
[16] All figures for FY19/20 correspond to "revised estimates" as per the FY20/21 budget.
[17] Committed revenue expenditure includes expenditure on salaries and wages, pensions and interest.
[18] The main sources of own-tax revenue include the state goods and services tax, state excise, value-added tax, motor vehicles tax, stamps and registration duty, land tax and taxes on utilities.

stable as the impact of fiscal deficits was offset by robust nominal growth. It was projected to reach 21.8 percent of GSDP at the end of FY19/20 (still below the all-state average of about 23 percent of combined GSDP).

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

19. India's economy is expected to be significantly affected by the impact of the COVID-19 outbreak, as well as by policy measures that entail significant upfront economic costs to avoid much more significant downstream damage. The national lockdown -implemented by the union government with the full backing of states- is expected to depress activity during the first quarter of FY20/21. Since it is unlikely that full mobility of goods and people will be restored rapidly thereafter, the recovery is also expected to be very gradual. Mutually reinforcing disruptions in domestic supply and demand (on the back of particularly weak external demand) are expected to result in a growth deceleration in FY20/21, to below 3 percent, with considerable margins of uncertainty around any point estimate projection. On the supply side, the services sector will be particularly impacted. On the demand side, any revival in domestic investment is likely to be significantly delayed, given enhanced risk aversion on a global scale, renewed concerns about financial sector resilience, and deteriorated corporate and household balance sheets. Thereafter, growth is expected to rebound to 5.0 percent in FY21/22 -thanks to a significant base effect- as the impact of COVID-19 gradually dissipates, targeted fiscal and monetary policy support pays off with a lag, and low oil prices provide further impetus to activity.

20. The RBI has already relaxed the monetary policy stance and extended regulatory forbearance, and indicated its readiness to do more as needed. With the inflation outlook improving on the back of low oil prices and aggregate demand likely to remain impaired over the next few quarters, the RBI is expected to remain accommodative. Several members of the Monetary Policy Committee have indicated the importance taking into account the deteriorating growth outlook and financial stability considerations, in addition to inflationary dynamics in the formulation of monetary policy. Reflecting subpar economic activity, headline inflation is expected to fall to an average of about 3.0 percent in FY20/21 before rising gradually in following years.

21. Addressing the legacy of NPAs in the banking sector, the fallout from crises in the non-bank sector, and structural inefficiencies in credit delivery is still ongoing, and the onset of COVID-19 is magnifying these fragilities. While the Government had undertaken some positive measures to reform the financial sector,[19] the results have been modest. The RBI's Financial Stability Report, (December 2019), observed that profitability ratios of PSBs had remained weak due to muted credit-uptake and slow resolution of NPAs. Even as the gross NPA (GNPA) ratio for scheduled commercial banks remained unchanged at 9.3 percent over March and September 2019, stress tests indicated that the ratio may rise to 9.9 percent by September 2020 under a business as usual economic scenario. As for the stressed NBFC sector the GNPA ratio improved over March and September 2019, but only slightly. The disruptions caused by the outbreak of COVID-19 to households and businesses alike, and the lockdown measures taken to mitigate it are expected to result in significant additional weakness for all segments of India's financial sector. This is likely to require significant policy action in the coming quarters thereby implying a much longer than expected process of normalization.

22. The current account deficit is expected to narrow further to 0.2 percent in FY20/21. The decline in economic activity -and weak external environment- is expected to continue to depress both imports and exports. The decline in the CAD, in turn, should offset significant net capital outflows to ensure that the level of foreign exchange reserves remains comfortable and enough to finance at least 9 months of imports over the medium term.

23. A large fiscal slippage is expected in the wake of the COVID-19 outbreak. The Union budget FY20/21 envisaged that the fiscal deficit of the central Government would narrow to 3.5 percent in FY20/21 (from 3.8 in FY19/20) and further to 3.3 and 3.1 percent in FY21/22 and FY22/23, respectively. This was to be achieved thanks to increases in tax revenues (reflecting a recovery in private consumption and credible buoyancy assumptions), and mostly through significant

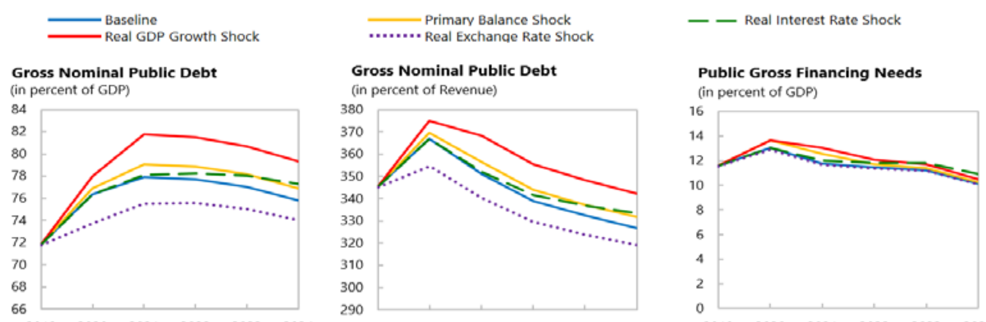
[19] For example, amending the Insolvency and Bankruptcy Code and announcing public sector bank (PSBs) mergers.

increases in capital receipts, in line with the GoI's ambitious dis-investment program. These expectations did not materialize, even before the COVID-19 outbreak, given the slower-than-expected growth recovery, and the effects of an earlier cut in corporate taxes[20] and modifications in personal income tax rates.[21][22] In the wake of the COVID-19 outbreak, this expected scenario no longer appears possible. The slowdown in growth will depress revenue collections further. Given unprecedented financial market volatility it is also doubtful that planned dis-investments will proceed as expected. Finally, it is likely that ad hoc countercyclical spending will be required to protect the poorest segments of society and ensure that the most affected sectors of the economy can be supported. As a result, the fiscal deficit and debt of the central government are likely to increase sharply over the next two years.

24. Risks stemming from contingent liabilities exist and may need to be reassessed in light of the COVID-19 outbreak. This notwithstanding, RBI supervision has been strengthened in recent years and provides reassurance that large-scale systemic failures in the financial sector are less likely. Moreover, the GoI has recently taken steps to improve transparency related to 'off-budget' items in the FY20/21 Union Budget, by expanding the reporting of extra-budgetary resources (EBR) used for financing expenditures.[23] Nonetheless, with the potential large impact of the COVID-19 outbreak on firms as well as the financial sector, risks of implicit contingent liability realizations stemming from possible insolvencies cannot be ruled out.

25. According to the Bank's debt sustainability analysis, which updates the IMF's latest Article IV estimates to reflect the post-COVID-19 developments, India's debt is projected to increase while remaining sustainable. India's public debt is mostly denominated in domestic currency, is of long/medium-term maturity, and is predominantly held by residents. Given that a captive market for debt caps the interest cost, the sustainability of debt is mostly contingent upon shocks to real GDP growth and fiscal slippages. The baseline scenario reflects the COVID-19 shock manifested in a significant deceleration in GDP growth and a sharp increase in the primary deficit, during FY 20/21. Under the baseline assumption of a deceleration in real GDP growth rates and an increase in the primary deficit, the general government debt-to-GDP ratio is expected to peak at about 78 percent in FY21/22 before gradually declining to below 76 percent by FY24/25. Under a further growth shock the ratio would rise to over 82 percent of GDP around FY21/22, and decline thereafter. India's external debt, at around 20 percent of GDP and predominantly of long duration, remains sustainable.

Figure 1. India Public Debt Sustainability: Baseline and Stress-Test Scenarios



Source: World Bank staff calculations based on International Monetary Fund (IMF) Article IV 2019.

[20] The annual turnover threshold for firms to pay a lower Corporate Income Tax rate of 25 percent, was raised from INR 2500 million to INR 4000 million. Consequently, almost all corporate entities were liable to pay 25 percent tax.

[21] As per the Union Budget 2020-21 the personal income tax (PIT) rates applicable for most slabs were lowered. However, the new rates will be applicable only to those individuals who do not avail of certain exemptions. An individual is free to choose whether to continue to avail exemptions or to shift to the new regime. This step comes in with a simultaneous abolition of about 70 types of PIT exemptions.

[22] Prior to the onset of COVID-19, central government revenue was expected to increase due to anticipated divestment and a gradual pickup in economic activity.

[23] The EBR reported as annexures to the budget speech have included loans extended by the national small savings fund (NSSF) to public entities for various purposes. The data shows that EBRs stood at 0.8 percent of GDP during FY20.

26. **Although downside risks have increased significantly due to the onset of the COVID-19 pandemic, India's macroeconomic policy framework is considered adequate for the proposed DPO.** Economic expansion is expected to be affected in FY20/21, but growth should remain positive and pick-up from FY21/22 onwards. The deviation from the pre-COVID planned path of fiscal consolidation, including on account of countercyclical measures, is needed given the urgent need to protect the poor and sustain economic activity. Moreover, these measures are expected to be in the form of one-off additional expenditures such that the return to fiscal consolidation will be delayed at least up to FY23/24 (Table 2). Importantly, this does not imply explosive trajectories of the fiscal deficit and public debt. In view of recent measures by the RBI to mitigate the fallouts of COVID-19, ample domestic funding is available and refinancing risks are still moderate. In recent years, the monetary policy framework has been strengthened and, while India's exposure to external volatility has increased, high reserve levels and limited external financing needs provide adequate buffers. While risks stemming from a massive deterioration in global economic conditions remain, the main downside risk is a large scale domestic COVID-19 contagion scenario, which would further affect growth. However, there is broad consensus to date that the response of the government and regulatory agencies (RBI and SEBI) so far has been swift and adequate.

Table 1. India Selected Economic Indicators FY16–FY23

Key Macroeconomic Indicators	FY16	FY17	FY18	FY19	FY20 est	FY21 est	FY22 est	FY23 est
Real Economy	(Annual percentage change unless otherwise Indicated)							
Nominal GDP (local currency)	10.5	11.8	11.1	11.0	7.8	5.8	7.8	9.6
Real GDP	8.0	8.3	7.0	6.1	5.0	2.8	5.0	7.0
Per Capita GDP (real USD)	1607.9	1719.4	1816.8	1906.8	1979.9	2013.7	2093.4	2218.7
Contributions to growth (percentage points)								
Consumption	5.2	5.2	5.0	5.0	3.9	2.1	3.6	4.5
Investment	2.0	2.6	2.2	3.0	-0.3	0.2	0.7	1.5
Net exports	0.1	0.1	-2.8	0.4	1.1	0.4	0.6	0.7
GDP deflator growth	2.3	3.2	3.8	4.6	2.8	3.0	2.6	2.4
Consumer price index inflation (CPI av.)	4.9	4.5	3.6	3.4	4.1	3.0	3.5	4.0
Fiscal accounts (general government)	(Percent of GDP)							
Overall balance	−6.9	-6.9	-5.8	-6.2	-7.5	-9.0	-7.9	-7.7
Total Liabilities	68.5	68.9	69.5	70.2	72.3	76.8	78.4	78.0
Selected monetary accounts	(Annual percentage change unless otherwise indicated)							
Base money (M0 or reserve money)	13.1	-12.9	27.3	14.5	—	—	—	
Credit to nongovernment	10.6	4.4	9.5	12.7	—	—	—	
Interest rate (Repo rate and period average)	7.0	6.4	6.1	6.3	—	—	—	
Balance of payments	(Percent of GDP, unless otherwise indicated)							
Current account balance	−1.1	-0.6	-1.8	-2.1	-1.0	-0.2	-0.3	-0.3
Imports	22.9	21.3	22.1	23.7	21.6	20.3	19.5	19.3
Exports	20.0	19.4	19.0	20.1	19.1	18.6	18.8	19.7
Foreign direct investment (net)	1.7	1.6	1.1	1.1	1.3	0.9	1.1	1.5
Gross reserves (in US$ billion, eop)	360.2	370.0	424.4	412.0	480.0	—	—	—
In months of next year's imports	8.4	7.4	—	—	—	—	—	—
External debt	23.4	20.0	20.1	19.7	20.8	—	—	—
Terms of trade (FY2000=100)	71.8	71.1	73.3	—	—	—	—	—
Exchange rate (INR/US$1, average)	64.2	67.2	64.5	69.9	—	—	—	—
Other memo items								
Nominal GDP in INR (trillions)	137.7	153.9	171.0	189.7	204.6	216.5	233.3	255.7

Table 2. India's Selected Fiscal Indicators FY15–FY23

Key Fiscal Indicators	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
						Est.	Forecast	Forecast	Forecast
Central Government									
Overall balance	-4.1	-3.9	-3.5	-3.5	-3.4	-4.6	-5.5	-5.0	-3.8
Primary balance	−0.9	−0.7	−0.4	−0.4	−0.4	-1.6	-2.4	-1.7	-0.5
Total Receipts	12.0	12.9	13.3	13.0	12.8	10.0	9.6	11.7	13.6

(Revenue and capital)									
Tax revenues	10.0	10.6	11.1	11.2	11.0	8.0	7.6	9.8	11.7
Taxes on goods and services	2.9	3.6	4.2	4.6	4.3	3.6	3.5	4.6	5.5
Taxes on income and profits	5.5	5.4	5.4	5.8	6.0	3.8	3.6	4.6	5.5
Taxes on international trade	1.5	1.5	1.5	0.8	0.6	0.5	0.4	0.6	0.7
Other taxes	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Non-tax revenues	1.6	1.8	1.8	1.1	1.2	1.5	1.3	1.5	1.5
Non-Debt Capital receipts	0.4	0.5	0.4	0.7	0.6	0.4	0.7	0.5	0.5
Expenditures	16.1	16.7	16.8	16.5	16.2	14.5	15.1	16.7	17.4
Current expenditures	14.5	14.9	15.0	14.9	14.6	13.5	14.1	15.0	15.7
Interest payments	3.2	3.2	3.1	3.1	3.1	3.0	3.2	3.3	3.3
Others (salaries, supplies, and so on)	8.5	8.0	7.9	7.9	7.5	7.7	8.8	8.3	8.3
Tax transfers to states	2.7	3.7	4.0	4.0	4.0	2.8	2.1	3.4	4.1
Capital expenditures	1.6	1.8	1.8	1.5	1.6	1.0	1.0	1.7	1.7
Central Government Financing	4.1	3.9	3.5	3.5	3.4	4.6	5.5	5.0	3.8
External (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	4.1	3.9	3.5	3.5	3.4	4.6	5.5	5.0	3.8
State Governments					**FY19 RE**	**FY20 BE**			
Overall balance	-2.6	-3.0	-3.5	-2.4	-2.9	-2.9	-3.5	-3.0	-3.8
Revenues	13.0	13.7	13.7	13.8	15.4	14.7	13.5	14.5	15.0
Expenditures and net lending	15.6	16.7	17.2	16.2	18.3	17.6	17.0	17.5	18.8
Total Liabilities					**FY19 RE**	**FY20 BE**			
General Government	66.6	68.5	68.9	69.5	70.2	72.3	76.8	78.4	78.0

Source: India Central Statistics Office, Staff calculations.
Note: The general government deficit may not necessarily equal the sum of the central and state government deficits as the general government deficit is reported net of intergovernmental transfers. The combined state government deficit is reported with a lag.

State Government Outlook

27. **In view of the rapidly evolving COVID-19 pandemic and its likely repercussions on state finances, we present both the GoTN's own medium-term fiscal projections and an alternative scenario.** The alternative scenario includes revised assumptions (incorporating the possible economic impact of COVID) that we use to test the sensitivity of the bottom-line assessment to an extreme deviation from baseline**.**

28. **The GoTN's medium-term fiscal statement, presented in mid-February 2020 together with the state's FY20/21 budget contained an optimistic narrative at a time when the impact of the COVID-19 pandemic was expected to be modest and short lived.** In the fiscal statement, the fiscal deficit is expected to narrow gradually until FY22/23 (which is the end of the projection horizon), from just under 3.0 percent of GSDP in FY19/20 to 2.8 percent in FY20/21 and further to 2.6 and 2.5 percent in FY21/22 and FY22/23, respectively. These projections assume that there will be an improvement in revenue collection (by 0.2 percentage points of GSDP per year), driven in equal measure by growth in the state's own tax and non-tax revenues). In addition, the revenue deficit is projected to decline from 1.4 percent of GSDP in FY19/20 to 1.0 percent in FY20/21 and further to 0.4 percent by FY22/23 under the combined effect of higher revenues and lower subsidy expenditures (as a share of GSDP).

29. **In the GoTN's medium-term fiscal framework total revenues are expected to grow steadily, initially thanks to higher transfers and thereafter to own revenues.** Between FY19/20 and FY20/21, revenue receipts are expected to grow by over 14 percent (in nominal terms), thanks to higher transfers from the central government, both on account of the state's share of central taxes and of grants from the central government (which include a revenue deficit grant of INR 40 billion, equivalent to 0.2 percent of GSDP, awarded by the Fifteenth Finance Commission). In FY21/22 and FY22/23, some gains are expected in own tax revenues (average nominal growth of 14 percent), while grants from the central government are

also projected to increase as a share of GSDP from 1.8 percent of GSDP in FY20/21 to 2.0 in FY22/23[24]. Therefore, total revenues are projected to increase from 10.3 percent of GSDP in FY19/20 to 10.9 percent in FY21/22.

30. Meanwhile committed expenditures, subsidies and transfers are projected to decline gradually (as a share of GSDP) making space for more investments. Committed expenditures, subsidies and transfers are projected to decline from 11.1 percent of GSDP in FY19/20 to 10.6 percent by FY22/23. Spending on salaries and pensions are projected to remain stable. While interest payments are expected to rise, subsidies and transfers are expected to decline as a share of GSDP (with their share falling from 4.7 percent of GSDP in FY19/20 to 4.1 percent in FY22/23), thanks to slow growth in electricity subsidies and transfers to grants-in-aid institutions. Meanwhile non-committed expenditures are budgeted to remain stable at 0.6 and 0.7 percent of GSDP in FY20/21 and FY22/23, respectively. Finally, capital outlays are expected to increase to 1.7 percent in FY19/20 and further to 1.8 percent by FY22/23[25].

31. In the GoTN's projected scenario, which assumes an average nominal growth rate of 12.3 percent going forward, the state's debt to GSDP ratio is projected to increase modestly to 22.2 percent by FY22/23[26]. The debt to GSDP ratio is estimated to remain stable at 21.8 percent in FY19/20 and then increase to 22.1 percent by FY20/21. This increase, in spite of the projected decline in the fiscal deficit, is because the projected nominal rate of growth of outstanding debt is higher than that of GSDP.

32. As explained above, the state's fiscal framework was developed before the full likely impacts of the COVID-19 outbreak were understood and could be factored-in. Therefore, to analyze the adequacy of the state's fiscal framework, we make highly stylized simulations to test the robustness of the state's fiscal framework to extreme alternative assumptions on the main fiscal parameters. Specifically, we assume that:

(i) nominal GSDP growth will fall to 6.5 percent in FY20/21 and recover only gradually to 8 percent in FY21/22 and 10 percent in FY22/23, which in turn implies a much slower pace of (i) own tax revenue growth (moderating to 6.5 percent, 10 percent and 12 percent in these fiscal years, respectively), and (ii) growth in shared revenues from the center;

(ii) there will be a one-off fiscal slippage in FY20/21, driven by a combination of lower revenues and higher COVID-19 related expenditures, where the primary deficit will rise to 2 percent of GSDP before falling back to 1.5 percent in FY21/22 and 1.4 percent in FY22/23; and

(iii) capital expenditure will remain at budgeted levels (or corresponding outlays will be made to address emergencies).

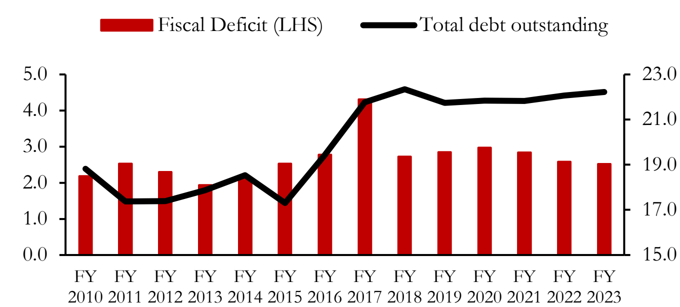
Under these assumptions the debt to GSDP ratio would increase from an estimated 21.8 percent in FY19/20 to 24.4 percent in FY20/21, 26.1 percent in FY21/22 and 27.2 percent in FY22/23 (higher than the 25 percent ceiling prescribed by the TNFRA). Assuming an average nominal GDP growth rate of 12 percent beyond FY22/23 and a return to the net annual borrowing limit of 3 percent of GSDP, the debt/GSDP ratio stabilizes around 27 percent and the debt trajectory is sustainable. In other words, Tamil Nadu's fiscal situation remains sound even under extreme assumptions.

33. Therefore, notwithstanding significant uncertainty in the overall economic context, Tamil Nadu's fiscal policy framework is considered adequate for the proposed DPF. While the state's debt to GSDP ratio may rise in the next years, this is expected to be a temporary deviation as eventually nominal growth and interest dynamics will return to the point where the debt-to-GDP ratio starts declining again. In addition, Tamil Nadu has room to reduce capital expenditures, if required, in the event of a sharp revenue shortfall or to accelerate fiscal consolidation. Finally, the risk of a decline in the devolution of taxes by the central government is mitigated to some extent by the 15th Finance Commission's interim recommendation to (i) maintain the states' share of pooled revenues at 41 percent; (ii) increase Tamil Nadu's share in the

[24] This assumes that the revenue deficit grant awarded by the 15th Finance Commission will be extended up to FY22/23.
[25] As against a 1.6 percent average for the prior five years.
[26] The GoTN Medium-Term Fiscal Plan does not provide debt projections. We estimate the outstanding debt for FY20/21 and FY21/22 by adding the fiscal deficit for each year to the debt stock of the previous year since historically, the debt stock has increased largely in line with the nominal fiscal deficit.

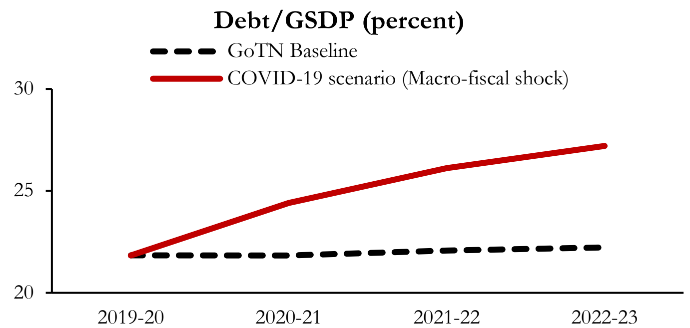
divisible pol of central taxes marginally from 1.69 to 1.72 percent; and (iii) award a sizeable revenue deficit grant for the state for FY20/21.

Figure 2: Tamil Nadu Fiscal Deficit and Debt – Budgeted Scenario



Source: Department of Finance, GoTN; staff calculations.

Figure 3. Tamil Nadu Debt Paths under the Alternative Scenario



Source: Staff calculations

Table 4. Tamil Nadu Selected Fiscal Indicators FY15–FY23

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
	Actual	**Actual**	**Actual**	**Actual**	**Actual**	**Rev. Est.**	**Budget**	**Projected**	**Projected**
						(Percentage of GSDP)			
Fiscal Deficit	-2.5	-2.8	-4.3	-2.7	-2.8	-3.0	-2.8	-2.6	-2.5
Primary Deficit	-1.2	-1.3	-2.7	-0.9	-1.1	-1.2	-1.1	-0.8	-0.6
Revenue Deficit	-0.6	-1.0	-1.0	-1.5	-1.4	-1.4	-1.0	-0.7	-.0.4
Total Revenues	*11.4*	*11.0*	*10.8*	*10.0*	*10.4*	*10.3*	*10.5*	*10.7*	*10.9*
Tax Revenues	8.9	8.6	8.5	8.3	8.2	7.9	8.0	8.1	8.2
Own Tax Revenues	7.3	6.8	6.6	6.4	6.3	6.5	6.4	6.5	6.6
Nontax Revenues	2.5	2.4	2.3	1.7	2.3	2.4	2.5	2.7	2.7
Own Nontax Revenues	0.8	0.8	0.8	0.7	0.9	0.8	0.8	0.8	0.8
Expenditures	*14.2*	*13.9*	*15.6*	*13.9*	*13.7*	*13.6*	*13.6*	*13.5*	*13.4*
Revenue Expenditures	12.0	12.0	11.8	11.5	11.8	11.7	11.5	11.4	11.3
Committed	11.0	11.1	11.0	10.8	11.2	11.1	10.9	10.8	10.6
Interest Payments	1.4	1.5	1.6	1.8	1.8	1.7	1.8	1.8	1.9
Salaries and Wages	3.5	3.2	3.1	3.1	3.2	3.1	3.1	3.1	3.1
Pensions	1.5	1.4	1.4	1.4	1.6	1.5	1.5	1.5	1.5
Subsidies and transfers	4.7	5.0	4.9	4.5	4.7	4.7	4.5	4.3	4.1
Non-Committed	1.0	0.9	0.7	0.7	0.6	0.6	0.6	0.7	0.7
Capital Expenditures	2.2	1.9	3.9	2.4	1.9	1.9	2.1	2.1	2.1
Capital Outlay	1.7	1.6	1.6	1.4	1.5	1.7	1.7	1.8	1.8
Loans and Advances Disbursed	0.5	0.3	2.3	1.0	0.4	0.2	0.3	0.3	0.3
Total Outstanding Debt	*17.3*	*19.4*	*21.8*	*22.3*	*21.7*	*21.8*	*21.8*	*22.1*	*22.2*
Tamil Nadu Nominal GSDP Growth	10.8	9.7	10.7	12.2	13.8	11.5	12.8	12.0	12.0
Tamil Nadu Real GSDP Growth	4.9	8.2	7.2	7.7	8.2	7.3	—	—	—

Source: Department of Finance, GoTN; staff calculations.

Intergovernmental Relations

34. India follows a federal system of government with clear separation of taxation and spending powers. The Constitution has demarcated the taxation powers of both levels of government, while borrowing and foreign exchange entitlements are controlled by the central Government. The fiscal relationship between the Union and the states is reflected in the devolution of a share of central taxes and additional assistance in the form of grants from the Union to the states as follows:

- Tax devolution (share of central taxes to states) recommended by the different Finance Commissions.[27] The states decide how much of this central revenue supplements the resources of local governments.
- Grants (to states) under the aegis of:
  - Centrally sponsored schemes designed by the Center but implemented at the state level;
  - Block grants for states and additional central assistance for special and other programs to states Grants (to states and local governments) as recommended by the Finance Commission. [28]

2.3. IMF RELATIONS

35. The IMF does not have an active lending program in India. However, it carries out regular macroeconomic supervision and Article IV consultations twice yearly. The World Bank and IMF teams regularly exchange views and information.

3. GOVERNMENT PROGRAM

36. Recognizing the relevance of the housing sector for social and economic well-being, the 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-U consolidates previous urban housing schemes[29] and aims to achieve 'Housing for All' by the year 2022. The PMAY-U comprises 4 modalities, three of which are demand-side schemes and one intended for developers to support supply of affordable housing: (i) *in-situ slum redevelopment* (ISSR) provides a grant around US$ 1,400 per eligible slum dweller for housing improvement which is provided by local governments/authorities[30]; (ii) *credit-linked subsidy scheme* (CLSS) provides an interest subsidy to EWS, LIG and Middle Income Group (MIG)[31] households for the purchase of homes (6.5 percent for EWS and LIG, 4 percent for MIG1, and 3 percent of MIG2)[32] that is credited upfront to the borrower's account through primary lending institutions; (iii) *affordable housing in partnership* (AHP), where central assistance is provided at around US$ 2,100 per EWS house in private projects where at least 35 percent of the houses are constructed for the EWS category and the project has more than 250 houses; and (iv) *beneficiary-led construction* (BLC), which involves central assistance of around US$ 2,100 per household for new construction in the beneficiaries' plot, or improvement of existing houses for the EWS/LIG. However, supply-side constraints have been identified as one of the key challenges in delivering housing solutions under the PMAY-U. The implementation of PMAY-U has been mostly concentrated in upfront subsidies for beneficiary-led construction, which supports the improvement of existing housing or construction of new homes in beneficiaries' plot. The implementation of other schemes such as affordable housing in partnership with developers or credit-linked schemes that could deliver supply at a larger scale, have been hampered by several constraints including the lack of (and price of) access to available land for affordable housing, and by rigid urban and planning regulations which increase the cost of doing business for developers.

37. For the ambitious national Government's program to make a scalable and meaningful impact on the ground, State level interventions are needed. GoTN has identified access to housing as a key priority within the state's Strategic Plan for Infrastructure Development, *Vision Tamil Nadu 2023*. The State faces an acute housing shortage of around 1.2 million units, and an estimated 6 million people are currently living in slums (representing 16.6 percent of the state's urban

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[27] The 14th Finance Commission recommendations were submitted to Parliament on February 2015 for a five-year period starting April 2015. They recommended a significant increase of states' share in the central tax pool from 32 to 42 percent and invoked greater horizontal equalization by compensating states with higher rates of in-migration, forest cover, and poor fiscal capacity.
[28] The distinction between plan and non-plan was abolished from FY18.
[29] Such as Jawaharlal Nehru National Urban Renewal Mission, 2005; Rajiv Awas Yojana 2013
[30] A union territory (UT) is a type of administrative division in the Republic of India., usually federal territories governed directly by the central Government of India
[31] EWS households are defined as those with annual income up to INRs. 300,000 (US$4,208), LIG households are defined as households with annual income between INRs. 300,001 and INRs. 600,000 (US$4,209-8,416), while MIG1 category is defined as having an annual household income of INR 12,00,000 (US$16,831) and MIG2 category is defined as having an annual household income of INR 18,00,000 (US$25,246), by the Ministry of Housing and Urban Affairs, GoI (PMAY-HFA Urban Scheme Guidelines).
[32] Ceilings to loan amount and carpet area are also established per income group. Source: Reserve Bank of India (2018). *Affordable Housing in India*. *https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=17314*

population). It is estimated that about 95% of the total housing deficit is concentrated in EWS/LIG segments. The Strategic Plan was launched in 2012 with 10 vision themes[33], including universal access to housing[34] and provision of good quality infrastructure in the state. In 2014, this plan was translated into projects and budgets. The two State government agencies that are responsible for providing affordable housing in Tamil Nadu are the Tamil Nadu Slum Clearance Board (TNSCB), [35] which provides free housing to eligible EWS families, and the Tamil Nadu Housing Board (TNHB), which serves upper LIG and high middle-income families[36].

38. **Results from the Vision Tamil Nadu have not been as strong as expected. The GoTN recognizes that the current business as usual approach of the State being the sole provider of 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 is not adequate to address the existing stock deficit. At the current rate, it will take decades to address the backlog of the current housing stock. In order to close the housing deficit gap noted in the Vision Tamil Nadu 2023, the GoTN would need to increase the annual supply of housing from current 27,000 units, to around 145,000 units (rental and or for purchase). The annual budget would also need to increase by more than four times from current U$ 250 million to about U$ 1.2 billion. These figures do not include additional housing needs arising from population growth, urbanization, and demographic and socio-economic changes.

39. **Developing and deepening housing market is a prerequisite to tackle the supply side constraints and respond to the growing demand.** Around 85 percent of the affordable housing (EWS + LIG) supply in the State is provisioned by the public sector, most of it with minimum beneficiary contribution. The affordable housing developer industry in Tamil Nadu is highly concentrated in middle or high-income segments and in a handful number of private actors. In Chennai, for instance, four firms represent more than 60 percent of the total private sector production. Public provision of affordable housing in the low-income segments has crowded out private developers. To increase effectiveness and sustainability, the State will need to support developing a well-functioning market in which private sector also participates in the provision of affordable housing. It will also need to design programs that are progressive, where targeting should take into account ability to pay.

40. **The affordability analysis highlights the need for differentiated solutions for government programs and incentives across the affordability spectrum, pointing out the need to redefine the role of the Government and its programs.** An imputed affordable house price for each decile was estimated using standard assumptions and including PMAY support (see Annex 4 of TNHHDP, P168590). Key findings are: (i) there is substantial room for improving the sustainability and progressivity of the public housing provision, which would reduce the fiscal burden and allow the State to target resources to those segments that are unable to afford; (ii) housing finance is very limited to higher deciles but has the potential to move down market in the medium-term; and (iii) rental housing has very strong potential for market growth as a key housing solution to the prevalent problem of overcrowding. Rental can also help households to create a payment history that could later be taken into account for access to finance. Without the need to increase the State housing budget in the short term, the GoTN could significantly increase the fiscal sustainability and the efficiency of their spending in the housing sector by: (i) defining the role of State housing agencies (TNSCB and TNHB) as the main providers of housing exclusively for the very poor, thereby directing limited public resources to attend to the needs of the poorest

[33] 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.

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

[35] TNSCB was established under the Tamil Nadu Slum Clearance Areas Act of 1971, and it is the leading provider of affordable housing in the state. Its main responsibility is to provide housing with basic facilities to slum dwellers along with community development programs. The TNSCB has a record of robust performance in housing delivery for the EWS segment, backed by inter-agency coordination, technical capacity, and fiscal allocation.

[36] TNHB, established under the Housing Board Act, 1961, provides dwelling units to the LIG, MIG and HIG with the requisite infrastructure. The Board played an important role during the 70s/80s in creating township across the state, and facilitating the expansion of Chennai, utilizing public land for housing development schemes.

population; and (ii) focusing on institutional and regulatory reform to enable and expand private participation in the housing market. These measures should set the foundations of a robust market system.

41. **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 due to climate change. Urban flooding is the most frequent and damaging consequence of climate-change related risks in Tamil Nadu, particularly in Chennai and its suburban areas due to improper drainage and encroachment of water bodies and waterways where people live. The TNSAPCC attributes acute shortage of housing stock in urban areas to proliferation of slums that are located in high climate and disaster risk prone areas and calls for augmentation of housing stock in a sustainable manner. It is estimated that 20 percent of the urban population are living in slums, out of which 30 percent are living on river and watercourses margin below Mean Flow Levels. These hutments will be affected by floods or flash floods causing loss of lives or properties. TNSCB, which is the main provider of affordable urban housing in Tamil Nadu, has constructed 7,500 tenements near seashore in the urban areas, which will get inundated and surrounded by water if sea level rises by 1m. Additionally, 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. For instance, the Tamil Nadu Combined Development and Building Rules (TNCDBR) 2019 issued by Chennai Metropolitan Development Authority (CMDA) do not currently integrate aspects of climate resilient construction, green building and sustainability provisions.[37] To change this, the TNSAPCC 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.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

42. **The reform program supported by this DPF stems from the strategic priorities set by the Government of Tamil Nadu in its *Vision 2023,* taking into account lessons learned since its inception and from implementation of the PMAY-U program.** The proposed programmatic DPF will address critical policy, regulatory, and institutional reforms needed to develop a well-functioning housing market and to enhance the access to affordable housing for the needs of low-income population. The Program Development Objective of the proposed operation is to support the Government of Tamil Nadu to increase the access to affordable housing by strengthening policy, institutions, and regulations of the housing sector. The policy, regulatory, and institutional changes supported under the proposed DPF series will be introduced in a sequenced and phased manner, contextualized to the policy environment of the GoTN.

43. **The program of reforms supported by the proposed DPF series is structured in three interlinked pillars reflecting critical building blocks to increase access to affordable housing:** (i) strengthening policies and institutions to support inclusive and efficient housing sector development, (ii) developing an enabling environment to increase the supply of affordable housing, and (iii) crowding private sector participation in affordable housing.

44. **The proposed DPF draws upon extensive experiences and reviews of similar DPFs and housing sector engagements in Mexico, Brazil, Indonesia and others.** Some key lessons include, first, experiences in countries with mature stage of housing sector development, which demonstrate the importance of shifting the role of government away from a provider and redefining its role as enabler of a functional and efficient housing market. Global experience shows that the public sector alone cannot address a growing housing demand, especially as countries undergo rapid urbanization. Rather, the focus must be on creating an environment and a market in which private sector is incentivized to gradually go

[37] As per comparison with the Model Building Byelaws of Ministry of Housing and Urban Affairs, Government of India.

down market to affordable housing segments. Second, since the risk and profitability for affordable housing are not inherently attractive to developers[38], the public sector can play an important role in providing regulatory and market incentives for the private sector to attend to the affordable housing segment such as inclusionary zoning and density bonus.[39] The market incentives have proven to be important not only to increase private provision of affordable housing but also to promote mixed income and spatially balanced development. Gentrification and segregation have been one of the key sources of social tension facing many countries. Finally, international experiences show that as the housing sector matures, housing institutions should invest in diversifying housing products to respond to different needs and preferences for affordable housing, such as up-front subsidy programs, rental housing, and risk mitigation products for developers.

4.2. ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

PILLAR 1: STRENGTHENING POLICIES AND INSTITUTIONS TO SUPPORT INCLUSIVE AND EFFICIENT HOUSING SECTOR DEVELOPMENT

45. The first pillar of *strengthening policies and institutions* supports the GoTN's efforts to transform the housing sector from its current state-led model to a market model that enables the development of solutions for multiple needs and one that leverages private sector and beneficiary contributions towards increased access to housing. This requires a new vision and objectives for the sector policies and institutions (from provision to enabling) that will guide sector priorities and programs. A key first step is the articulation of a medium-term State-level Affordable Urban Housing and Habitat Policy that presents a clear diagnostic of the sector issues and options and that sets out the principles and objectives that will guide the sector moving forward.

46. The implementation of the new Affordable Urban Housing and Habitat Policy will require creating a mechanism at the state level that can enable coordination of the main stakeholders. Currently, the Housing and Urban Development Department (HUDD) of the Government of Tamil Nadu has no formal platform that allows formal engagement of key stakeholders on the state of the housing sector and delivery of housing programs. This includes coordination with stakeholders responsible for service delivery, housing programs, land, metropolitan area planning, let alone federal and local governments.

47. Consistent with the new policy, it is imperative to address gaps in the social, environmental and urban design sustainability of the affordable housing schemes. The nodal agency for providing EWS housing in Tamil Nadu, TNSCB, does not have a standardized environmental or social framework applicable to all its projects. Instead, it implements ad-hoc guidelines based on the type of project. 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. For instance, gender-inclusive design should ensure safety for women in public housing complexes, improve ventilation in kitchen areas, and improve women's voice and participation in block associations.

48. Female headed households in Tamil Nadu have less income than male headed households and are more likely to be renters and slum dwellers.[40] In Tamil Nadu, there is a higher share of households headed by female in both, urban and rural sector, compared to the national average, with 17 percent and 12 percent, respectively (see Table 2). However, in Tamil Nadu fewer female headed households own their dwellings compared to male headed households, with female headed household's propensity to be renters higher than males by seven percentage points. Females who head

[38] In Chennai, around 13 percent of affordable housing units during 2016-2018 was provided by the private sector, while the remaining by the state.

[39] Many countries have introduced inclusionary zoning requiring a certain percentage of housing development to be allocated for affordable housing, or density bonus to cross-subsidize the provision of affordable housing for mixed income development project.

[40] Female headed households are defined as the gender of the household head is female. The household heads and their gender are identified in the Government of India, National Sample survey Office, Socio-economic Survey, 68th round (July 2011-June2012), 69th round (July 2012-December 2012), and 70th round (January-December 2013).

households have lower levels or literacy and education than their male household head counterparts in urban Tamil Nadu. Interestingly, female headed household have higher incidence of housing loans than male headed households. Poverty, rental share of income, tenure of dwelling, soundness of structure and the size of housing loans are not statistically different for male and female headed households. Female headed households also have statistically significantly worse water, sanitation and electricity outcomes. Literature also highlights the additional vulnerabilities that female-headed households are subject to, including social prejudice and gender discrimination, lack of access to basic service (i.e. fetching drinking water) due to the lack of time available for non-income generating activities, among others. Finally, high housing cost results in compromising other expenditures such as in food, heath or commuting[41], further undermining economic and employment opportunities for female headed households[42].

Table 2: Bivariate Regressions of Household Characteristics on Gender of Household Head

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
	HH Size	Literate	Prim Ed	Renter	Log Inc	Overcrowd	In Slum	Hse Loan
Female HHH	-1.28***	-0.17***	-0.20***	0.07**	-0.72***	-0.04**	0.04***	0.17*
	(-16.93)	(9.92)	(-8.54)	(2.72)	(-17.27)	(2.60)	(3.63)	(2.07)
Observations	3,328	3,328	3,328	3,328	3,328	2,856	2,856	3,66

Note: t statistics in parentheses. *p < 0.10, **p < 0.05, ***p < 0.01. Each cell is a bivariate OLS regression of the column variable on the a indicator variable of whether a household is female headed and a constant for urban households in Tamil Nadu. The constant is suppressed. Regressions weighted with household weights. Data are from NSSO 68th, 69th and 70th rounds on consumption (columns 1 through 5), housing (columns 6 and 7) and assets (column 8). Different surveys explain different number of observations. Income is calculated by decile ratios of income and consumption from Chancel, L., & Piketty, T. (2019). Indian Income Inequality, 1922-2015: From British Raj to Billionaire Raj?. *Review of Income and Wealth*, *65*, S33-S62. 'Log Cons' is the logarithm of income measured at the household annual level. Overcrowded is a measure of rooms per number of household members which is coded as above 0.5 rooms per person. This is the 20th percentile and corresponds to 47 square feet per person. In slum are dwellings that are notified slum, non-notified slum or squatter settlements.

Prior action #1*: The GoTN has issued the first State-level Affordable Urban Housing and Habitat Policy.*

Indicative Triggers for second DPF:

Trigger # 1. *GoTN causes the enactment of amendment Acts for the Tamil Nadu Slum Clearance Act and Tamil Nadu Housing Board Act to align the institutions with the new policy objectives articulated in the Urban Housing and Habitat Policy.*

Trigger #2. *GoTN establishes new housing programs with clear and transparent targeting and eligibility criteria that take into account household affordability.*

Trigger #3. *GoTN introduces regulation to mandate adequate service connection (water supply, wastewater, solid waste management) for all new housing projects.*

Trigger #4: *GoTN issues a regulation to require publication of annual monitoring and performance of housing sector using an integrated information system.*

49. As a prior action, GoTN will issue and adopt its first State-level Affordable Urban Housing and Habitat Policy (TNAUHHP), which sets the objective to increase access to affordable housing solutions and creates a framework for the development of an affordable housing market. The new Policy sets three guiding principles: (i) inclusion, (ii) sustainability, and (iii) transparency and participation, and articulates the sector main focus areas on shifts in policy and institutions, regulations, and programs. The principle of *inclusion* focuses on the shift of the role of state from a 'provider' to an 'enabler', bringing in the spirit of partnership with private sector and civil society. This partnership will prioritize housing solutions to the poorer segments of the population, where the design of progressive programs considers targeting and social equity, adopting gender-sensitive and inclusive approach to address the special needs of different stakeholders (e.g. women, construction workers, disabled, aged population). In particular, the TNAUHHP recognizes a gap in access to

[41] Gidding, 2007, p. i
[42] Richter, S. et al, 2017

housing by female headed households and emphasizes prioritizing the improved access to home ownership by female headed household in the government's programs.

50. **One of the key aspects of the principle of *sustainability* is to guide housing programs to address climate vulnerability of housing solutions**, such as reducing households living in high-risk areas and incentivizing ecological and environmentally sustainable designs, incorporating sustainability principles that promote green, energy-efficient, disaster resilient and eco-friendly developments. This principle deals with energy efficiency in construction and design, the choice of building material that does not put strain on natural resources, integration of housing design that can withstand the impacts of climate change and an obligatory greening of the housing sector. Additionally, this principle aims to improve quality of housing units by integrating sustainable land use planning, so that urban areas are compact, easily serviced, with efficient infrastructure, that can reduce flooding, environmental degradation, urban heat, and congestion. The principle of *transparency and participation* is key to create the market conditions that will incentivize other players to participate in the provision of affordable housing.

51. **In parallel, HUDD has established the Tamil Nadu Housing Advisory Committee (TNHAC), with representation from relevant stakeholders in the housing sector**, including the private sector in order to institutionalize a permanent coordination mechanism to bring different stakeholders into the decision-making process to enhance accountability and transparency of the housing sector**.** TNHAC includes representation from HUDD, other GoTN relevant line departments both at state and local levels, civil society, private sector, think-tanks and academia working in this sector. The participation of different state agencies will also ensure that housing programs consider the key principles of TNAUHHP, which include climate change resilience and gender considerations by taking into account the needs of women and female-headed households. The TNHAC will play a role in monitoring implementation of housing policy and programs and undertaking outreach activities that provide advice and suggestions to the government on urban regulation and policy to promote affordable housing.

52. **The indicative triggers for the second DPF aim at deepening the transformation in the sector and strengthening the GoTN's capacity to implement the Urban Housing and Habitat Policy by: 1) harmonizing and updating the legislative framework of housing institutions to align them with the new Policy objectives; 2) introducing differentiated programs with clear and transparent eligibility criteria that take into account household affordability, 3) ensuring and improving habitability and access to services for all new housing units, and 4) enhancing the availability of housing sector information, and monitoring and performance of housing sector.** The roles and functions of TNSCB and TNHB are guided by the Tamil Nadu Slum Areas (Improvement and Clearance) Act, 1971 and the Tamil Nadu Housing Board Act, 1961, respectively. The adoption of a new Urban Housing and Habitat Policy requires an update of the legislative framework for key housing institutions to better align with new policy directives. The new policy directive also highlights the importance of developing and adopting a beneficiary targeting methodology that will be used across the state, by all government housing agencies, and that will optimize the targeting and resource allocation of housing solution. Particularly focus will be made to female headed households to encourage their home ownership by identifying female households among the eligible beneficiaries and prioritizing them in the government programs. The guideline of national program, PMAY-U, requires joint-ownership for all houses supported under the program and the same requirement will be extended to state-level housing programs. Moreover, to ensure that adequate quality of life is part of the "housing for all" vision, GoTN requires that all housing solutions delivered to its citizens, especially those delivered by the private sector in the EWS and LIG segments, are habitable with access to basic services and urban amenities by introducing regulations that will mandate adequate service provision for all housing projects. Lastly, HUDD will establish an integrated information system for the housing sector to consolidate all key data and information available in the public domain related to housing sector performance[43]. The system will offer a platform for citizens to register demand for housing (rental and ownership), which

[43] Including data generated by GoTN on below poverty line EWS and LIG households currently residing in at-risk areas.

will help GoTN and key stakeholder develop improved programs/products responding to actual demand. Tamil Nadu HUDD will publish an annual monitoring report on the status of the housing sector, including the implementation of housing policy and its programs. Its findings will feed into GoTN's efforts to identify regulatory and institutional changes required to achieve its policy objectives.

53. Prior action #1 and its triggers are expected to redirect the policies and programs towards a market-based system where a growing housing demand, especially for EWS/LIG segments of the population, is effectively addressed by both public and private sectors in Tamil Nadu. As such, this prior action and triggers aim to (i) increase the available housing solutions for EWS/LIG segments, (ii) increase the proportion of EWS/LIG beneficiaries receiving government support that are Female Headed Households, (iii) ensure annual review of affordable urban housing and habitat policy implementation and progress is disclosed by the TN HUDD, (iv) publish annual sector monitoring and performance using housing indicators, and iv) include explicit support and provisions for female headed households in the targeting and the eligibility criteria established by GoTN for the new housing programs.

Prior action #2: *TNSCB's Board has adopted environment, resilient urban design, social sustainability frameworks and grievance management redress systems, whose application is mandatory for all TNSCB EWS/LIG housing units.* ***Indicative Triggers for second DPF:*** ***Trigger #5:*** *GoTN issues a Government Order establishing operations and maintenance standards of mandatory application to new government supported EWS/LIG housing units.* ***Trigger #6****. GoTN adopts State-level environmental and design criteria regulation mandatory for government supported EWS/LIG housing units.*

54. As a prior action, TNSCB is improving sustainability in the housing sector by adopting an environmental, social, and sustainability framework applicable to government supported EWS housing in the State. TNSCB is developing a sustainability framework that will be applicable to government supported EWS housing in the State irrespective of the sources of financing. The framework will include three sub-frameworks: (i) an environmental management framework; (ii) a social sustainability and grievance management framework; and (iii) a resilient urban design framework. The *environmental framework* is expected to lead to effective project development and implementation, including upfront climate resilience and disaster risk considerations in design and siting that also address construction-related environmental impacts and ensures proper O&M. The *social framework* will allow TNSCB to enhance social inclusion, safety and security for men and women, and livelihood opportunities to access affordable housing by improving demand management based on detailed social assessments; enhancing dissemination of information and engagement with target communities during project design, implementation and maintenance, in accordance with guidelines for communication and consultation; and ensuring effective grievance redress mechanisms. The *resilient urban design framework* will lay out sound urban design, architecture and built form approaches that TNSCB can adopt across all its projects, regardless of size and location, introducing different design options considering quality of life, safety and security, particularly for women and children, without necessarily increasing the cost of housing delivery. The framework will look at undertaking a climate and disaster screening for site selection, use of energy efficient products, implementation of Energy Conservation Building Code (ECBC) norms, use of resilient and construction material including manufactured-sand and fly ash, plantation of trees to reduce heat island effect, rainwater harvesting, green certification of housing units, among others, ensuring strengthened resilience of affordable housing provided by the public sector. The sustainability framework will be supported by the *Stakeholder Consultative Platform* set-up by TNSCB that will support continuous and meaningful consultations with stakeholders during the entire housing project cycle. The Platform will provide a forum for dissemination of information, and to facilitate a regular dialogue with stakeholders, such as supporting consultations related to environmental sustainability concerns (particularly climate change-related) in the housing sector. The Platform will also engage stakeholders on environment sustainability practices such as plastic waste management, pollution control, municipal solid waste management practices, energy efficiency, creating green spaces. Members of the platform will include TNSCB, relevant civil society organizations and resident welfare associations, urban local bodies, other relevant GoTN agencies, leading academia, and think tanks working in this space in Tamil Nadu.

55. The indicative triggers for the second DPF aim at improving sustainability through the design and maintenance of housing solutions and mandating application of environmental and design criteria in government supported EWS/LIG. In particular, the lack of adequate maintenance of public housing solutions is one of the key challenges facing housing sector. Maintenance fees are not sufficient to cover the expense and its collection is not enforced. The costs of operation and maintenance of existing public housing assets are currently assumed by the government, further straining public resources and limiting opportunities to support new households in need. As a result of inadequate maintenance, public housing typically suffers from dilapidation, posing risks to the quality of life, public health and safety of those occupying public housing schemes. The GoTN is committed to developing and implementing a proper housing asset maintenance framework, looking at both financial and institutional options to increase the sustainability of assets owned by public sector. Improved maintenance will also increase climate adaptability of EWS/LIG segments. The efforts will be complemented by requiring state-level application for environment and design guidelines for all EWS/LIG housing.

56. The expected result of this prior action and triggers is to improve the sustainability (incl. environmental, social, governance, physical condition of units) of the housing solutions in the state. As such, this action and triggers are aiming to achieve the following results: (i) reduced number of EWS households in at risk areas; (ii) GRS system effectively resolves complaints in less than 60 days; and (iii) increased proportion of households in TNSCB tenements contributing to O&M mechanisms.

PILLAR 2: DEVELOPING AN ENABLING ENVIRONMENT TO INCREASE THE SUPPLY OF AFFORDABLE HOUSING

57. The second pillar of *enabling environment* focuses on unlocking regulatory barriers that will effectively increase the supply of affordable housing. As a way to bring greater market discipline and transparency into real estate sector, the GoI put in place in 2016 regulation to strengthen the real estate industry and protect home-buyers. The main objective of the regulation was to protect consumers - which typically invest in properties prior to their construction - from fraudulent and unprofessional behaviors from developers. Developers in India often finance themselves through pre-sales from buyers and, to a lesser extent, credit lines from banks (non-project finance). This effectively transfers construction risk to households, which have no effective way to mitigate risks related to delays, fraud, or poor quality. The Real Estate Regulation and Development Act in 2016, which establishes a Real Estate Regulatory Authority (RERA) in each State, introduced a set of requirements for developers, with the objective of reducing risks to households. These requirements include: (i) mandatory establishment of independent project accounts for each development, where at least 70% of payments received from buyers must be maintained, (ii) mandatory registration with RERA of all development projects, and (iii) standardization of unit prices per square feet to facilitate comparisons by home-buyers. As per the provisions of the 2016 Act, each State is expected to create the regulatory framework to implement RERA.

58. Supply of formal urban housing in cities is constrained by the lack of a conducive enabling environment. The regulatory framework that directly affects the supply of urban housing - planning, zoning, land use regulation, intensities of uses allowed (densities, floor area ratio or FSI) and permitting requirements, is decades old in Tamil Nadu and was not set up to foster a housing market. Instead, the existing framework responds to efforts to exercise control over land, construction and urban growth. The rigid regulations – particularly those limiting intensities of the use of land – make urban land, and thus the supply of affordable housing, expensive. In similar contexts, when the cost of serviced land is high, higher densities allow developers to split the expensive land price amongst more units, thereby allowing more affordable prices. This is particularly relevant for the development of rental housing given that demand for rental units is particularly sensitive to location and access to amenities.

59. **The supply of formal rental housing is further constrained by decades of regulatory rigidities.** Rent control, and unbalanced roles and responsibilities biased towards tenant protection, have discouraged investment in new rental units and maintenance of the existing stock. The Rent Control Act was introduced in 1960s to overcome challenges of limited supply of rental properties. This Act gave powers to GoTN to regulate rents, forcing owners to rent out properties at fair prices. The Act was intended to favor tenants but resulted in limited formal supply which has in turn affected affordability. The lack of a balanced legal framework, coupled with a lengthy process of dispute resolution, became deterrents to owners to rent out their properties. This in turn has led to an increase in the number of vacant properties or underinvestment in maintenance. As a result, overcrowding is more common for renters than for homeowners, with major part of the rental stock informally rented.

60. **Even when flexible regulation unlocks urban land markets, inclusionary zoning and other planning measures to maintain a healthy mix of incomes and uses is likely to be needed to make affordable housing economical for investors and to prevent gentrification**. In large cities, even with flexible urban regulation such as higher densities, prices are likely to remain high and supply of affordable housing in well-located, central areas, will prove difficult. Under these conditions, an increase in supply can trigger a process of gentrification in well-serviced urban areas, while the urban poor are forced to live further and further away from jobs and markets. This segmentation makes cities less inclusive, undermining the ability of the poor to harness the benefits from agglomeration.

Prior Action #3: *The GoTN has established the permanent Tamil Nadu Real Estate Regulatory Authority with full time staff and the Tamil Nadu Real Estate Appellate Tribunal (as published in the Government Gazette).* ***Indicative Trigger for second DPF: Trigger #7:*** *GoTN causes the enactment of amendments to update the Tamil Nadu Apartment Ownership Act*

61. **As a prior action, GoTN has improved governance and transparency of real estate projects by adopting RERA regulations.** In order to overcome issues related to the lack of market discipline among developers and to ensure adequate safety and protection for home buyers, especially for the poor, the GoTN established the permanent Tamil Nadu Real Estate Regulatory Authority with full time staff and the Tamil Nadu Real Estate Appellate Tribunal Regulations in 2019. RERA provides for (i) increasing transparency in financial transactions in a real estate project through mandating the set-up of dedicated bank accounts by developers, earmarking at least 70 percent of funds collected for project use, requiring the developer to undertake an annual internal audit and presenting its report to RERA; (ii) ensuring safety of structures by mandating a project's architect and structural engineer to submit their qualified opinion on structural safety, especially against weather events; (iii) ensuring on-time project completion by introducing penalties for the developers for unjustified delays; and (iv) setting up a dispute resolution consisting of a three-tier grievance redress and appeal system, independent from civil courts, intended to allow for speedy dispute resolution. Timely completion of housing development in Tamil Nadu is expected to increase affordability of housing units in the medium- to long term.

62. **The indicative trigger for the second DPF entails the GoTN's adoption of the new Tamil Nadu Apartment Ownership Act, which will clarify roles and responsibilities among homeowners and owners' associations, and improve operation and maintenance in multistoried apartments.** The Tamil Nadu Apartment Ownership Act was introduced in 1994 by the GoTN to regulate promotion, construction and transfer of ownership of residential apartments. It has the objective to clarify roles and responsibilities among home owners and owners' associations and to improve operation and maintenance in multistoried apartments. More than two decades later, many provisions of this legislation are yet to be implemented, while numerous challenges in benefiting from the provisions of the Act have emerged. For instance, the old legislation does not cover which party is expected to represent the interest and protect the rights of property owners, including maintenance of common areas, enforcement of society regulations on common services, mechanism to represent the interest of the owners in legal cases. The updated new Act will address key deficiencies identified in the 1994 Act.

63. **Prior action #3 and its trigger are expected to increase transparency in the real estate sector in Tamil Nadu, thereby contributing to the development of well-functioning housing market and improved affordability of housing.** As such, this prior action is aiming to increase the proportion of affordable housing projects that are registered in RERA and to increase the number of apartments that register under the updated Apartment Ownership Act.

Prior Action #4: *The GoTN has published in the Government Gazette the General Statutory Rules for the application of the Tamil Nadu Regulation of Rights and Responsibilities of Landlords and Tenants Act, which creates an expedited dispute resolution system between landlords and tenants.*
Indicative Trigger for second DPF: Trigger #8: *GoTN incentivizes long term rental by reducing stamp duty and registration charges for all rental agreements of more than 12 months*

64. **As a prior action, GoTN adopted the Tamil Nadu Regulation of Rights and Responsibility of Landlords and Tenants Act in February 2019 replacing the Tamil Nadu Building (Lease and Rent) Control Act, 1960 (Rent Control Act) to promote the development of rental housing.** The New Tenancy Act requires registration of all rental contracts (residential, commercial, education) with the Rent Authority within 90 days through HUDD's portal (www.tenancy.tn.gov.in). Registration of the contract allows for the use of an alternative and executive adjudication system aimed to reduce the role of civil courts thereby allowing quick adjudication in majority of the cases. The New Tenancy Act also casts responsibilities of maintenance of a property for the landlord and the tenant through a specific Schedule, aiming to increase safety and sustainability of buildings. By making buildings more sustainable, buildings become better equipped (i.e. better drainage and/or water services) to adapt to climate change related risks, such as flooding. The shift to the new rental regulatory regime is a first important step to not only unlock the potential of rental housing in Tamil Nadu, acting as a further stimulus to the real estate sector, but also make rental housing more affordable in the state.

65. **The indicative trigger for the second DPF aim at incentivizing long-term rental by reducing stamp duty and registration charges.** The affordability analysis shows that rental – more so than purchase- is a feasible housing solution for EWS/LIG/MIG households, including female-headed households. Most rental properties for these income segments are of low quality, unsafe with poor services. This affects disproportionately the younger population – particularly women – who migrate from rural areas to urban centers to access jobs. For rental properties to be put into the market, there is a need to create a standardized market infrastructure that can provide predictability for landlords and tenants and reduce the barriers to entry (i.e. cost of stamp duties and registration).

66. **This prior action and trigger are expected to positively impact the rental market, increasing the supply of rental housing, in particular, for the EWS/LIG/MIG groups.** This action and trigger are expected to increase in the number of rental housing units registered in Rent Portal of Tamil Nadu.

Prior action #5: *The GoTN has: (a) amended urban regulations through the Tamil Nadu Combined Development and Building Rules, to increase the floor space index (FSI) to allow higher densities in urban areas; and b) has issued a government order to reduce processing time of building and planning permits.*

67. **As a prior action, GoTN has amended urban regulation to enable higher density in urban areas and to reduce the time for building and planning permits.** The GoTN aimed to make housing more affordable in the state, where well-located land is increasingly scare, by increasing the floor space index (FSI)[44] from 1.5 to 2. Further, GoTN has ushered in

[44] FSI or Floor Area Ratio, is the ratio of Built up area to the total Plot area. This numeric value indicates the total amount of area (on all floors) you can build upon a

a streamlined planning permission approval process for buildings with units of up to 120 square meters[45]. This will result in a time saving of approximately three months in permitting times, relative to current practices.[46] In addition, planning permission is also exempted[47] for unit size up to 30 square meters[48]. These regulatory changes will contribute to increasing the supply of housing by first, allowing higher densities and second, by reducing the cost and time of doing business for developers. Allowing higher densities will reduce environmental degradation by reducing the removal of green cover derived from increased urban sprawling due to scarce land in the city-center. Higher density will also enable more efficient transit, which helps reduce emissions in high density areas by (i) discouraging vehicle dependence and congestion (ii) reducing transportation time. Improving doing business is particular important, since profitability margins for developers engaged in affordable housing is particularly susceptible to time lag between development and sale.

68. **This prior action is expected to increase the supply of housing sector by addressing regulatory constraints.** This prior action is aiming to: (i) reduce the average time to obtain building and development permits, and (ii) increase the number of housing units provided with the increased FSI.

Prior action #6: *The GoTN has mandated, through a notification in the Government Gazette: (a) for all housing developments exceeding 3,000 square meters, to either designate 10% of their FSI area as EWS/LIG housing or pay the shelter charge whose proceeds are allocated to the financing of affordable housing projects; b) to optimize the plot area to allow for higher densities of EWS housing developments; and c) to waive the payment of FSI premia for EWS/LIG.*

69. **As a prior action, GoTN introduced measures to increase the supply of affordable housing, primarily for EWS/LIG segments.** While Prior Action 5 focuses on urban regulations to allow higher density development and reduce the cost of doing business for all housing development, this prior action supports measures that would increase the supply of affordable housing. Under the new regulation[49], developers are required to allocate 10 percent of layout area for EWS plots in residential layouts exceeding 1 hectare. In the case of developments where the FSI area exceeds 4,000 square meters, developers can either provide housing for lower income groups[50] for an extent of 10 percent of FSI area or pay a shelter charges, which is 1 percent of the Guideline Value[51]. The shelter charge is routed into Shelter Fund Tier-I[52] set-up for subsidizing EWS and LIG housing to be built by the public sector, or to housing projects to be built under public-private partnerships (PPP). In addition, the new regulation allowed optimization of the plot area for higher densities of EWS housing developments[53] and provided a waiver of premium FSI charges proportional to areas used for affordable housing

plot.

[45] Sources available online at: https://www.thehindu.com/news/cities/chennai/delay-will-imply-nod-for-plans-of-compact-buildings-deputy-cm-panneerselvam/article28622680.ece and http://www.newindianexpress.com/states/tamil-nadu/2019/aug/29/permission-in-just-a-month-to-build-homes-in-tamil-nadu-smaller-than-half-ground-2025917.html

[46] Timelines for planning permission approvals as mentioned in: *https://timesofindia.indiatimes.com/city/chennai/cmda-begins-dry-run-to-take-planning-permit-process-fully-online/articleshow/65614828.cms*

[47] The typical procedure for application of planning permission and building permits are as outlined in: *http://www.chennaicorporation.gov.in/departments/town-planning/townPlaning.htm*

[48] This revision also integrates housing constructed under one of the components of the Government of India "Housing for All" mission. (Beneficiary Led Construction Scheme of PMAY for Economically Weaker Section / Low Income Group).

[49] Rules 34 and 47(9) of the Tamil Nadu Combined Development and Building Rules, 2019. G.O. Ms. No. 18, Municipal Administration and Water Supply (MA 1), 4th Feb, 19

[50] Dwelling units not exceeding 40 sq.m in carpet area (within the site or 2km from the site)

[51] Guideline value of a land is the estimated market value of a land as per Government records, however, it not always reflects the market value (it is in most cases lower). Guideline values have been fixed for all the areas in the State by the Government, and can be found in Tamil Nadu Registration Department website: *https://tnreginet.gov.in/portal/*

[52] Necessary amendments have been made to the Town and Country Planning Act 1971 in January 2018 to give statutory backing to the levy and collection of Shelter charges. Details of the levy and collection have been included in the TNCDBR 2019.

[53] This is done by removing minimum plot requirements for obtaining planning permissions for individual EWS plots, and by reducing minimum EWS plot size for all new plotted developments to 32 square meters from 40 square meters in Chennai, and 80 square meters in other areas, including residentials buildings with floor

units. The Prior Action promotes ultimately mixed income development and removes regulations that are not conducive for supporting EWS/LIG house developments.

70. The expected result of this prior action is to promote mixed income development and provide incentives for market to supply affordable housing. As such, this prior action is aiming to increase the amount of Shelter Charge mobilized for supply of EWS housing and the number of new EWS/LIG housing units supported under the mixed income development.

PILLAR 3: CROWDING PRIVATE SECTOR PARTICIPATION IN AFFORDABLE HOUSING

71. The third pillar of *crowding private sector participation* supports the creation of a new institutional set-up to incentivize private sector participation in affordable housing. Prior Action 8 and trigger support adopting the regulatory framework for the newly created Shelter Fund, which aims to increase private financing into the affordable housing sector.

72. The GoTN is seeking to encourage a new "asset class" of mixed-income and mixed-use developments that allow for cross-subsidization in which higher returns from commercial uses and high-income developments compensate for lower returns from EWS housing. It is unlikely that regulatory changes under Pillar 2 alone will result in significant increase in supply for the EWS and LIG segments, unless there are accompanying incentives to the private sector to mitigate the perceived risks (i.e. for rental projects) and the lower returns (i.e. for acquisition). Moreover, it is neither economically feasible nor desirable to encourage new developments comprised exclusively of EWS housing.[54] When adequately structured, however, mixed-income and mixed-use developments can obtain attractive returns, while at the same time increasing gradually the supply of affordable housing. In the short-term, these developments are likely to focus on rental housing which provides a secure asset with a steady cash flow.

73. The GoTN created the Tamil Nadu Shelter Fund (TNSF) to attract investment for the afore-mentioned new asset class of affordable housing[55]. The TNSF is a new Alternate Investment Fund (AIF) regulated by the Securities and Exchange Board of India (SEBI)[56] and was created to address a market gap by serving as a market maker to increase access to affordable housing through the financing of mixed-income and mix-use developments where middle-income units cross-subsidize low-income units, thereby creating a new asset class that does not exist yet as a market in Tamil Nadu (See Project Appraisal Document of P168590 for details). TNSF is managed by the Tamil Nadu Infrastructure Fund Management Corporation (TNIFMC), an existing and operating asset management company with a track record in managing the Tamil Nadu Infrastructure Fund (TNIF)[57]. The parallel IPF (TNHHDP, P168590) is directly supporting the TNIFMC through an equity contribution to TNSF, as well as through technical assistance.[58] The TNHHDP will also assist the TNIFMC in developing a new operational model for TNSF, inter alia, the new mixed-use, mixed income and rental asset classes, advisory on environmental and social best practices and project evaluation.

Prior action #7: *Securities and Exchange Board of India (SEBI) has approved TNSF's Private Placement Memorandum (PPM).* ***Indicative Triggers for second DPF: Trigger #9:*** *TNIFMC adopts a risk mitigation product to increase the participation of private sector in affordable housing segment.*

area not exceeding 300 sq.m. and G+1 floor in height

[54] Experience shows that this creates pockets of poverty, decreases inclusiveness and generates high levels of social tension.

[55] TNSF was established as an irrevocable and determinate investment trust in accordance with the provisions of the Indian Trusts Act of 1882 under a deed of indenture dated February 2, 2018. See *http://www.tnscb.org/wp-content/uploads/2019/04/11.-Constitution-of-Shelter-Fund.pdf* and *https://www.sebi.gov.in/legal/regulations/jun-2018/sebi-alternative-investment-funds-regulations-2012-last-amended-on-may-10-2019-_34621.html*.

[56] Regulation 2(1) (b) of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.

[57] TNIFMC is owned by the GoTN (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).

[58] The World Bank's contribution to the TNSF is expected to be complemented with contributions from other multilateral development agencies, as well as other public and privately regulated financial institutions.

74. This prior action supports a private placement memorandum (PPM) to be approved by the Securities and Exchange Board of India (SEBI), which is required to allow the TNSF to initiate operations. The PPM describes key objectives and principles, governance structure and legal responsibilities of the TNSF. Although legally created in 2018[59], TNSF is required, as all AIFs, to issue a private placement memorandum (PPM) to raise funds in the market. The 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. No resources can be received by the fund until the PPM is approved by SEBI.

75. The proposed trigger seeks to mitigate high risks that constrain private investment in affordable housing. It will support developing the effective demand management systems, which can pre-screen candidates and link them to alternative sources of finance such as demand-side subsidies available through the national government program (PMAY-U), in order to reduce the turnover time and the uncertainty of the buyer's ability to pay. It will also support developing a guarantee facility to reduce commercial risk in rental housing which is often associated with default, evictions, vacancies, and vandalization of properties.

76. Prior action #7 and its trigger are expected to create a market for affordable housing solutions, particularly benefitting the EWS/LIG households. The expected outcomes from the proposed prior action and trigger are: increased amount of private sector investment mobilized for affordable housing projects and increased number of investors participating in TNSF.

Prior action #8. *TNIFMC's Board has adopted the environmental, climate-resilience, social and governance frameworks of mandatory application for all projects co-financed by TNSF.*

77. As a prior action, the TNIFMC will adopt the Environmental, Social, and Governance Management Systems (ESMS) framework applicable to all projects co-financed by the TNSF. The ESMS introduces clear environmental and social standards for investors to comply with and allow the TNSF to attract investors interested in sustainability targets, giving additional value to the equity contribution. The ESMS framework provides policies, procedures, tools, monitoring, reporting arrangements, and grievance redress mechanisms which will govern project selection, approval and implementation from the environmental, social and governance perspectives. It complies with national laws and regulations on environment, social and governance aspects, and meet international standards.[60] The ESMS will be applied to all projects co-financed by TNSF, regardless of sources of funding and will contribute to introducing sustainable environmental and social standards which can later be extended to the entire sector.

78. The main expected result of Prior action #8 is to standardize sustainability of the housing solutions provided by private-public co-financing, thereby increasing the confidence of investors and promoting greater private sector participation. The expected outcome from the prior action is the increase the proportion of housing projects supported under TNSF that receive green housing certification.

Table 3: DPF Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings

[59] TNSF was registered on July 23, 2018 with the SEBI as a Category I Alternative Investment Fund (AIF) - Social Venture Fund under the SEBI's Alternative Investment Fund Regulations of 2012 (amended on May 10, 2019). See https://www.sebi.gov.in/legal/regulations/jun-2018/sebi-alternative-investment-funds-regulations-2012-last-amended-on-may-10-2019-_34621.html. Category I are funds with strategies in sectors which the government considers socially or economically desirable. These include venture capital funds, small and medium sized enterprise (SME) funds, infrastructure funds and social venture funds.
[60] Lipman, B. J. (2005). Something's gotta give: Working families and the cost of housing. Center for Housing Policy.

Pillar 1: Strengthening Policies and Institutions to Support Inclusive and Efficient Housing Sector Development	
Prior action #1. The GoTN has issued the first State-level Affordable Urban Housing and Habitat Policy	Deloitte, 2016. Mainstreaming Affordable Housing in India. Moving towards Housing for All by 2022. It shows the need for improvements on policy and Institutional interventions to strengthen planning and long-term sustainability. Joint Work of the World Bank, Cities Alliance, UN-Habitat, GIZ, and IADB. 2015. Chile: From Building Housing to Building Cities: Lessons from National Urban Policies. Highlights the positive impacts of differentiated housing solutions for different income levels
Prior action #2. TNSCB's Board has adopted environment, resilient urban design, social sustainability frameworks and grievance management redress systems, whose application is mandatory for all TNSCB EWS/LIG housing units.	Coelho, K., Peter, V., & Nundiyny, A.D. 2018. A Baseline Study of the Impacts of Resettlement in Gudapakkam and Perumbakkam. The Tamil Nadu Slum Clearance Board (TNSCB) and The Indian Council of Social Science Research (ICSSR). It shows the importance of sustainable solutions to meet local needs/demand.
Pillar 2. Developing an Enabling Environment to Increase the Supply of Affordable Housing	
Prior action #3. The GoTN has established the permanent Tamil Nadu Real Estate Regulatory Authority with full time staff (2019) and the Tamil Nadu Real Estate Appellate Tribunal (as published in the Government Gazette).	Knight Frank. (2018). Policy Research: Real Estate (Regulation and Development) Act. India Topical Reports. This report highlighted the main aspects of the Real Estate Regulation in India.
Prior action #4. The GoTN has published in the Government Gazette the General Statutory Rules for the application of the Tamil Nadu Regulation of Rights and Responsibilities of Landlords and Tenants Act (February 2019), which creates an expedited dispute resolution system between landlords and tenants.	World Bank. 2018. How to develop the formal urban rental market in India. With a focus in Tamil Nadu. Washington, D.C. Highlights the main challenges of the rental market in India, giving insights on what steps are needed next. Peppercorn, Ira Gary; Taffin, Claude. 2013. Rental Housing: lessons from international experience and policies for emerging market (English). Washington DC: World Bank. This document brings international experiences and main lessons learned on rental housing policies implemented across the world.
Prior action #5. The GoTN has: (a) amended urban regulations through the Tamil Nadu Combined Development and Building Rules, to increase the floor space index (FSI) to allow higher densities in urban areas; and b) has issued a government order to reduce processing time of building and planning permits.	Brueckner.J & Sridhar. K, 2012. *Measuring welfare gains from relaxation of land use restrictions: The case of India's building-height limits.* Regional Science and Urban Economics, 2012, vol. 42, issue 6. It shows that a unitary increase in FSI translates into a gain of Rs 106 million for consumers in an average city. Shenvi.A, Slangen H.R. 2018. *Enabling Smart Urban Redevelopment in India through Floor Area Ratio Incentives,* ADB South Asia Working Paper Series No. 58 World Bank. 2013. *Planning, connecting and financing cities now – priority for city leaders*. Washington, D.C. Highlights that rising land values can be used to create higher-capacity infrastructure, to increase office space and to add affordable housing.
Prior action #6. The GoTN has mandated, through a notification in the Government Gazette: (a) for all housing developments exceeding 3,000 square meters, to either designate 10% of their FSI area as EWS/LIG housing or pay the shelter charge whose proceeds are allocated to the financing of affordable housing projects; b) to optimize the plot area to allow for higher densities of EWS housing developments; and c) to waive the payment of FSI premia for EWS/LIG.	World Bank. 2009. World Development Report 2009: Reshaping Economic Geography. World Bank. Gives the framework on how to think about spatial challenges, including those emerged from population/economic density, to guide policies. World Bank. 2013. Urbanization beyond Municipal Boundaries: Nurturing Metropolitan Economies and Connecting Peri-Urban Areas in India. Directions in development; countries and regions. Washington, DC: World Bank. This report gives an overview of India's main urbanization and territorial challenges, highlighting the need for land planning and management.
Pillar 3: Crowding Private Sector Participation in Affordable Housing	
Prior action #7. Securities and Exchange Board of India (SEBI) has approved TNSF's Private Placement Memorandum (PPM).	Securities and Exchange Board of India Act, 1992 [As amended by the Securities Laws(Amendment) Act, 2014] Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012

	They set the requirements and processes needed to establish the TNSF.
Prior action #8. TNIFMC's Board has adopted the environmental, climate-resilience, social and governance frameworks of mandatory application for all projects co-financed by TNSF.	Barnhardt, S., Field, E., & Pande, R. (2017). Moving to opportunity or isolation? network effects of a randomized housing lottery in urban India. *American Economic Journal: Applied Economics*, *9*(1), 1-32. Highlights the importance of social considerations for housing provision. The World Bank Group's Environmental and Social Standards (2018), in particular ESS 9 on Financial Intermediaries; Equator Principles, 2013; UN Global Compact; G4 Sector Disclosure for Financial Services; and IFC's Corporate Governance (CG) Development Framework.

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

79. **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 areas, 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.

80. **The DPF series as well as the proposed IPF Tamil Nadu Housing and Habitat Development Project (TNHHDP) are well-aligned with the proposed GoTN-World Bank Chennai City Partnership.** The GoTN and the World Bank are currently discussing a long-term programmatic intervention towards strengthening policies, governance and institutional arrangements to support the enabling framework for improved planning and integrated service delivery. This multi-sectoral partnership is proposed to encompass urban governance, municipal finance, resilience, sustainable water resource management, and sustainable solution for urban mobility. The proposed DPF and the TNHHDP support integration and coordination of affordable urban housing and habitat policy and programs with broader spatial development and sectoral plans supported under the Chennai City Partnership.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

81. **The Housing and Urban Development Department (HUDD) of the Government of Tamil Nadu, has carried out various consultations for the sector reforms supported under the current operation with development partners as well as broader civil society and private sector.** Policy reforms are based on consultations with broader stakeholders, including civil society, research institute, private sector and community organization and representatives. Moreover, HUDD has conducted several consultation sessions with civil society, NGOs, private sector, and other departments in the government to design the new affordable housing policy. HUDD and key housing sector institutions including the Tamil Nadu Slum Clearance Board (TNSCB) and the Chennai Metropolitan Development Authority (CMDA) have also carried out extensive consultations with key development partnership active in urban and housing engagement, including Asian Development Bank (ADB), Water as Leverage (WAL), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), among others. There is also ongoing partnership and collaboration with the UKAid from Department for International Development (DFID) to look at strengthening the analytical underpinning for the second DPF tranche through an EFO.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

82. **The overall poverty and social impacts of the policies supported by this DPF are expected to be positive, gradually benefitting the poorest segments by increasing the availability of affordable homes, but also by increasing their access to services, since many beneficiaries are likely to be current slum dwellers.** The actions supported by this operation seek to achieve a deeper, more progressive, inclusive, and transparent housing market that will become 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 State's Affordable Urban 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. Ultimately, all the policies supported under the proposed operation are expected to result in a gradual increase of the supply of affordable housing for the EWS and LIG segments, which can eventually lead to net (monetary and multidimensional) poverty reduction. Increasing the availability of affordable homes will increase their disposable income and thus their consumption, leading to a possible reduction of poverty and social inequalities. Studies[61] show that high housing cost often leads to households compromising on other expenditures like food, health or commuting. Improved housing "plays a constructive role in the strengthening and spread of community civic, and democratic values, which in turn enhance social stability and personal security"[62], potentially contributing to economic growth, more jobs, and well-being of migrant women and their families[63]. In Tamil Nadu, the poor segments of the population dedicate more than 50 percent of their income to housing costs (rent), compared to about 25 percent of the higher income segments.[64] In urban India, a household that moves from being improving the structure of its' dwelling is equivalent to an increase in consumption of 48 percent and a decrease in poverty likelihood by 17 percentage points (See columns 4 and 5 in Table 4, which shows bivariate regression coefficients for log of consumption and non-poor households).[65]

83. **Additionally, improving housing outcomes is positively correlated with improvements in quality of life for households in urban India, measured by having better water, sanitation and electricity.**[66] Quality of life improvements resulting from the increased availability of affordable housing can be measured across a number of dimensions. These dimensions include water, sanitation, electricity, consumption, poverty reduction, reducing travel distances and a reduction in risk. To gauge the magnitude of the quality of life improvements from better housing outcomes that are supported by the prior actions, a bivariate regression framework was used across measures of quality of life and housing outcomes. Table 4 shows that going from an unsecured to secured tenure is an increase of 12.2 percentage points in household having piped water. Similarly moving out of a slum corresponds to increasing piped water access by 28 percentage points, improved sanitation by 36 percentage points and having access to electricity of 9 percentage points.

Table 4: Bivariate Regressions of Quality of Life Measures on Housing Improvements Outcomes

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Piped H20	**Imp San**	**Has Elec**	**Log Cons**	**Non-Poor**	**No Flood**	**Distance**
Secured Tenure	12.21***	-3.09***	0.38*	0.42***	17.11***	0.81**	1.09***
	(23.38)	(-9.59)	(2.43)	(55.89)	(43.77)	(3.18)	(8.74)

[61] Lipman, B. J. (2005). Something's gotta give: Working families and the cost of housing. Center for Housing Policy.
[62] Gidding, 2007, p. i
[63] Richter, S. et al, 2017
[64] A housing affordability analysis across the income distribution in India was conducted by the World Bank team.
[65] There are a number of factors that interact to improve quality of life. Consumption measures are one way to summarize welfare, but in the housing context it is tricky to isolate the marginal unambiguous effect of improved housing on welfare. Nevertheless, bivariate regression coefficients can help gauge the magnitude of these differences and also the differences across the various improved housing measures.
[66] Columns 1 through 2 of Table 4 show the series of bivariate regressions of these household living outcomes on four measures of improved housing (secured tenure, good structure, not overcrowded and not a slum). Each cell is the coefficient of the correlation of the column (quality of life) with the row (improved housing measure).

Good Structure	26.24***	27.54***	11.26***	0.48***	17.25***	4.88***	1.35***
	(29.17)	(50.86)	(42.51)	(36.81)	(25.17)	(11.14)	(6.26)
Not Overcrowded	25.85***	29.19***	6.65***	0.17***	-0.69	3.41***	0.65***
	(41.91)	(81.23)	(36.02)	(18.67)	(-1.44)	(11.24)	(4.35)
Not a Slum	20.35***	11.62***	2.22***	0.28***	7.08***	7.42***	0.28
	(26.80)	(24.90)	(9.74)	(25.39)	(12.19)	(20.18)	(1.53)
Observations	42,115	42,115	42,115	42,115	42,115	42,115	42,115

Note: t statistics in parentheses. *p < 0.10, **p < 0.05, ***p < 0.01. Each cell is a bivariate OLS regression of the column variable on the row variable with state fixed effects for households in urban India. Data are from NSSO 69th Round – Drinking Water, Sanitation, Hygiene and Housing Condition (2012). All regressions are weighted by population weights. Improved sanitation uses the Joint Monitoring Program definition. 'Log Cons' is the logarithm of consumption measured at the household monthly level. Non poor is estimated using the national poverty line. No flood is no flood incidence in past five years. Distance is estimated distance in kilometers to place of work for household head. Secured tenure is owned, leasehold, hired with a contract or through employee. 'Good' structures are dwelling structures that are subjectively coded as 'good' or 'satisfactory' as opposed to 'bad'. Not overcrowded is a measure of rooms per number of household members which is coded as above 0.5 rooms per person. This is the 20th percentile and corresponds to 47 square feet per person. Not slum are dwellings that are not notified slum, non-notified slum or squatter settlements.

84. A significant fraction of the poorest households in Tamil Nadu rely on informal rental markets. A greater emphasis on monitoring the changing levels of welfare conditions among the poorest households (particularly among renters) due to enforcement of the proposed prior actions, is therefore recommended. Approximately 30 percent of households in the bottom quintile reside in hired units without a formal contract.[67] The absence of written contracts can prevent vulnerable households from coping with unexpected negative shocks. In this regard, the prior action requiring the registration of all rental properties in the state, can lead to greater formalization of contracts and safeguarding poorer households from the perceived and actual threat of unfair eviction. Simultaneously, the balanced relationship between rights and responsibilities of landlords and tenants achieved by this prior action can further add to the supply of the rental housing in the state, which currently serves almost half of all households at the bottom of the distribution. Formalization of contracts can also increase the incentives of landlords to invest more in improving the quality of housing, resulting in non-monetary gains for households in the bottom quintile who include a higher share of renters. However, the consequences of formalizing rental agreements on the poorer households is still ambivalent in the empirical literature. For instance, Ackerman (1970)[68] has shown selective implementation of housing codes unintentionally raises rents for the poor. In contrast, Hirsch (1975)[69] and Browser (2010)[70] have found either an insignificant effect or a small increase in rents due to the implementation formal housing codes.

85. Mainstreaming disaster risk considerations into building design and construction standards, as proposed in the current operation, can potentially safeguard low-income families from the prolonged negative effects of natural disasters. Tamil Nadu's greater susceptibility to natural disasters relative to the rest of India can have potentially long-term negative impacts on low-income households. Over 16 percent of households in urban Tamil Nadu have been affected by floods in the past five years as compared to 2.8 percent households in the rest of India[71]. Poorest households living in informal dwelling units in Tamil Nadu are most vulnerable to such disasters as 22 percent of these households have been affected by floods in the past five years.[72] These events can have a prolonged negative impact on low-income families living under informal arrangements. Column 6 of Table 4 above measures risk as the incidence of river or monsoon flood in the past five years for urban Indian households, showing that moving from an overcrowded dwelling to one that is not overcrowded, for example, is positively and statistically significantly correlated with lower flood incidence.

86. Promotion of real-estate activities can create new employment opportunities for low-income unskilled

[67] Source: Survey data from NSS, 68th round. Sample includes only the urban sector at the first quintile of the usual monthly household consumption expenditure distribution (in 2012 rupees)
[68] *https://digitalcommons.law.yale.edu/cgi/viewcontent.cgi?article=6076&context=ylj*
[69] *https://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=2485&context=californialawreview*
[70] *https://via.library.depaul.edu/law-review/vol60/iss3/6/*
[71] Source: Survey data from NSS, 68th round
[72] Source: Survey data from NSS, 68th round

workers. The increased demand for housing construction is expected to result in job creation. Previous analytical work has shown that the introduction of affordable housing policies in developing countries reduce urban poverty indices and boost the construction sector jobs that are likely to benefit the less well-off during and after implementation. *Dutt, Ravalion and Murgai* (2016) show that employment share of rural males in the construction sector in India has grown from 3.2 percent in 1993/94 to 13 percent in 2011/12. The rising demand for construction labor has also resulted in higher wages of unskilled labor relative to skilled labor within rural areas, as well as rising rural relative to urban wages.[73] The periodic labor force survey of 2017-18 shows that for Tamil Nadu, the construction sector is an important source of livelihood. The share of Tamil Nadu's adult labor force engaged in the construction sector is 2.75 percent more than other southern states in India (3.66 percent higher for males and 1.26 percent higher for females). The incentivization of private sector real estate activities proposed under this program is therefore expected to catalyze new opportunities for a significant portion of the state's labor market.

87. **Experience shows that for impacts of access to housing to be sustained over time attention should be given to the adoption of complementary measures to ensure the new greenfield housing developments are integrated into consolidated urban areas, while minimizing congestion and pollution.** The benefits for the poor of fostering compact cities capable of supplying affordable housing in consolidated urban areas are well documented and include reduction in transport/commuting costs, increased access to jobs, improved access to services (relative to the outskirts). Without adequate measures to ensure that new units are well integrated to jobs and markets, provision of housing units in other countries (notably Mexico, Chile and Brazil) have resulted in high levels of vacancy. Column 7 in Table 4 above measures the correlation between distance travelled of household heads and the four improved housing measures[74] in urban India. Three of the four housing improvements are positively correlated with distance which implies that improving housing is associated with further commutes for household heads. Studies analyzing the effects on welfare of lifting height restrictions in Bangalore found that this would result in increased household consumption between 3-6 percent (which is the welfare cost imposed on residents by the height restriction)[75], representing a significant share of individual resources which can push many marginal households into poverty. Complementary policies and programs, such as local economic development strategies and public-private models for basic infrastructure services provision, will be needed to tackle potential challenges that may arise as a result of the increase in access to affordable housing.[76] By creating the regulatory conditions that make affordable housing provision attractive for private investors in consolidated urban areas, measures should be taken to minimize congestion and adequate monitoring systems to ensure that increased supply is captured by the poor.

88. **The effects of the policy actions related to strengthening targeting, sustainability, resilience and community participation of the current existing housing programs for the poor are expected to be direct, positive and to materialize in the short term.** Recent evaluations of the implementation of TNSCB's program for work population living in high risk areas have highlighted shortcomings in terms of social and environmental sustainability[77]. The policies to introduce strengthen targeting, diversify supply, improve urban design, and ensure an adequate matching between beneficiaries' livelihoods and the solution provided, are expected to allow for leveraging additional household resources and filtering of units (as incomes grow households can move to a bigger/better unit, thereby releasing the existing affordable unit for other low-income beneficiaries). Introducing well defined community engagement mechanisms will result in a lower number of beneficiary complaints, improved maintenance of the units and improvement in the livability of cities in Tamil

[73] Jacoby and Dasgupta (2015)
[74] Secured tenure, good structure, not overcrowded and not a slum.
[75] Bertaud, A., & Brueckner, J. K. (2004). *Analyzing building height restrictions: Predicted impacts, welfare costs, and a case study of Bangalore, India*. The World Bank.
[76] *Gilbert, 2014; Isalou, Litman and Shamoradi,* 2014
[77] *From Deluge to Displacement, 2017, Housing and Land Rights Networks and Information for and Resource Center for the Deprived Urban Communities.* This report presents the result of the analysis of impacts on 3,464 beneficiary households.

Nadu.[78] Based on international examples[79], ensuring greater community participation at the design stages under a formal affordable urban housing and habitat policy, as proposed in the prior actions under pillar 1 of the program, is expected to mitigate the implementation risks.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

89. **Prior actions under this DPF have positive effects on environment and are consistent with building urban resilience**. These reforms are being implemented in an existing well-developed legal and regulatory context for environment and natural resources management. At the state level, there are two key environmental agencies: (i) the Department of Environment and its associated authorities, and (ii) the State Pollution Control Board and their various offices. These are implementing various national and state laws and regulations that are relevant to environmental protection. Further, there is the Department of Forests, which has the responsibility related to forest resources but these have limited applicability in an urban context. All of the laws are applicable to the housing sector. The administration of these laws is well-established, thereby ensuring an effective functioning legal context for the proposed DPF reforms.

90. **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 Management Framework (Prior Action#2) and TNIFMC's ESMS (Prior Action#8) will contribute towards addressing these gaps; (5) Though the environmental regulatory systems are established, enforcement is weak primarily due to staff shortage in the regulatory agency; and lastly, (6) a capacity strengthening initiative comprising a range of technical assistance 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. Annex 4 summarizes these findings of the environmental analysis across each of the Prior Actions.

91. **The proposed DPF aims to strengthen climate change resilience in the housing sector in Tamil Nadu.** This project through its main pillars has the potential to bring about mitigation and adaptation benefits in the housing sector. Pillar 1 deals with efficient and inclusive housing sector development which falls within the sustainable habitat component of the state climate plan. Efficiency in housing includes the ecological aspects of living conditions and housing development. It mainly deals with energy efficiency in construction and design, the choice of building material that does not put strain on natural resources, integration of housing design that can withstand the impacts of climate change and an obligatory greening of the housing sector. Pillar 2 supports the increased supply of affordable housing which can be achieved through this intervention as it aims towards environmental mainstreaming in this sector. The process of mainstreaming of environmental challenges can lead to the strengthening of institutions and in turn result in affordability of housing which is sensitive to environmental sustainability and urban resilience. Pillar 3 establishes the environmental, climate-resilience, social, and governance standards applicable to projects co-financed by the Shelter Fund to for the purpose of ensure homogenizing the standards and improving sustainability in EWS, LIG and HIG projects co-financed by public and private sources. These are international standards that will help adapt best practices for affordable housing to build climate resilience in the state. The proposed state Affordable Urban Housing and Habitat Policy will ensure that people most at-risk based on their location (on waterways and along coastal areas prone to sea surges) are prioritized to benefit from the additional affordable housing units created. The prior actions and triggers also include measures to ensure adequate infrastructure and access to service such as urban drainage and water supply, which is a critical measure for mitigating

[78] For a discussion on the links between housing and livability of cities in South Asia see: Leveraging Urbanization in South Asia, Managing Special Transformation for Prosperity and Livability, World Bank South Asia Development Matters.
[79] Examples include slum upgradation programs in Durban (Patel, 2013).

climate risk. Improved quality housing solutions and access to improved services are likely to benefit women and children as they are most at-risk, especially those residing in informal or at-risk settlements. The climate risk will be further mitigated by the TA extended to CMDA and TNSCB through a parallel IPF operation. This TA will look at capacity enhancement of both these institutions for climate and disaster resilient long-term planning approaches and construction practices, as well as mapping of climate vulnerable locations to feed into future physical planning exercises. Combined, these features are expected to reduce the anticipated risk from climate and geophysical hazards in the urban affordable housing sector in Tamil Nadu.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

Tamil Nadu: PFM assessment of the State and the Sector:

92. **State:** Tamil Nadu's Public Financial Management has an acceptable framework and the formal mechanisms and rules for financial accountability are generally sound, while the actual control and enforcement has room for improvements. Some of the strengths are: (a) the oversight role of legislature deriving from the Constitution is well-established; (ii) procedures for presenting and approving the budget and presenting the annual accounts and audit reports before the Legislature are in place; (iii) the budget including detailed demand for grants are available in the public domain: *http://www.tnbudget.tn.gov.in/#*; the detailed in-year budget execution report is however not put in the public domain (iv) detailed rules for controlling and reporting on receipts and expenditures are respected.; (v) The Comptroller and Auditor General of India (C &AG) complies the accounts of State of Tamil Nadu and the audited financial statements are made public within a period of 9-11 months after the close of the financial year[80] ; (vi) the audit wing of the C & AG also carries out the external audit. The independence of C&AG is guaranteed by the Constitution. The audit mandate is wide, which includes financial, compliance and performance audits. Audits are regularly carried out and the Annual Audit Report is regularly issued, usually about 9-12 months after the end of the year. In the respect of audit of Bank financed projects, the audit reports have been received, albeit with some delays in the past.[81]

93. **Some of the deficiencies in the PFM system include**: (i) delays in submission of utilization certificates and audit reports by Grant receiving entities; (ii) parking of funds in Public account and or bank accounts outside the treasuries; (iii) rush of expenditure in the last quarter of the financial year and absence of a commitment control system. The State is implementing a new integrated Treasury and Human Resources Management System, which is expected to strengthen the controls in expenditure processing, payment and quality of reporting; this however does not envision a commitment control system.

94. **Sector:** State entities which are primarily responsible for providing affordable housing are the Tamil Nadu Slum Clearance Board (TNSCB) and the Tamil Nadu Housing Board (TNHB). TNSCB and TNHB largely rely on manual systems of accounting, contract management and financial reporting. The TNSCB, due to its dependency on funds from the central and State budget, at times faces delays in funds flow, which in turn impacts the pace of execution of projects. TNSCB has prepared a draft e-governance plan to modernize its internal operations and enhance efficiencies. The internal audit function, though mandated has been defunct due to lack of human resources and the annual entity audits are completed by the Local Fund Audit Dept, with a lag of about 2 years.

95. **The Bank has reasonable assurance that the control environment for foreign exchange in the Reserve Bank of India (RBI) is satisfactory for the purposes of this operation,** based on the RBI audit report and the satisfactory outcomes of other operations, which have been disbursed and managed through the RBI. The IMF does not carry out a Safeguard Assessment of the Reserve Bank of India (RBI), the central bank in India. As part of the appraisal for the DPF operation, the RBI audit report and published annual financial statements for the year ended June 30, 2019 were reviewed by the

[80] *https://cag.gov.in/sites/default/files/account_report_pdf/FINANCE_ACCOUNTS_2017_18.pdf*.
[81] Two project reports of the Tamil Nadu Irrigation Modernization Project (P 158522) and one report for the Tamil Nadu Sustainable Urban Development Program (P150395) for the for the financial year 2018-19 are overdue

Bank. The audit report has a clean, unqualified opinion and was conducted jointly by two firms of chartered accountants. The financial statements are prepared in accordance with the Reserve Bank of India Act, 1934, the notifications issued there under and in the form prescribed by the RBI General Regulations 1949; the audit has been conducted following auditing standards generally accepted in India. Based on the Public Financial Management and foreign exchange control environments, the fiduciary risk is considered low.

96. Disbursement and Audit Arrangements: When disbursing each loan, the Bank will deposit the financing proceeds into a designated foreign currency account of the Government of India held with the RBI that forms part of the Foreign Exchange reserves of the country. The Government of India will, in turn, transfer the local currency equivalent of the tranche to GoTN as per its on-lending arrangements for external development funds. Disbursement of the loan proceeds would not be linked to specific purchases, however, GoI/GoTN would not use the loan proceeds to pay for expenditures included in the Bank's standard negative list which includes expenditures on military hardware, and environmentally hazardous goods. If any portion of the loan is used to finance ineligible expenditures as so defined in the DCA, IBRD negative list shall require the GoI/GoTN to refund the amount to IBRD. A confirmation will be obtained from the State Finance Department of receipt of funds within 30 days in its State consolidated fund held with the RBI, including the date of receipt, and the exchange rate applied by the RBI to convert the credit proceeds into Indian Rupees and given the low risk a specific audit report is not required.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

97. 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 (Annex 1). The outcomes of supervision missions will be reflected in the Implementation Status and Results Reports.

98. Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

99. **The risk on sector strategies and policies is rated as *Substantial*.** While there is a strong political commitment to the policy direction and reform agenda, the introduction of new policy and programs may face inertia and resistance among key stakeholders. The associated risk will be mitigated through the proposed IPF complementing this operation, which will accompany continued dialogue for policy reform for the second phase DPF and provide an avenue for the longer-term dialogue and partnership with the state on the sector agenda.

100. **Risk on institutional capacity for implementation and sustainability is *Substantial.*** While key stakeholders such as TNSCB have reputable track records for providing housing units under the existing program, general institutional capacity to introduce and adopt successfully a set of policy reforms supported under the proposed DPF is limited. The risk will be mitigated through the proposed IPF, which will provide technical assistance and capacity building to state-level urban housing institutions.

101. **Environmental and social risks are *Substantial*.** The lack of environmental and social sustainability is one of the key challenges facing GoTN's housing program and is also one of the key focus areas of the proposed DPF. Existing social or environmental management in affordable housing solutions need to be strengthened to integrate better economic livelihood of citizens or sustainable maintenance of the public housing stock, urban design, resilience, gender consideration, stakeholder engagement, and grievance redress mechanism, among others. Prior Actions 2 and 8, Triggers 5 and 6, as well as the IPF complementing this operation, support the sustainability of both environmental and social aspects. In order to manage potential risk of the policy measures not being properly implemented, and to ensure the sustainability and long-term positive impacts of the DPF series, the proposed IPF will strengthen the capacity of key housing institutions, TNSCB and TNIFMC/TNSF in adopting and implementing key sustainability measures.

102. **Stakeholders risk is considered as *Substantial*.** Civil society and NGOs have been active in urban poor and housing dialogue. Their independent review and engagement with communities have offered important insights and constructive recommendations for policy makers. However, there is a risk that the viewpoints and suggestions from civil society and NGOs are not well reflected in the policy and program design, as it has happened in the past, in particular those of the urban poor. There are also limited experiences in the government to constructively engage with diverse stakeholders for the sector dialogue. Prior Actions 1 and 2, and their indicative triggers, build upon strong coordination with broader stakeholders while putting in place a mechanism for public consultation for the affordable urban housing and habitat policy and programs. The residual risk will be mitigated by the IPF which will sustain a dialogue with wider stakeholders and support implementing the prior actions introduced under the first phase DPF.

103. While the COVID-19 crisis is expected to have a substantial impact on the economic growth in India and Tamil Nadu, the macroeconomic risk to achieving the objective of the operation is assessed as moderate. The overall risk associated with the operation is *Substantial.*

Table 6: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Low
7. Environment and Social	● Substantial
8. Stakeholders	● Substantial
9. Other	
Overall	● Substantial

ANNEX 1: POLICY AND RESULTS MATRIX

PDO: To support the Government of Tamil Nadu to increase the access to affordable housing by strengthening policy, institutions, and regulations of the housing sector.				
Prior actions and Triggers		**Results**		
Prior Actions under DPF 1	**Indicative Triggers for DPF 2**	**Results Indicator Name**	**Baseline**	**Target**
Pillar 1: Strengthening Policies and Institutions to Support Inclusive and Efficient Housing Sector Development				
PA #1. The GoTN has issued the first State-level Affordable Urban Housing and Habitat Policy	**Trigger # 1**. GoTN causes the enactment of amendment Acts for the Tamil Nadu Slum Clearance Act and Tamil Nadu Housing Board Act to align the institutions with the new policy objectives articulated in the Urban Housing and Habitat Policy **Trigger #2**. GoTN establishes new housing programs with clear and transparent targeting and eligibility criteria that take into account household affordability. **Trigger #3**. GoTN introduces regulation to mandate adequate service connection (water supply, wastewater, solid waste management) for all new housing projects. **Trigger #4**. GoTN issues a regulation to require publication of annual monitoring and performance of housing sector using an integrated information system.	**RI #1**: Increase in the available housing solutions for EWS/LIG segments **RI #2**: Proportion of EWS/LIG beneficiaries receiving government support that are Female Headed Households **RI #3**: Annual Review of affordable urban housing and habitat policy implementation and progress is disclosed by Housing and Urban Development Department, GoTN **RI #4**: Annual sector monitoring and performance using housing indicators is published. **RI #5**: The targeting and eligibility criteria established by GoTN for the new housing programs include explicit support and provisions for female headed households	0 4 No No No	20 8 Yes Yes Yes
PA #2. TNSCB's Board has adopted environment, resilient urban design, social sustainability frameworks and grievance management redress systems, whose application is mandatory for all TNSCB EWS/LIG housing units	**Trigger #5**. GoTN issues a Government Order establishing operations and maintenance standards of mandatory application to new government supported EWS/LIG housing units. **Trigger #6**. GoTN adopts State-level environmental and design criteria regulation mandatory for government supported EWS/LIG housing units.	**RI #6**: Reduction in number of EWS households in at-risk areas **RI #7**: Proportion of complaints channeled through the GRS resolved in less than 60 days. **RI #8**: Proportion of households in TNSCB tenements contributing to O&M mechanisms	0 40 0	4000 70 60
Pillar 2: Developing an Enabling Environment to Increase the supply of Affordable Housing				
PA #3. The GoTN has established the permanent Tamil Nadu Real Estate Regulatory Authority with full time	**Trigger #7**: GoTN causes the enactment of amendments to update the Tamil Nadu Apartment Ownership Act	**RI #9**: Proportion of affordable housing projects that are registered in RERA	25 0	60 1000

PDO: To support the Government of Tamil Nadu to increase the access to affordable housing by strengthening policy, institutions, and regulations of the housing sector.				
Prior actions and Triggers		**Results**		
staff (2019) and the Tamil Nadu Real Estate Appellate Tribunal (as published in the Government Gazette).		**RI #10**: Number of apartments that register under the updated Apartment Ownership Act		
PA #4. The GoTN has published in the Government Gazette the General Statutory Rules for the application of the Tamil Nadu Regulation of Rights and Responsibilities of Landlords and Tenants Act (February 2019), which creates an expedited dispute resolution system between landlords and tenants.	**Trigger #8**. GoTN incentivizes long term rental by reducing stamp duty and registration charges for all rental agreements of more than 12 months	**RI #11**: Number of rental housing units registered in Rent Portal of Tamil Nadu	3500	10000
PA #5. The GoTN has: (a) amended urban regulations through the Tamil Nadu Combined Development and Building Rules, to increase the floor space index (FSI) to allow higher densities in urban areas; and b) has issued a government order to reduce processing time of building and planning permits.	No indicative trigger.	**RI #12**: Average time to obtain building and development permits **RI #13**: Number of housing units provided with increased FSI	2-4 months 2000	Less than 45 days 8000
PA #6. The GoTN has mandated, through a notification in the Government Gazette: (a) for all housing developments exceeding 3,000 square meters, to either designate 10% of their FSI area as EWS/LIG housing or pay the shelter charge whose proceeds are allocated to the financing of affordable housing projects; b) to optimize the plot area to allow for higher densities of EWS housing developments; and c) to waive the payment of FSI premia for EWS/LIG.	No indicative trigger.	**RI #14**: Number of new EWS/LIG housing units supported under the mixed income development **RI #15**: Amount of Shelter Charges mobilized for supply of EWS housing	0 US$26.1 million	1000 US$34.7 million
Pillar 3: Crowding Private Sector Participation in Affordable Housing				
PA #7. Securities and Exchange Board of India (SEBI) has approved TNSF's Private Placement Memorandum (PPM)	**Trigger #9**. TNIFMC adopts a risk mitigation product to increase the participation of private sector in affordable housing segment	**RI #16**: Amount of investment mobilized for affordable housing projects **RI #17**: Number of investors participating in TNSF	US$21 million 1	US$ 150 million 5
PA #8. TNIFMC's Board has adopted the environmental, climate-resilience, social and governance frameworks of mandatory application for all projects co-financed by TNSF	No indicative trigger.	**RI #18**: Proportion of housing projects supported under TNSF that receive green housing certification	0	75

ANNEX 2: FUND RELATIONS ANNEX

India—Assessment Letter for the Asian Development Bank and the World Bank
April 15, 2020

Recent Developments, Outlook, and Risks

The near-term growth outlook for India is weighed down by the sharp global and domestic slowdown and uncertainties from the COVID-19 pandemic. Prior to the pandemic, growth had slowed to a six-year low of 4.7 percent (y/y) in the third quarter of FY2019/20 (Oct.-Dec. 2019), owing to a substantial reduction in credit flows to the real economy, financial stress, and weak rural income growth. In the April 2020 *World Economic Outlook*, growth is projected to decline to 1.9 percent in FY2020/21 (April 2020-March 2021), reflecting both the domestic COVID-19 impact from the unprecedented national lock down (introduced on March 25) and weak external demand. A gradual recovery is expected in FY2021/22 (7.4 percent growth), supported by monetary easing and some targeted fiscal measures, as well as favorable terms of trade from lower oil prices. Headline inflation is projected to be 3.3 percent and the current account deficit is projected to narrow to 0.6 percent of GDP in FY2020/21, due to weaker domestic demand.

The financial sector had been under stress prior to the COVID-19 shock. Defaults by non-bank financial companies (NBFCs) in late 2018 and 2019 triggered a tightening of funding conditions in the sector, and the liquidity stress has spilled over to the rest of the financial sector. With banks still addressing the asset quality issues, credit growth slowed down especially to real estate developers and micro, medium and small enterprises.

Against the backdrop of the pandemic, the balance of risks is tilted to the downside. External risks include a sharper-than-expected and a more prolonged global slowdown and large capital outflows that can amplify domestic financial sector stress and tighten external financing of the corporates, creating a negative feedback loop. Domestic risks remain elevated from the uncertainty surrounding the pandemic and the effectiveness of containment measures and health policy responses. A large outbreak, as some other countries are painfully experiencing, would likely increase the length of the lock-down period and could further disrupt the lives of many, especially the vulnerable, strain the health system, and adversely affect unemployment and growth. Furthermore, the already-stressed financial sector could face further funding and asset quality pressures from a prolonged shock.

Policy Response and Settings

In response to the pandemic, a fiscal stimulus package valued at approximately 0.8 percent of GDP by the government was announced on March 26, 2020. The key elements of the package are in-kind (food; cooking gas) and cash transfers to lower-income households; insurance coverage for workers in the healthcare sector; and wage support to low-wage workers. Prior to these measures, a commitment was made to provide an additional 150 billion rupees (about 0.1 percent of GDP) for health infrastructure. Some states have also taken stimulus measures (on aggregate, about 0.2 percent of GDP).

Given the extraordinary circumstances, staff believe additional support may be needed in the near term, including on healthcare and for small and medium-sized firms and vulnerable households. While India's general government debt (around 70 percent of GDP) is relatively high, debt is projected to remain sustainable in Debt Sustainability Analysis for Market Access Countries (completed in October 2019), owing to a favorable growth-interest differential. Over the medium term, though, substantial new measures will be needed to bring the deficit and debt back towards the central government's medium-term targets (3.0 percent and 40 percent as a share of GDP).

The Reserve Bank of India (RBI) has been on a monetary policy easing cycle since early 2019 to support a slowing economy. On March 27, 2020, the repo and reverse repo rates were reduced by 75 and 90 basis points (bps), respectively, to 4.4 and 4.0 percent to further support the economy amid the COVID-19 shock. The RBI has provided forward guidance of additional support if needed. Along with the easing of the policy rates, the RBI has introduced additional policy measures, such as long-term repo operations (LTROs), to support liquidity, and external benchmarking to reduce longer term interest rates, along with dollar swaps given FX pressures, for authorized dealers.

Monetary policy should maintain a strong easing bias to mitigate any sharp COVID-19-related slowdown and support the recovery, given the sharp slowdown in domestic and global activities, moderating inflation amid a wide negative output gap, and lower commodity prices. Financial sector stress prior to COVID-19 constrained monetary transmission and needs to be closely monitored. Despite measures to improve liquidity conditions, including through temporary and partial guarantees, funding pressures persist, with implications for the recovery once the shock dissipates. Exchange rate flexibility should continue play the role of a shock absorber, while avoiding excessive volatilities.

The RBI has introduced several measures to ease the economic fallout of the pandemic on lenders and borrowers. The measures include delaying the implementation of the net stable funding ratio and the last phase of capital conservation buffer by six months and confirming that countercyclical capital buffers are not activated. In addition, a three-month moratorium is allowed for all term loans for banks and NBFCs, as well as interest deferral for working capital loans.

The current macroprudential stance remains appropriate, given the negative credit gap, the ongoing stress in the NBFC sector, and the expected economic slowdown. Weaknesses in bank balance sheets (especially at public sector banks but also smaller private banks) and some corporates (e.g., power sector), and the impact of the expected economic slowdown on asset quality, are potential sources of risks.

Comprehensive structural reforms are needed to achieve more inclusive and sustainable medium-term growth. Long-standing and medium-term priorities include infrastructure investments, land, product market, labor, and other reforms, such as increasing female labor force participation and access to finance to create more and better jobs. The public sector's role in the financial system needs to be reduced to raise credit allocation efficiency.

IMF Relations

India is on a standard 12-month Article IV consultation cycle. The 2019 Article IV consultation was concluded by the IMF's Executive Board on November 25, 2019.

3

India: Selected Economic Indicators, 2016/17-2021/22

Population (2018/19): 1.33 billion
Quota (current): SDR 13,114.4 millions/ 100 percent of quota
Per capita GDP (2018/19 estimate): 2,038 USD
Literacy rate (2015): 72.23%
Poverty rate $1.90 a day PPP (2011): 21.20%
Main products and exports: Petroleum, chemical and primary products, business and IT services.
Key export markets: EU, USA, United Arab Emirates, China, Singapore, and Saudi Arabia.

FISCAL YEAR 1/	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
			Est.		Projections	
Output						
Real GDP growth (%)	8.3	7.0	6.1	4.2	1.9	7.4
Prices						
Inflation, CPI-Combined (%)	4.5	3.6	3.4	4.5	3.3	3.6
General government finances						
Fiscal balance (% of GDP)	-7.1	-6.4	-6.3	-7.4	-7.4	-7.3
Money and credit						
3-month Treasury bill interest rate (%) 2/	7.2	6.2	6.2	4.4	...	...
Balance of payments						
Current account (% of GDP)	-0.6	-1.8	-2.1	-1.1	-0.6	-1.4
Exchange rate						
REER (% change) 3/	1.9	3.0	-3.4	7.1	...	...

Sources: Data provided by the Indian authorities; Haver Analytics; CEIC Data Company Ltd; Bloomberg L.P.; World Bank, World Development Indicators; and IMF staff estimates and projections.
1/ Fiscal Year is April to March (e.g. 2016/17 = Apr-2016 - Mar-2017).
2/ For 2019/20, as of 30th March, 2020.
3/ For 2019/20: the change in the average for April 2018-February 2019 from April 2019-February 2020.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

K. SHANMUGAM, I.A.S.
CHIEF SECRETARY

SECRETARIAT
CHENNAI-600 009

HOUSING AND URBAN DEVELOPMENT DEPARTMENT

D.O. Letter No. 6057/SC1(2)/2020-1, Dated: 20.3.2020

Dear Shri David R. Malpass,

Sub: Development Policy Operations – First and Second Tamil Nadu Housing Sector Strengthening Program – Letter of Development Policy.

Ref: From the Joint Managing Director / Project Director(WB&ADB Projects), Tamil Nadu Slum Clearance Board, letter No.WB/10063/2019, dated 20.3.2020.

*****

I would like to express my sincere gratitude to the World Bank for the effective and strong partnership with the Government of Tamil Nadu. We greatly value the World Bank's manifold contributions to Tamil Nadu's development in sectors such as housing, water resources, poverty alleviation, health and to our efforts to reduce poverty and achieve economic prosperity. The proposed Development Policy Operation builds on the rich experience and legacy of working with the World Bank in the housing and urban sector in Tamil Nadu since 1977 initially through sites and services program, and then through over three decades of urban sector operations.

2. The State of Tamil Nadu has always been at the forefront of economic dynamism and spatial transformation in India. It is the second-largest state economy in the country, which contributes to 8.4% of India's Gross Domestic Product (GDP). The majority of GDP is generated in urban areas, reflected in the contribution of the services (58 percent) and industry (30 percent) sectors to the state's economy. With a well-diversified economy, Tamil Nadu has grown faster than the Indian average in recent years.

3. Tamil Nadu tops the list of urbanized States in India, with about 50% of the population in urban areas and by the year 2030, about 67% of the population will live in urban areas. Urbanization is placing cities as the main engines of economic opportunities and shared prosperity. The concentration of large populations in urban centers, places considerable strain on land, natural environment, and physical infrastructure. The demand for urban housing in Tamil Nadu is likely to increase, as the State continues to see rural to urban migrations and changing demographic

Phone: 044-25671555 Fax: 044-25672304 e.mail: cs@tn.gov.in

profiles. The state's strong economic performance will continue to attract urban migration.

4. In order to meet the urban housing shortage, Tamil Nadu has identified universal access to housing as a key priority within the state's Strategic Plan for Infrastructure Development, *Vision Tamil Nadu 2023*. In this Plan, Tamil Nadu has put forward the State's vision to "become India's most prosperous and progressive State; free from poverty, where its people enjoy all the basic services of a modern society and live in harmonious engagement with the environment and the rest of the World", and where "all urban residents in Tamil Nadu have access to universal, equitable and affordable housing towards overall improved quality of life." To achieve the goal in the *Vision Tamil Nadu 2023*, the Government of Tamil Nadu needs to implement policy, regulatory and institutional reforms, in a systematic manner to strengthen policy, institutions and programs of the housing sector and to support housing sector transformation in Tamil Nadu.

5. The proposed Development Policy Loan(DPL) is a programmatic intervention comprising of two operations, and is an integral part of the partnership between the Government of India and the World Bank as recognized in the Country Partnership Framework (CPF) for India for the Period FY2018-FY2022. The proposed DPLs are aligned with the CPF's focus on impact multipliers by promoting increased private sector participation in the affordable housing sector. The DPLs are also aligned with the ongoing GoTN-World Bank Chennai City Partnership.

6. The First Tamil Nadu Housing Sector Strengthening Program DPL is supporting these efforts and has provided us a platform for policy dialogue and technical support for reforms, while the Second Tamil Nadu Housing Sector Stregntehening Program DPL will aim to deepen the sector reforms. The operations are structured in three pillars: (i) strengthening policy and institutions to support well-functioning housing markets, (ii) improving regulatory environment to increase the supply of affordable housing, and (iii) crowding in private sector participation in affordable housing market.

7. In order to strengthen the policy and institutions to support well-functioning housing markets, we have issued the first Tamil Nadu Affordable Urban Housing and Habitat Policy, which articulates the Government of Tamil Nadu's new role as market enabler and the corresponding sector priorities. We have established a Tamil Nadu Housing Advisory Committee to bring together stakeholders involved in the housing sector to enhance accountability and transparency of the housing sector. This is a key step in enhancing transparency and it will increase confidence from investors and market players that can result in higher investment in the sector. Further, the Tamil Nadu Slum Clearence Board, the primary institution responsible for delivery of public housing for economically weaker sections of the society has adopted environment, resilient urban design, and

social sustainability frameworks and grievance redress systems, expected to build sustainability of public affordable housing in Tamil Nadu.

8. For the second pillar, to improve the regulatory environment for improved governance and transparency in the real estate sector, we have adopted the Tamil Nadu Real Estate Regulatory Authority (General) Regulations in 2018 and the Tamil Nadu Real Estate Appellate Tribunal Regulations in 2019. To improve the regulatory environment in rental housing segment, we have replaced the Tamil Nadu Building (Lease and Rent) Control Act, 1960 with the Tamil Nadu Regulation of Rights and Responsibility of Landlords and Tenants Act, 2017 and Rules 2019. To incentivize the supply-side of the housing market, we have addressed the regulatory constraints, to facilitate the supply of housing by adopting the Tamil Nadu Combined Development and Building Rules, 2019.

9. Further, to increase private sector participation in affordable housing market, we have created a state-level institution, the Tamil Nadu Shelter Fund (TNSF) with a mandate to attract private investment for the supply of affordable urban housing and Securities Exchange Board of India has approved the Private Placement Memorandum (PPM) for TNSF-II, which will enable raising financing for affordable housing from capital markets.

10. We request the World Bank's assistance through the Development Policy Operation, Tamil Nadu Housing Sector Strengthening Program to support our policy, regulatory and institutional reforms to promote efficient and inclusive housing market development and to increase the supply of affordable urban housing.

11. In summary, I would like to reiterate that the Government intends to strengthen the policy, institutions and programs of the housing sector to increase the access to the affordable housing. Over the past two years, the Government has already taken many steps in this direction. We are committed to continuously reform policy and regulations and build the capacity of institutions to increase the supply of affordable urban housing. We look forward to the Bank's continued support in this endeavour in meeting the Government's overall development agenda.

Yours sincerely,

To
Shri David R. Malpass
President,
The World Bank,
1818 H Street, NW Washington, DC 20433 USA.

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar 1: Strengthening Policies and Institutions to support inclusive and efficient housing sector development		
Prior action #1: The GoTN has issued the first State-level Affordable Urban Housing and Habitat Policy	Positive environmental effects. The policy's guiding principles includes environmental sustainability and building urban resilience as cross-cutting themes. This has been enabled through habitat-integrated plans, sustainable designs, environment-friendly construction technologies and responsible operation and maintenance. A mix of relevant stakeholders has the potential to bring forth and channelize environmental issues and urban resilience for effective consideration on an ongoing basis.	Expected positive effects: The redefinition of the role of the housing sector 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, resulting in an increase of the supply of affordable housing for the EWS and LIG segments, directly benefiting the poor. The view point and voice of marginalized group and population is channeled and reflected in the housing policy discussion.
Prior action #2: TNSCB's Board has adopted environment, resilient urban design, social sustainability frameworks and grievance management redress systems, whose application is mandatory for all TNSCB EWS/LIG housing units	Significant positive environmental effects. Adopting an environmental framework progressively leads to the better on-the-ground implementation. Having associated frameworks for social sustainability, grievance management and urban design frameworks also contributes to making environmental management more effective. Capacity strengthening is required among the stakeholders in the public sector affordable housing projects, and this is being addressed as a part of the concurrent TA. All of these builds resilience in the urban housing sector as well.	Expected positive effects: Better designed, environmentally sustainable and demand-driven housing solutions can improve health, education and socio-economic outcomes.
Pillar 2: Developing an enabling environment to increase the supply of affordable housing		
Prior action #3: The GoTN has established the permanent Tamil Nadu Real Estate Regulatory Authority with full time staff (2019) and the Tamil Nadu Real Estate Appellate Tribunal (as published in the Government Gazette).	Positive environmental effects. The institutional arrangement through RERA will assist in ensuring that housing projects have the required environmental assets to manage impacts. The established structural engineering due diligence result in building resilience in urban housing.	Expected positive effects: Home buyers, especially affordable housing segment, are better protected
Prior action #4: The GoTN has published in the Government Gazette the General Statutory Rules for the application of the Tamil Nadu Regulation of Rights and Responsibilities of Landlords and Tenants Act (February 2019), which creates an expedited dispute resolution system between landlords and tenants.	No environmental effects. Improving the balance between the respective rights and obligations of landlords and tenants has no material environmental effects.	Expected positive effects: increased supply of rental housing that was left vacant
Prior action #5: The GoTN has: (a) amended urban regulations through the Tamil Nadu Combined Development and Building Rules, to	Negative environmental effects. Increase of FSI increases the housing density that leads to additional negative environmental effects in each housing project. However, the nature of impacts is	Policies aimed at increasing supply of urban affordable housing in consolidated urban areas through improved regulatory environment are expected to have direct and positive impacts on

increase the floor space index (FSI) to allow higher densities in urban areas; and b) has issued a government order to reduce processing time of building and planning permits.	not toxic and hence less significant. The existing regulatory enforcement is not effective, and the implementation of TNSCB's Environmental Framework may not be able address the scale of impacts in full. A capacity strengthening initiative for the sector as a whole is required and this has been planned in the concurrent TA. The reducing of processing time for permits has no material environmental effects.	the poor; but impacts will likely be modest in the short term and measures should be taken to minimize congestion, pollution and to ensure enforcement.
Prior action #6: The GoTN has mandated, through a notification in the Government Gazette: (a) for all housing developments exceeding 3,000 square meters, to either designate 10% of their FSI area as EWS/LIG housing or pay the shelter charge whose proceeds are allocated to the financing of affordable housing projects; b) to optimize the plot area to allow for higher densities of EWS housing developments; and c) to waive the payment of FSI premia for EWS/LIG.	Of these, notification (a) leads to a positive environmental effect as the pollution / waste management of EWS housing integrated with bigger housing development will be more effective. Notification (b) of optimization has no material environmental effect. And, Notification (c) increases housing density and leads to negative environmental effects similar to those described against Prior Action 6.	
Pillar 3: Crowding private sector participation in affordable housing		
Prior action #7: Securities and Exchange Board of India (SEBI) has approved TNSF's Private Placement Memorandum (PPM).	Positive environmental effect. As TNSF is registered under SEBI Alternative Investment Fund, it is mandatory for TNSF to report ESG risks annually (at least) to its investors and company as per SEBI Regulations 2012. This investor and company leadership commitment ensures that ESG risks are adequately addressed in the portfolio of affordable housing projects.	Expected positive effects: creating incentives for increased private sector participation in the supply of formal urban affordable housing can result in (i) an increase of the supply of affordable housing for the EWS and LIG segments, directly benefiting the poor, (ii) an increase of quality and characteristics of housing solutions addressing needs of citizens, and (iii) an increase in job opportunities.
Prior action #8: TNIFMC's Board has adopted the environmental, climate-resilience, social and governance frameworks of mandatory application for all projects co-financed by TNSF.	Significant positive environmental effects. Mainstreaming ESG and climate-resilience through a systems approach enables TNIFMC to upfront consider environmental effects and manage these in a structured manner in the planning, designing, constructing and operation phases of all the private sector affordable housing projects financed by TNSF. Through the implementation of the framework, TNIFMC builds the capacity of their project proponents and their stakeholders. This contributes towards establishing a new ESG and climate resilience benchmark for lending in the affordable housing sector.	