



The World Bank

Second Tamil Nadu Housing Sector Strengthening Program Development Policy Loan (P178329)

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$190 MILLION TO

INDIA
FOR THE

SECOND TAMIL NADU HOUSING SECTOR STRENGTHENING PROGRAM
DEVELOPMENT POLICY LOAN

May 24, 2022

Urban, Resilience And Land Global Practice
South Asia Region

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India
GOVERNMENT FISCAL YEAR
April 1 – March 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of May 20, 2022)

Currency Unit
US\$1.00 = INR 77.63

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	MFD	Maximizing finance for development
CAG	Comptroller and Auditor General	MIG	Middle-Income Group
CMA	Chennai Metropolitan Area	MoU	Memorandum of Understanding
CMDA	Chennai Metropolitan Development Authority	NIC	National Informatics Centre
CPF	Country Partnership Framework	OAG	Office of the Accountant General
DO	Development Objectives	O&M	Operation and Maintenance
DPL	Development Policy Loan	PA	Prior Action
EA	Environmental Analysis	PFM	Public Financial Management
EDGE	Excellence in Design for Greater Efficiencies	PMAY-U	Pradhan Mantri Awas Yojana-Urban
EMI	Equated Monthly Installments	PPP	Public Private Partnership
ENS	Eco-Niwas Samhita	PSIA	Poverty and Social Impact Assessment
EWS	Economically Weaker Section	RBI	Reserve Bank of India
FSI	Floor Space Index	RUDF	Resilient Urban Design Framework
FY	Fiscal Year	RWA	Residential Welfare Association
GDP	Gross Domestic Product	TNAUHP	Tamil Nadu Affordable Urban Housing and Habitat Policy
GO	Government Order	TNCDBR	Tamil Nadu Combined Development and Building Rules
GoI	Government of India	TNFRA	Tamil Nadu Fiscal Responsibility Act
GoTN	Government of Tamil Nadu	TNHB	Tamil Nadu Housing Board
GRS	Grievance Redress Service	TNHBA	Tamil Nadu Housing Board Act
GSDP	Gross State Domestic Product	TNHHDP	Tamil Nadu Housing and Habitat Development Project
GST	Goods and Services Tax	TNIFMC	Tamil Nadu Infrastructure Fund Management Corporation
HUDD	Housing and Urban Development Department	TNIHIS	Tamil Nadu Integrated Housing Information System
IFC	International Finance Corporation	TNSAA	Tamil Nadu Slum Areas (Improvement and Clearance) Act
IMF	International Monetary Fund	TNSCB	Tamil Nadu Slum Clearance Board
INR	Indian Rupees	TNSF	Tamil Nadu Shelter Fund
IPF	Investment Project Financing	TNTTA	Tamil Nadu Transparency in Tenders Act
LDP	Letter of Development Policy	TNUHDB	Tamil Nadu Urban Habitat Development Board
LIG	Low-Income Group	WBG	World Bank Group

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P178329	Yes	2nd in a series of 2

Proposed Development Objective(s)

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

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	190.00
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DETAILS

International Bank for Reconstruction and Development (IBRD)	190.00
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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

Moderate



Results

Indicator Name	Baseline	Target
RI #1: Total government-sponsored housing solutions produced to serve EWS/LIG households (number)	47,600 (March 2020)	119,700 (December 2023)
RI #2: Pilot projects for which adequate locations have been identified, demand for smaller units has been enlisted, tripartite agreements with beneficiaries and lenders have been signed, and planning has been mandated according to identified demand and financial access (number)	0 (April 2022)	5 (December 2023)
RI #3: EWS housing units owned or co-owned by women (excluding households without an adult female) (percent)	43 (December 2021)	100 (December 2023)
RI #4: Dashboard for annual sector monitoring and performance using housing indicators is available in public domain	No (May 2022)	Yes (December 2023)
RI #5: Proportion of complaints channeled through the GRS resolved within 60 days (percent)	40 (December 2020)	70 (December 2023)
RI #6: Households in TNUHDB tenements that are part of RWAs participating in O&M mechanisms (percent)	0 (April 2022)	80 (December 2023)
RI #7: Associations of apartment owners registered under the Apartment Ownership Act 2022 (number)	0 (April 2022)	500 (December 2023)
RI #8: Rental housing units registered in Rent Portal of Tamil Nadu (number)	3,500 (June 2020)	10,000 (December 2023)
RI #9: Average time to obtain planning permissions	2–4 months (June 2020)	Less than 45 days (December 2023)
RI #10: Shelter Charges mobilized for supply of EWS housing (amount)	US\$26.1 million (June 2020)	US\$75 million (December 2023)
RI #11: Investment mobilized for affordable housing projects (amount)	US\$21 million (June 2020)	US\$120 million (December 2023)
RI #12: Housing projects supported under TNSF that receive green housing certification (percent)	0 (June 2020)	75 (December 2023)
RI#13: New affordable housing developed by TNHB and TNUHDB that have Eco-Niwas Samhita compliant features incorporated in the design (percent)	0 (December 2021)	100 (December 2023)



IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO INDIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **This Program Document presents a proposed US\$190 million Development Policy Loan (DPL) as the second in the series of the World Bank's programmatic engagement to support housing sector transformation in Tamil Nadu.** The programmatic DPL series was conceptualized in 2019 to support an incremental housing sector reform agenda leading to transformative sectoral changes in the medium to long term. The proposed Second Tamil Nadu Housing Sector Strengthening Program (P178329, thereafter referred to as DPL2) builds on the reforms undertaken by the Government of Tamil Nadu (GoTN) and supported by the First Tamil Nadu Housing Sector Strengthening Program (P172732, thereafter referred to as DPL1), and benefits from the ongoing Investment Project Financing (IPF) operation, Tamil Nadu Housing and Habitat Development Project (TNHHDP, P168590), as well as the analytical work carried out under the India Urban Programmatic Advisory Services and Analytics (P171302).

2. **India's rapid urbanization is an engine for sustained economic growth and poverty alleviation where the provision of affordable housing is now an acute challenge, and Tamil Nadu's predicament is no exception.** Provision of formal affordable housing in India is largely led by the public sector and is very limited, while most housing built by the formal private sector remains unaffordable. About 35 percent of the population countrywide reside in informal urban housing.¹ A shortage of 10 million housing units is estimated in urban areas nationwide, and more than 90 percent of this deficit is concentrated in the Economically Weaker Section (EWS) and Low-Income Group (LIG)² population segments, as there is a mismatch between supply and demand for smaller and more affordable units.³ As the urbanization trend continues, the deficit in housing provision is likely to increase further, unless corrective steps are taken. The housing shortage in Tamil Nadu was estimated at 1.2 million in 2017. About 48.4 percent of the state's population of 72.1 million lives in cities⁴ and urbanization is expected to increase to 63 percent by 2030.⁵ Currently, very little private sector-provided housing is affordable to households below the sixth decile.⁶

3. **The COVID-19 pandemic and climate impacts highlight the importance of affordable and resilient housing for the poor and the most vulnerable.** The impacts of the COVID-19 pandemic have been most acute among the poor, particularly the informal workers with irregular incomes. Moreover, the exposure to health and climate risks is exacerbated in slums, where people live in overcrowded conditions with limited access to basic services. Although the real estate sector is witnessing a rebound, housing prices and rents have risen significantly. Construction costs have increased due to supply chain constraints, rendering affordable housing out of reach for the poor.

4. **Improved access to affordable housing is even more critical for women and women-headed households in Tamil Nadu.** Demographic transitions and migration patterns, along with underlying sociocultural challenges, have exposed gender disparities in women's access to affordable housing, specifically in the EWS category. About 16 percent of households in Tamil Nadu are women-headed, of

¹ The World Bank. 2018. World Development Indicators.

² As per the Ministry of Housing and Urban Affairs, Government of India (GoI), EWS households are those with an annual income less than Indian Rupees (INR) 300,000 (US\$3,864); LIG households are those with an annual income of INR 300,001–600,000 (US\$3,864–7,729).

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

⁴ GoI. 2011. Census of India 2011.

⁵ IPE Global. 2020. Housing Diagnostic Report on Tamil Nadu.

⁶ World Bank task team assessment based on the review of information gathered from the GoTN and stakeholder consultations.



which almost 64 percent depend on casual labor as their primary source of income. For women in Tamil Nadu, the vulnerabilities associated with asset and wealth generation are higher than the national average of 40 percent.⁷ While the state has made considerable efforts to encourage and increase women's ownership of properties, over 87 percent of women have their land/housing properties registered in the name of a male household member.⁸

5. **The DPL1 ushered in the first Tamil Nadu Affordable Urban Housing and Habitat Policy (TNAUHP) 2020, which set the long-term vision and articulated the subsequent reforms needed.** The TNAUHP aims to shift the GoTN's role from that of a 'provider' of affordable housing to that of an 'enabler' of the housing market. In the past 18 months, the DPL1 has delivered positive results as elaborated in Section 4.1. The proposed DPL2 is set to deliver incremental shifts in institutions, systems, programs, and regulations as per the GoTN's roadmap supported under the DPL1, as well as some new policy priorities of the current GoTN that took office in May 2021. The new administration confirmed the vision of a housing eco-system where the private sector is delivering diverse housing solutions to meet the varying demands of most of the population, while scarce fiscal resources are prioritized for the poorest and the most vulnerable. The latest policy directions of the GoTN are specified in the Housing and Urban Development Department (HUDD)'s Policy Notes of 2021–22 and 2022–23, most notably on addressing climate change challenges and promoting sustainable urban growth in the state. The risk to achieving the development objectives (DO) of the proposed DPL2 is considered **Moderate**, as the operation has been designed under the existing reform framework in collaboration with the GoTN's housing sector institutions, whose capacity has been enhanced through the DPL1 and the ongoing IPF operation.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

6. **India's economy recovered in Fiscal Year (FY) 21/22, supported by a targeted macroeconomic policy response and a successful vaccination strategy.** After the deep recession in FY20/21, India was hit hard by the 'second wave' of COVID-19 last year. However, recovery, supported by increased vaccine deployment and a well-crafted fiscal and monetary response, has been quick. The real gross domestic product (GDP) in FY21/22 reached the pre-pandemic level in FY19/20. Growth is yet to be broad-based across all components. Growth in private consumption (7.9 percent year-on-year) remained sluggish, constrained by weakness in the labor market.⁹ Frequent mobility restrictions have exacted a significant economic toll on low-income households, unskilled workers, and the informal sector. The recovery in investment (12.9 percent) was strong, bolstered by the surge in the GoI's capital spending.

7. **Headline inflation increased on the back of oil and commodity price shocks, albeit within the Reserve Bank of India (RBI)'s tolerance range (2–6 percent).** Year-on-year inflation averaged 5.4 percent in FY21/22 due to cost-push factors: higher global oil prices, domestic disruptions in food supply chain, shipping container shortages, and a delay in the normalization of services due to successive waves of mobility restrictions. The GoI reduced import duties on edible oils and taxes on oil prices, which dampened inflation during the second half of FY21/22.

8. **Rebounding economic activity has turned the current account balance into a deficit.** In contrast to a surplus of 0.9 percent of GDP in FY20/21, the current account balance showed a deficit of 1.2 percent of GDP in Q1–Q3 FY21/22, with import growth driven by rising commodity prices and a pickup in

⁷ GoI. 2011. Socio-economic Caste Census.

⁸ Center for Women's Studies. 2013. Property rights of Women in Tamil Nadu.

⁹ World Bank staff estimates.



investment, outpacing export growth. The current account balance has been financed by a strong inflow of foreign direct investment and portfolio flows until the start of Q3 FY21/22. The foreign exchange reserves reached 23 percent of FY20/21 GDP by end-March 2022, which has provided a cushion against market volatility since October last year. There have been net portfolio outflows of US\$14 billion (3.3 percent of foreign exchange reserves) since October 2021 amid the U.S. Federal Reserve System's forward guidance on policy tightening, which then intensified after the start of the war in Eastern Europe.¹⁰

9. **The fiscal deficit narrowed despite higher capital spending.** A targeted fiscal stimulus supported the economy over the past two years. Since the beginning of FY21/22, the focus of fiscal policy shifted from mitigating the impact of the pandemic through targeted interventions, toward increased capital spending to crowd-in private investment. The capital expenditure of the central government grew by 27 percent year-on-year over Q1–Q3 FY21/22, while the growth in revenue expenditure was relatively modest at 8 percent. Supported by strong growth in revenue (goods and services tax [GST] revenue expanded by 35 percent year-on-year in April–January FY21/22), the general government fiscal deficit is likely to decline to 10.9 percent in FY21/22, after peaking at 13.3 percent in FY20/21. The public debt is estimated to have declined by 1.7 percentage points of GDP to 86.9 percent of GDP in FY21/22.

Recent Economic Developments: State of Tamil Nadu¹¹

10. **Economic activity in Tamil Nadu continued to recover in FY21/22 from the slowdown in FY20/21.** In FY20/21, while the Indian economy contracted by 6.6 percent, Tamil Nadu's real GDP still grew by a modest 1.4 percent, partly due to the state having a relatively lower COVID-19 caseload. However, the state was hit hard by the second wave of COVID-19 infections, with mobility restrictions in place for most of the first quarter (April–June 2021). When the restrictions were withdrawn, activity bounced back rapidly, with mobility indicators exceeding pre-pandemic levels by December 2021, and the GST collections in the first three quarters being 12 percent higher than pre-pandemic levels.

11. **The fiscal deficit has contracted, driven by improved growth performance and a conservative increase in spending.** The state's fiscal deficit is estimated to have declined from 4.6 percent of gross state domestic product (GSDP) in FY20/21 to 3.8 percent in FY21/22, as revenue recovered while spending growth moderated. Revenues are estimated to have grown by around 17 percent, driven by a more than 34 percent increase in revenues from taxes devolved by the central government. Receipts from the state's share of central taxes increased from 1.3 percent of GSDP in FY20/21 to 1.5 percent in FY21/22, as both corporate and personal income tax collections improved significantly. Spending declined as a share of GSDP, from 14.4 percent in FY20/21 to 13.8 percent in FY21/22. Spending on subsidies, pensions, and other transfers fell by 0.4 percentage points of GSDP in FY21/22 while capital outlays have remained unchanged, supported by the additional borrowing space and interest-free loans from the center.

12. **Public debt levels continued to rise as a share of GSDP in FY21/22 but remained well below 30 percent of GSDP.** The state's debt-to-GSDP ratio increased sharply from 23.6 percent in FY19/20 to 26.9 percent in FY20/21, as the fiscal deficit increased, and interest payment commitments increased within the permissible limit of the Tamil Nadu Fiscal Responsibility Act 2003 (TNFRA). Despite the consolidation in the deficit, the debt-to-GSDP ratio is estimated to have increased further to 27.4 percent in FY21/22, reflecting the high level of borrowing in nominal terms. Nevertheless, the debt was below the all-state

¹⁰ Source: RBI.

¹¹ Estimates of GSDP growth and fiscal indicators may vary from those published by the GoTN. The team used nominal GDP estimates published by the Central Statistics Office, the Ministry of Statistics and Programme Implementation, GoI as the basis for calculations.



average of more than 31 percent, and interest payments were manageable at around 20 percent of revenues.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

13. Global spillovers from the Russia-Ukraine war will impede economic recovery in India. Amid considerable uncertainty about the oil price shock and moderating global growth, the economy is expected to grow by 8 percent in FY22/23. Private consumption growth will be sluggish in FY22/23 due to the low growth in the household disposable income which in turn stems from incomplete recovery of the labor market and elevated inflation. Investment will continue to benefit from increased capital spending by the government, a resilient financial sector, and government initiatives including the production-linked incentive scheme. Net exports are expected to be a drag on GDP growth, with a high import bill and exports softening due to moderating global growth. Renewed international supply disruptions and heightened business uncertainty pose a risk to growth.

14. The war between Russia and Ukraine will impact India's economy via three main channels: financial flows, commodities prices, and supply disruptions. Since mid-February, foreign capital (portfolio capital) amounting to roughly 1.4 percent of foreign exchange reserves has exited India's capital market,¹² but the risk of large destabilizing capital outflows remains limited. The war in Eastern Europe has jeopardized the supply of key raw materials, including crude oil, which has resulted in surging global commodity prices. The rising global price of crude oil will push up headline inflation because India imports the bulk of its domestic oil requirement; however, this increase may be tempered by buying crude oil from Russia on discounted prices. Higher input costs faced by manufacturers and service providers may be increasingly passed on to consumers and hence pose a significant risk of inflation.

15. The current account deficit will widen substantially amid moderating global growth and elevated commodity prices, but foreign exchange reserves will provide a cushion against external shocks. Surging prices of crude oil and other commodities will push up the current account to 2.5 percent in FY22/23 from 1.2 percent in FY21/22.¹³ Capital flows, especially foreign direct investment inflows, are expected to remain steady, given the reforms to improve the business environment in India. The risk of large capital outflows appears to be low, due to the relatively lower portfolio investment liabilities and a more stable mix of foreign capital inflows coming into the economy. Lastly, India has about US\$620 billion in foreign exchange reserves as of end-March 2022, providing an import cover of almost 15 months.¹⁴

16. The financial system remains stable, but vulnerabilities have increased in some segments. Banks (especially public sector banks) are in a better position to support credit growth with a significant improvement in their asset quality and performance, which turned around in Q3 FY21/22. However, the rebound in credit in recent months has not been broad-based. The creation of an asset reconstruction company and ongoing reforms in the insolvency process will contribute to the faster resolution of bad loans. Current data may not show the full impact of the economic slowdown on asset quality, as the COVID-19-related restructuring frameworks and other measures are yet to be fully reflected. While the systemic risk in the banking sector is low, the RBI's Financial Stability Report 2021 highlighted the risks in non-banking financial companies and urban cooperative banks due to dented asset quality.

17. Fiscal policy will chart a path of gradual fiscal consolidation with a greater focus on infrastructure spending. Even as capital spending increases, the general government deficit is projected

¹² Source: RBI.

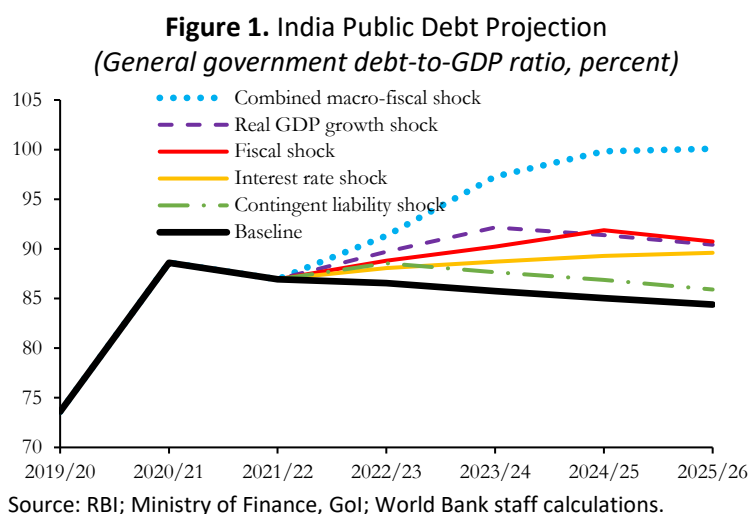
¹³ World Bank staff estimates.

¹⁴ Source: RBI.



to decline by 1.3 percentage points of GDP to 9.6 percent of GDP in FY22/23.¹⁵ This is due to: (i) strong revenue growth aided by improvement in the profitability of large corporates, recovery in economic activity and increased compliance; and (ii) a decline in revenue expenditure as a share of GDP, driven by lower spending on some welfare measures such as food subsidies and the rural employment guarantee program). The Union Budget FY22/23 focuses on infrastructure development to stimulate growth and bring in private investment. While the public sector borrowing requirement is high (it will increase in nominal terms in FY22/23), the risk of crowding out is low and there is ample liquidity in the financial system. The budget has also provided additional capital in credit guarantee funds, in anticipation of any calls on the credit guarantees issued as part of the stimulus packages in previous years. The fiscal deficit will be reduced gradually, partly due to lower taxes on oil prices.

18. India's debt remains sustainable but is subject to macroeconomic uncertainty and contingent liabilities risk. Under a baseline scenario, the general government debt-to-GDP ratio is projected to decline gradually to 85 percent in FY24/25 from 86.9 percent in FY21/22.¹⁶ In a combined macro-fiscal shock scenario, the debt-to-GDP ratio would increase steadily to nearly 100 percent (see Figure 1). Contingent liabilities have also increased substantially over the past two years as the GoI announced credit guarantee programs amounting to over 4.5 percent of GDP to support vulnerable sectors like micro, small, and medium enterprises). Notwithstanding these risks, the debt position remains sustainable. India's public debt is mostly domestic, of medium- or long-term maturity, and held by residents. India's external debt is moderate at around 21 percent of GDP, and rollover risks are limited.



Note: The combined macro-fiscal shock in Figure 1 is the combined impact of a real GDP growth shock (a decline of 4 percentage points in FY22/23 and FY23/24), fiscal shock (a 1.9-percentage point increase in FY22/23 and FY23/24) and interest rate shock (an increase by two percentage points throughout the forecast period).

19. India's macroeconomic policy framework is considered adequate for development policy financing, reflecting solid fundamentals and capacity to respond. The financial sector entered the crisis well-capitalized, and the authorities took critical measures to ensure stability and liquidity. In recent years, the monetary policy framework has been strengthened, and while India is not immune to external financial developments, its high reserve levels and limited external financing needs provide adequate buffers. In support of recovery, the GoI has used existing fiscal space prudently, accompanied by structural

¹⁵ World Bank staff estimates.

¹⁶ Ibid.



reforms. Public debt remains sustainable (and relatively resilient to different shocks) despite the large one-off increase in FY20/21 (see Tables 1–3). Thus, while significant risks remain, the GoI and the RBI have proven to have the capacity to respond swiftly and adequately.

Table 1. India: Selected Economic Indicators FY16/17–FY24/25

Key Macroeconomic Indicators	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22 Forecast	FY22/23 Forecast	FY23/24 Forecast	FY24/25 Forecast
Real Economy	(Annual percentage change unless otherwise indicated)								
Nominal GDP (local currency)	11.8	11.0	10.6	6.2	-1.4	16.9	13.3	12.6	12.0
Real GDP	8.3	6.8	6.5	3.7	-6.6	8.3	8.0	7.1	6.5
<i>Contributions to growth (percentage points)</i>									
Consumption	5.2	4.7	4.7	3.3	-3.0	4.7	5.5	4.8	4.9
Investment	2.6	2.4	3.5	0.5	-3.3	3.9	3.2	2.7	2.8
Net exports	0.1	-2.8	0.3	-0.5	1.4	-2.9	-1.1	-0.7	-1.6
Consumer price index inflation (average)	4.5	3.6	3.4	4.8	6.2	5.5	5.5	4.9	4.2
Fiscal accounts (General Government)	(Percent of GDP)								
Overall balance	-6.9	-5.9	-5.8	-7.2	-13.3	-10.9	-9.6	-8.5	-8.0
Total liabilities	68.8	69.8	68.6	73.7	88.6	86.9	86.5	85.8	85.0
Selected monetary accounts	(Annual percentage change unless otherwise indicated)								
Interest rate (period average)	6.4	6.1	6.3	5.4	4.0	4.0	4.5	5.0	5.0
Balance of payments	(Percent of GDP, unless otherwise indicated)								
Current account balance	-0.6	-1.8	-2.1	-0.9	0.9	-1.2	-2.5	-2.0	-1.7
Imports	21.3	22.1	23.8	21.4	19.3	23.1	22.7	23.0	23.5
Exports	19.4	19.0	20.2	18.8	18.8	20.6	20.3	20.8	20.9
Foreign direct investment (net)	1.6	1.1	1.1	1.5	1.6	1.6	1.5	1.6	1.6
Gross reserves (in US\$ billion, eop)	370.0	424.5	412.9	477.8	576.9	614.0	607.1	622.5	648.2
In months of next year's imports	7.6	7.9	8.2	11.1	9.7	9.5	8.3	7.4	--
External debt	20.0	20.1	19.7	20.8	21.1*	—	—	—	--
Other memo items									
Nominal GDP in INR (trillions)	153.9	170.9	189.0	200.7	198.0	231.4	262.2	295.2	330.6

Source: India National Statistics Office; World Bank staff calculations.

Table 2. India: Selected Fiscal Indicators FY16–FY25

Key Fiscal Indicators	FY15/16	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25
	Actual	Actual	Actual	Actual	Actual	Estimate	Forecast	Forecast	Forecast	Forecast
Central Government										
Overall balance	-3.9	-3.5	-3.5	-3.4	-4.6	-9.2	-6.9	-6.4	-5.5	-5.0
Primary balance	-0.7	-0.4	-0.4	-0.4	-1.6	-5.8	-3.3	-2.8	-2.0	-1.6
Total Receipts	12.9	13.3	13.0	12.8	11.8	11.7	12.4	12.0	12.4	12.5
Tax revenues, in which	10.6	11.1	11.2	11.0	9.9	10.3	10.6	10.7	10.9	10.8
Taxes on goods and services	3.6	4.2	4.6	4.3	4.1	4.8	4.4	4.5	4.6	4.5
Taxes on income and profits	5.4	5.4	5.8	6.0	5.2	4.8	5.4	5.5	5.5	5.6
Non-tax revenues	1.8	1.8	1.1	1.2	1.6	1.1	1.4	1.0	1.1	1.2
Expenditures	16.7	16.8	16.5	16.3	16.4	20.8	19.4	18.5	17.9	17.5
Current expenditures, in which	14.9	15.0	15.0	14.7	14.8	18.6	16.8	15.6	14.9	14.5
Interest payments	3.2	3.1	3.1	3.1	3.0	3.5	3.6	3.6	3.5	3.4
Others (salaries, supplies)	8.0	7.9	7.9	7.5	8.5	12.2	10.0	9.8	8.2	7.9
Capital expenditures	1.8	1.8	1.5	1.6	1.6	2.2	2.6	2.9	3.0	3.0
Central government financing	3.9	3.5	3.5	3.4	4.6	9.2	6.9	6.4	5.5	5.0
External (net)	0.0	0.0	0.0	0.0	0.0	0.4	0.1	0.1	0.0	0.0
Domestic (net)	3.9	3.5	3.5	3.4	4.6	8.8	6.8	6.3	5.5	5.0
State Governments										
Overall balance	-3.0	-3.5	-2.4	-2.5	-2.6	-4.1	-4.0	-3.2	-3.0	-3.0
Revenues	13.7	13.7	13.8	14.1	13.4	14.2	15.0	14.8	14.6	14.5
Expenditures and net lending	16.7	17.2	16.2	16.6	16.0	18.3	19.0	18.0	17.8	17.5



Key Fiscal Indicators	FY15/16	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25
	Actual	Actual	Actual	Actual	Actual	Estimate	Forecast	Forecast	Forecast	Forecast
General Government Liabilities	68.5	68.8	69.8	68.6	72.5	88.6	86.9	86.5	85.8	85.0

Source: Ministry of Finance, GoI; India National Statistics Office; World Bank staff calculations.

Table 3. India: Balance of Payments (BOP) and External Financing Requirements (in percentage of GDP)

External Financing Requirements	FY17/18	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25
	Actual	Actual	Actual	Actual	Proj.	Proj.	Proj.	Proj.
1. Financing Requirements (i-ii)	1.8	2.1	0.8	-0.9	1.2	2.5	2.0	1.8
i. Current account deficit*	1.8	2.1	0.9	-0.9	1.2	2.5	2.0	1.7
ii. Net errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Financing Sources (i+ii)	1.8	2.1	0.8	-0.9	1.2	2.5	2.0	1.8
i. Capital account balance (a+b+c)	3.4	2.0	2.9	2.2	2.3	2.3	2.3	2.3
a. Net foreign direct investment	1.1	1.1	1.5	1.6	1.6	1.5	1.6	1.6
b. Net portfolio investment	0.8	-0.1	0.0	1.4	0.1	0.2	0.2	0.2
c. Net all other flows**	1.5	1.0	1.4	-0.8	0.6	0.6	0.5	0.5
ii. Change in reserve assets *** (1-2i)	-1.6	0.1	-2.1	-3.3	-1.2	0.2	-0.4	-0.6
4. External Financing Gap (1-2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: RBI; World Bank staff calculations.

Note: *: Includes merchandise and invisibles. **: All other flows include short- and long-term debt flows (external assistance, commercial borrowings and trade credits) and banking capital. ***: A positive change in reserves indicates a decline.

State Government Outlook

20. **The fiscal deficit is projected to narrow gradually until FY24/25.** The fiscal deficit is expected to decline from 4.6 percent of GSDP in FY20/21, to 3.4 percent in FY24/25, in line with the fiscal consolidation path recommended by the 15th Finance Commission and the additional borrowing space allowed by the central government. Over the same period, the primary deficit is projected to decline from 2.7 percent of GSDP in FY20/21 to 1.3 percent in FY24/25, due to higher revenues (driven by growth in the state's own tax revenues) and lower spending on subsidies and transfers as a share of GSDP (Table 4).

21. **Receipts are expected to grow faster than expenditures, supported by an increase in non-tax and own tax revenue.** Between FY21/22 and FY22/23, revenues are expected to grow by 13.5 percent, due to higher non-tax revenues of the state government, while devolved taxes from the central government taxes are projected to decline as a share of GSDP. In FY23/24 and FY24/25, gains in own tax revenues are largely in line with nominal GSDP growth (average nominal growth of 15 percent), while other sources of revenues are expected to remain constant as a share of GSDP. Total revenue receipts are projected to increase from 9.1 percent of GSDP in FY20/21 to 9.4 percent in FY24/25 (Table 4).

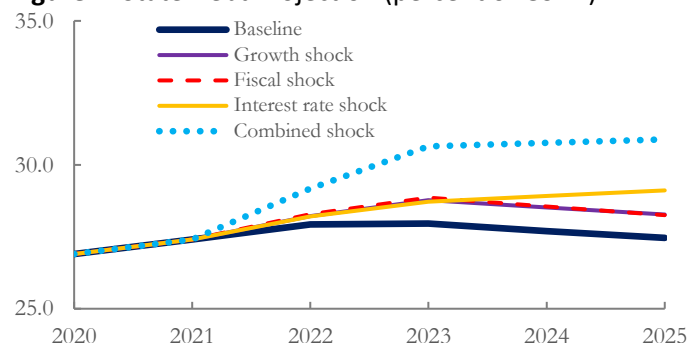
22. **The share of committed expenditures, subsidies, and transfers in GSDP is projected to decline gradually, making space for higher public investment.** Committed expenditures, subsidies, and transfers are projected to decline from 11.9 percent of GSDP in FY20/21 to 10.7 percent by FY24/25. Spending on interest payments, salaries, and pensions is projected to grow while cuts in subsidies and transfers are expected, with a fall in their share of GSDP. In turn, capital outlays will increase from 1.7 percent in FY20/21 to 2 percent by FY24/25 (see Table 4). The state's debt-to-GSDP ratio is projected to stabilize at around 28.1 percent by FY24/25. Assuming an average nominal GSDP growth rate of 14 percent, the debt-to-GSDP ratio is expected to peak at 28.0 percent in FY23/24, and then start to decline gradually in FY24/25. Nevertheless, in the baseline scenario the debt-to-GSDP ratio is projected to remain below 30 percent through the forecast period.

23. **In the adverse scenario, weaker growth, higher interest payments, and a larger deficit lead to debt rising to about 30 percent of GSDP, but it remains sustainable.** Under alternative scenarios modeled



by the World Bank team, the debt-to-GSDP ratio increases to higher levels than in the GoTN's baseline but remains well within prudent margins. The GoTN's baseline scenario assumes nominal GSDP growth of 14 percent, interest rates of 7.2–7.5 percent, and a fiscal deficit that declines from 3.8 percent of GSDP to 3.4 percent over the projection period until FY24/25. In scenarios where growth is lower than the baseline, interest rates are higher (by two percentage points) or the fiscal deficit is higher (by two percentage points over two years), and the debt-to-GSDP ratio peaks at around 28 percent but still starts to decline by FY24/25. In a combined macro-fiscal shock scenario, the debt-to-GSDP ratio increases to 30.6 percent of GSDP in FY23/24 but stabilizes at around 31 percent over the following years.

Figure 2. State Debt Projection (percent of GSDP)



Source: Finance Department, GoTN; World Bank staff estimates.

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

Table 4. Tamil Nadu: Selected Fiscal Indicators FY17–FY25 (in percentage of GSDP)¹⁸

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
	Actual	Actual	Actual	Actual	Actual	Prov.	Projected	Projected	Projected
Fiscal Balance	-4.3	-2.7	-3.4	-3.3	-4.6	-3.8	-3.9	-3.7	-3.4
Primary Balance	-2.7	-0.9	-1.6	-1.5	-2.7	-1.8	-2.0	-1.7	-1.4
Total Revenues	10.8	10.0	10.7	9.7	9.1	9.4	9.3	9.4	9.4
Tax Revenues	8.5	8.2	8.4	7.4	6.9	7.1	7.1	7.2	7.1
Own Tax Revenues	6.6	6.4	6.5	6.0	5.6	5.6	5.7	5.8	5.8

¹⁷ Even though the central government does not explicitly guarantee the states' domestic borrowings, in FY20/21 states were supported by increased grants from the central government, additional borrowing space and even on-lending of funds borrowed by the central government. States can also take short-term loans from the RBI to meet short-term liquidity constraints.

¹⁸ The discrepancies between GoTN and the World Bank estimates stem from the difference in the World Bank's assessment of the state's macro-fiscal situation and some differences in definitions. Tables 1 and 3 above do not include spending on amortization repayments under capital expenditure (both historical and projections). The differences in projections arise from the differences in World Bank's estimates of revenues from GST compensation, the pace of current expenditure consolidation, and the level of capital spending as a share of GSDP.



Non-tax Revenues	2.3	1.7	2.3	2.3	2.3	2.2	2.2	2.2	2.2
Own Non-tax Revenues	0.8	0.7	0.9	0.7	0.5	0.5	0.6	0.6	0.6
<i>Expenditures</i>	15.6	13.9	14.4	13.4	14.4	13.8	13.4	13.1	12.7
Current Expenditures, in which	11.8	11.5	12.1	11.7	12.4	11.9	11.4	11.1	10.7
Interest Payments	1.6	1.8	1.8	1.8	2.0	2.0	1.9	2.0	2.0
Salaries and Wages	3.1	3.1	3.2	3.2	3.0	2.9	2.9	2.8	2.7
Pensions	1.4	1.4	1.7	1.5	1.3	1.1	1.5	1.4	1.3
Subsidies and transfers	4.9	4.5	4.8	4.5	5.6	5.4	4.6	4.4	4.2
Non-Committed	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Capital Expenditures	3.9	2.4	2.3	1.6	1.9	1.9	2.0	2.0	2.0
<i>Total Outstanding Debt</i>	21.8	22.3	22.2	23.6	26.9	27.4	27.9	28.0	27.7
Tamil Nadu Nominal GSDP Growth	10.7	12.5	11.3	10.2	5.9	14.6	14.0	14.0	14.0
Tamil Nadu Real GSDP Growth	7.2	8.6	7.0	6.1	1.4	—	—	—	—

Source: RBI, Finance Department, GoTN; World Bank staff calculations.

Intergovernmental Relations

25. **India has a federal system of government with a 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. State governments are not allowed to borrow from foreign sources. States are fiscally dependent on the central government, and their borrowing is limited by the Fiscal Responsibility and Management Act 2003. The fiscal relationship between the central government and the states is reflected in the devolution of central taxes and additional assistance in the form of grants from the central government to the states. Tax devolution (share of central taxes to states) is recommended by the Finance Commission.¹⁹ Grants to states are composed of centrally-sponsored schemes, block grants, and grants to states and local governments as recommended by the Finance Commission.

2.3. IMF RELATIONS

26. **The International Monetary Fund (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. The 2021 Article IV consultation report was completed on August 31, 2021. It commended the Indian authorities for advancing structural reforms despite the pandemic and stressed the need for steadfast implementation. These reforms would not only help maximize India's long-term growth and demographic dividend, but also help alleviate poverty and inequality, and deepen the country's integration into global value chains. India's progress in transitioning to a greener and more inclusive economy is welcome.

3. GOVERNMENT PROGRAM

27. **The GoTN is making significant efforts to implement the *Pradhan Mantri Awas Yojana-Urban (PMAY-U)* and to complement it through state-level initiatives to address affordable housing challenges.** The 2021–22 Policy Note of HUDD of the GoTN stresses the importance of effective implementation of the PMAY-U. However, the GoTN realized that a public-dominant model of affordable housing provision would not be sustainable nor sufficient, and would not only crowd out private

¹⁹ The 15th Finance Commission recommendations maintained the states' share in the central tax pool at 41 percent and invoked greater horizontal equalization.



developers, even for the above-EWS market, but also increase the subsidy burden. The new administration in Tamil Nadu has confirmed the continuation of the housing sector reform agenda laid out in the TNAUHP adopted as part of the DPL1, as indicated in its Letter of Development Policy (LDP) in Annex 3.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

28. **The objectives of the proposed operation are consistent with the GoTN's priorities for the housing sector, which are to deepen the policy, regulatory, and institutional reforms as envisaged in the TNAUHP 2020.** The GoTN is now set to make the next set of incremental shifts in institutions, regulations, systems, and programs, building on the reforms achieved under the DPL1. The DPL2 also enables the incorporation of the new GoTN's vision for development as well as course correction from the first generation of reforms. The results of the program to date are summarized in Table 5.

Table 5: Select Results of the DPL1

Pillar 1: Strengthening Policies and Institutions	Pillar 2: Enabling Environment for Affordable Housing Supply	Pillar 3: Crowding in Private Sector
<ul style="list-style-type: none"> • THAUHP adopted • Tamil Nadu Housing Advisory Committee set up and is advising HUDD on re-orienting housing regulations, institutions and programs in line with the TNAUHP • Review of the Tamil Nadu Slum Areas (Improvement and Clearance) Act (TNSAA) 1971 and the Tamil Nadu Housing Board Act (TNHBA) 1961 to align with the TNAUHP • Discussions held with affordable housing finance or microfinance companies to provide mortgage financing as part of the GoTN's EWS housing program 	<ul style="list-style-type: none"> • 8,217 rental housing units registered in the Rent Portal (April 2022) • 42,662 housing units provided with additional density to accommodate affordable units, compared to a target of 8,000, indicating a positive market response to the incentives • US\$70 million Shelter Charge mobilized to subsidize the provision of affordable units against the target of US\$35 million • Proportion of affordable housing projects registered under the Tamil Nadu Real Estate Regulatory Authority is 58 percent against a target of 60 percent 	<ul style="list-style-type: none"> • Tamil Nadu Shelter Fund (TNSF) Tier-II has financed its first private sector-led mixed income project, which will deliver 2,764 Excellence in Design for Greater Efficiencies (EDGE) certified housing units, and increase the supply of EWS/LIG housing in metro Chennai by 2023 • Additional investment of US\$70 million mobilized, including from the Asian Development Bank (ADB) • Memorandum of Understanding (MoU) between the International Finance Corporation (IFC) and the Tamil Nadu Infrastructure Fund Management Corporation (TNIFMC) cleared by the GoTN, to strengthen the private sector-led affordable housing project pipeline

29. **The DO of the proposed DPL2 is to support the GoTN to increase access to and sustainability of affordable housing by deepening policy reforms and strengthening institutions.** It aligns with that of the DPL1 "to support the Government of Tamil Nadu to increase the access to affordable housing by strengthening policy, institutions, and regulations of the housing sector," and adds a sustainability dimension. The proposed DPL2 continues with the original two pillars, and strengthens the third pillar to focus on resilience through: (a) strengthening policies and institutions for increased access to affordable housing; (b) enhancing the enabling environment to increase the affordable housing supply; and (c) promoting sustainability and climate resilience with private sector engagement. Of the nine policy triggers identified under the DPL1, one has been achieved and six are retained as prior actions (PAs); two new PAs are introduced (see Table 6).



Table 6: Alignment between the Triggers listed in the DPL1 and the PAs under the DPL2

DPL1 Triggers	Proposed PAs of DPL2	Explanation
PT#1: GoTN causes the enactment of amendment Acts for the Tamil Nadu Slum Clearance Board (TNSCB) and Tamil Nadu Housing Board (TNHB) to align the institutions with the new policy objectives articulated in the TNAUHHP.	PA#1: To align the Tamil Nadu Housing Board with the TNAUHHP, the GoTN has issued a government order to empower the Tamil Nadu Housing Board to better serve lower-income households, use inclusive cross-subsidies, mobilize the private sector and develop mixed-use and mixed-income adequate habitats.	<u>The policy trigger has been partially retained.</u> The complexity of the two Acts entails additional time to finalize the amendments before submission to the State Legislative Assembly. The GoTN has, however, expressed its commitment to these reforms through the LDP in Annex 3. To initiate immediate institutional changes envisioned, a government order (GO) was issued to align the TNHB with the TNAUHHP to better serve LIG/EWS.
PT#2: GoTN establishes new housing programs with clear and transparent targeting and eligibility criteria that take into account household affordability.	PA#2: To enhance the efficiency and inclusiveness of the GoTN's EWS housing program, the GoTN has issued government orders to: (i) offer a menu of housing solutions which take into account household affordability through a participatory approach; and (ii) facilitate access to private housing finance.	<u>The policy trigger remains the same.</u> More depth built into the reform action.
PT#3: GoTN introduces regulation to mandate adequate service connection for all new housing projects.		<u>The policy trigger is dropped.</u> Regulations exist and challenges in enforcement (which are outside the DPL2's ambit) are noted.
PT#4: GoTN issues a regulation to require publication of annual monitoring and performance of housing sector using an integrated information system.	PA#4: To improve monitoring and support informed decision-making in the housing sector, the GoTN has issued a government order mandating: (i) the establishment of an integrated information system; and (ii) the publication of an annual monitoring report on the state of the housing sector.	<u>The policy trigger remains the same.</u> More clarity built into the PA statement.
PT#5: GoTN issues a GO establishing operations and maintenance standards of mandatory application to new government supported EWS/LIG housing units.	PA#3: To promote the sustainability and climate resilience of new assets, the GoTN has issued a government order mandating the establishment of community-driven operation and maintenance systems in new government sponsored EWS housing units.	<u>The policy trigger remains the same.</u> More depth built into the PA statement marking a shift from public-driven systems to community-based systems.
PT#6: GoTN adopts state-level environmental and design criteria regulation mandatory for government supported EWS/LIG housing units.	PA#7: To promote energy efficiency and build climate resilience in EWS and LIG housing, the GoTN has issued a government order to adopt mandatory thermal comfort and energy efficiency design criteria, in accordance with the Eco-Niwas Samhita 2018 Code, for all new housing developments supported by TNHB and TNUHDB.	<u>The policy trigger remains the same.</u> Environmental design criteria being achieved through the Resilient Urban Design Framework (RUDF) and adoption of mandatory energy efficiency codes for all Tamil Nadu Urban Habitat Development Board (TNUHDB) and TNHB housing.
PT#7: GoTN causes the enactment of amendments to update the Tamil Nadu Apartment Ownership Act.	PA#5: To improve the operation and maintenance in multistoried apartments and promote climate adaptation, the GoTN has submitted to the State Legislative Assembly	<u>The substance of the policy trigger remains the same.</u> The bill was passed by the State Legislative Assembly on May 10, 2022. It is currently in the process of



DPL1 Triggers	Proposed PAs of DPL2	Explanation
	for approval thereof, a bill to repeal the Tamil Nadu Apartment Ownership Act 1994 and replace it with the Tamil Nadu Apartment Ownership Act 2022.	obtaining assent from the Governor, after which the Act will be notified in the Official Gazette as originally envisioned in the DPL1 trigger.
PT#8: GoTN incentivizes long term rental by reducing stamp duty and registration charges for all rental agreements of more than 12 months.		The policy trigger is dropped. Achieved in March 2021, i.e., 12 months before the expected DPL2 Board date.
PT#9: TNIFMC adopts a risk mitigation product to increase the participation of the private sector in affordable housing segment.		The policy trigger is dropped. Market maturing is delayed due to COVID-19 pandemic, hence no immediate need for such a product. A MoU between the IFC and the TNIFMC is expected to be signed to develop a stronger pipeline and market maturity over the next few years.
	PA#6: To enhance business environment, the GoTN has issued a government order mandating all planning authorities to move to an online single-window approval system for issuing planning permissions.	New PA is proposed and linked to PA#5 of the DPL1: "The GoTN has: (a) amended urban regulations through the Tamil Nadu Combined Development and Building Rules (TNCDBR) to increase the floor space index (FSI) to allow higher densities in urban areas; and (b) has issued a GO to reduce the processing time for planning and building permits."
	PA#8: To promote resilient urban growth in Chennai, the GoTN has amended the Master Plan for Chennai Metropolitan Planning Area Rules 1974 to adopt an integrated land use and infrastructure planning approach to reduce carbon footprint and incorporate climate resilience measures in the preparation of master plans.	New PA is proposed to respond to GoTN's emerging policy priority.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

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

PA #1: To align the Tamil Nadu Housing Board with the TNAUHP, the GoTN has issued a government order to empower the Tamil Nadu Housing Board to better serve lower-income households, use inclusive cross-subsidies, mobilize the private sector and develop mixed-use and mixed-income adequate habitats.

30. The TNHB's current business model entails neighborhood schemes involving mixed-income development with a focus on higher-income segments. The role and functions of the TNHB are guided by the TNHBA 1961. At the time of the Act notification, the focus of the state was to curtail land hoarding and catalyze the housing market by acquiring land and selling serviced plots and dwelling units that catered mostly to immigrants moving to urban areas. With a strong real estate market now in place, the TNHB is, in effect, competing with developers for the high-income group and middle-income group (MIG) in the market. Meanwhile, land has become difficult to acquire, and litigation involving land acquisition has substantially hindered the TNHB's ability to operate. To preclude the risk of inhibiting private sector



investment in the housing market, the TNHB needs to change its business model and strive to better serve the LIG, and possibly the EWS. To reorient the TNHB toward a partnership with the private sector, and push the market frontier for affordable housing supply, HUDD has drafted a TNHBA amendment which is being reviewed by the Law Department of the GoTN and expected to be submitted to the State Legislative Assembly for approval in this calendar year as mentioned in the LDP (Annex 3).

31. HUDD has issued a GO 76/2022 on May 13, 2022 to enable the TNHB to bring these shifts into implementation and facilitate concerted actions across various initiatives being introduced by the GoTN. The GO includes specifications that: (i) mandate the TNHB to play a stronger role in housing provision for the lower-MIG, LIG, and possibly EWS groups, particularly using public private partnership (PPP) and cross-subsidization in mixed-use and mixed-income housing development; and (ii) enable the TNHB to use innovative measures to increase access to land for affordable housing supply through partnership with landowners and densification, as envisaged under the TNAUHP 2020. To support the latter, the GoTN is also updating the Tamil Nadu Town and Country Planning Act 1971. The GO also includes a statement to reconfirm that the TNHB will adopt relevant standards and guidance for addressing disaster and climate resilience through the adoption of siting criteria, green design principles, and innovative construction techniques, as well as compliance with the energy efficiency building code. While the GO does not carry the same weight as amendments to the TNHBA as envisioned in the policy triggers under the DPL1, it will initiate the operationalization of the shift in the TNHB's business model.

32. The TNSAA 1971 was also slated for amendment as part of the policy triggers under the DPL1. As with the TNHBA, the TNSAA was formulated in the era when the state was the primary provider of mass housing, and slums were to be removed as they are unsanitary. The then TNSCB (now TNUHDB) was established to clear and redevelop slums. Over time, the TNUHDB has evolved into an entity that has focused on the EWS segment only, and its housing programs have been the main utilizer of state subsidy in housing. Moreover, it has become the nodal agency for all urban resettlement and rehabilitation in Tamil Nadu. Slum transformation is a sensitive topic involving vulnerable groups, which warrants addressing safeguards concerns. The GoTN has begun the process of drafting the new TNSAA, which requires extensive public consultations with stakeholders. The timeline for enacting the new act overshoots the DPL2 delivery timeline, and hence was dropped from the DPL2. However, the GoTN has again demonstrated its commitment to this reform through the LDP.

PA #2: To enhance the efficiency and inclusiveness of the GoTN's EWS housing program, the GoTN has issued government orders to: (i) offer a menu of housing solutions which take into account household affordability through a participatory approach; and (ii) facilitate access to private housing finance.

33. The GoTN's GO 28/2020 pursued a 'one-size-fits-all' approach to tenements, which did not take into account the varying needs of eligible beneficiaries. The level of subsidies was calibrated to recognize location and beneficiaries' prior rights, but not their ability to pay, thus posing challenges for poorer households to pay the compulsory upfront beneficiary contributions. To address affordability challenges, the GoTN issued GO 54/2021, capping the beneficiary contribution of tenants, squatters, and slum dwellers²⁰ and facilitating access to private credit.²¹ In addition, for tenants agreeing to higher reconstruction densities, GO 54/2021 introduced the option to pay affordable equated monthly installments (EMI) directly to the TNUHDB. However, single upfront contributions are expected to remain an affordability challenge, particularly for the bottom 20 percent who are unable to access private credit

²⁰ The caps are INR 100,000 in district towns and INR 150,000 in Chennai (except for EWS households in open market).

²¹ The final credit decision resides with private lenders. A standard tripartite agreement among the TNUHDB, beneficiaries, and private lenders has been prepared by the TNUHDB.



and are excluded from the option to pay EMIs to the TNUHDB. Finally, around 60 percent of Tamil Nadu's urban households have three or fewer members and may benefit from smaller units.²²

34. **To address the remaining affordability gap and to enhance targeting, the GoTN issued GO 64/2022 on April 21, 2022.** The new GO added two smaller unit categories (250 sq. ft., 350 sq. ft.) to the menu of housing solutions. Thanks to the combination of lower construction costs (for the smaller size) and lower proportional beneficiary contribution (for higher subsidy share) compared with the standard 400 sq. ft. unit, the newly available smaller-sized options will improve access for many vulnerable households with lower income and/or smaller household size.²³ The enriched menu also empowers beneficiaries to select the dwelling option that matches their affordability, financial access, and household demographics. Further, the new GO enables more efficient use of public resources. Within the same budget envelope, government subsidies can now be better utilized to generate more units,²⁴ as they are better targeted to serve the poorest and most vulnerable households.²⁵ To reduce the gender gap in access to (and ownership of) housing assets, the TNUHDB will also ensure that all new housing tenements shall be owned or co-owned by at least one adult female household member (unless there is none).

35. **The expected results of the reform include access to an expanded menu of segmented housing solutions for EWS households under the TNUHDB housing programs.** There will be an increasing share of EWS beneficiaries who are socioeconomically vulnerable. It is expected that the proportion of EWS housing units allotted that are owned or co-owned by women will increase from 43 percent as of December 2021 to 100 percent by December 2023.

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

36. **In the absence of a clear mandate under the TNSAA, the TNUHDB has, de facto, assumed responsibility for the operation and maintenance (O&M) of its housing stock.** Maintenance fees are not sufficient to cover expenses, and collection is not enforced. As a result, TNUHDB's tenements suffer from rapid dilapidation, and some even expose their occupants to public health and safety hazards. This has not only forced the TNUHDB to consider replacing its stock at a reduced lifespan, but has also increased the vulnerability of its housing stock to climate and disaster risks. Residents of TNUHDB tenements are not incentivized to participate in or contribute to O&M. Very few Residential Welfare Associations (RWAs) are currently in place; some have organized themselves to advocate for better O&M, but not many.

37. **The GoTN issued GO 55/2021 on December 17, 2021 to launch the *Nam Kudiyruppu Nam Poruppu* ('Our Tenements, Our Responsibility') scheme to institutionalize the shared responsibility for O&M between the RWA and the TNUHDB to improve the upkeep of tenements.** This GO has served the following aims to: (i) facilitate the formation of the RWAs; (ii) define the O&M activities that fall under the remit of the RWAs and the TNUHDB, respectively, and those that are a shared responsibility; (iii) introduce a matching grant to incentivize the O&M charges by RWAs; (iv) establish the financing arrangements and governance structure for O&M; (v) mandate a dispute resolution mechanism; and (vi) provide for capacity-building of RWA members and relevant TNUHDB officers.

²² Gol. 2018. National Sample Survey.

²³ Households with members having special needs are offered universal accessibility units that are slightly larger at no extra cost.

²⁴ Smaller tenement units consume less land and less (absolute) subsidies.

²⁵ Subsidies finance a higher cost portion in the case of smaller units, and a lower cost portion in the case of larger units.



38. **The TNUHDB also prepared model RWA bylaws to guide the establishment of RWAs by its beneficiaries within six months of possession, and thereafter to facilitate routine maintenance and minor repairs.** The bylaws call for adopting standard operation procedures to guide the RWA's O&M activities to become climate-sensitive, resulting in energy and water efficiency. Furthermore, the bylaws aim for representation and participation of women and vulnerable sections in RWAs. The TNUHDB is also facilitating O&M approaches that allow women-led businesses and women's groups to receive required orientation and training that facilitate their competitive participation in bidding processes, ultimately enabling them to oversee the O&M of housing assets.²⁶

39. **The reform is expected to enhance the efficiency, equity, and effectiveness of the O&M of EWS housing.** The proportion of households in TNUHDB that are part of RWAs participating in O&M mechanisms will be increased from zero to 80 percent by December 2023. These shifts are expected to reduce the GoTN's fiscal burden through a cost-sharing approach and empower responsible communities. Establishment of a grievance redress mechanism will enhance the accountability of the O&M system.

PA #4: To improve monitoring and support informed decision-making in the housing sector, the GoTN has issued a government order mandating: (i) the establishment of an integrated information system; and (ii) the publication of an annual monitoring report on the state of the housing sector.

40. **The GoTN's housing programs lack an overall understanding of the performance of the market.** This knowledge gap relates in particular to who is delivering housing at what price points and serving which income segments, and where the affordability gaps are. For the private sector, there is little reliable current information available on the supply of and demand for various housing typologies, making market assessments for each project costly. Such information deficiencies have made evidence-based decision-making difficult for all.

41. **The GoTN has taken steps to enhance the availability of housing sector information that will support policy-making and program design by government institutions and investment decisions by the private and non-government sectors operating in Tamil Nadu.** It issued GO 63/2022 on April 21, 2022 to establish a Tamil Nadu Integrated Housing Information System (TNIHIS) and mandated the publication of an annual monitoring report on the state of the housing sector in Tamil Nadu. The TNIHIS will offer a platform for information on housing supply, housing demand, and housing finance for different market segments, locations, and across time, in a gender-disaggregated manner and capture climate vulnerabilities in the sector. The TNIHIS will track key climate risks (such as heating, flooding, among others) across locations, as well as buildings with green certification and energy efficiency ratings, to enable future decision-making on climate and disaster risk-informed policies and programs.

42. **Based on relevant global experience, the GoTN is taking a long-term perspective and a phased approach to design and implement the TNIHIS.** HUDD will lead the establishment of the TNIHIS and the development of its operating framework through its subordinate agencies. Currently, the TNUHDB has been assigned to take on this task. The first phase will include setting out the fundamentals of the TNIHIS and the consolidation of all key existing databases and other information related to the housing sector that is available in the public domain. The subsequent phase(s) will enable additional modules or submodules to be added as more data become available (from primary and/or secondary sources), and as institutional support and organizational capacity increases over time. TNUHDB will assess data acquisition needs, develop the information technology system and data sharing protocol, data security measures, delivery modality, frequency of updates, and explore the possibility of partnering with the

²⁶ To drive this, the TNUHDB is exploring synergies with the Women's Development Corporation and the GoTN.



private sector to manage the system. Sufficient budget will be allocated to ensure the TNIHIS's establishment and operation.

43. **Building on the first phase of the TNIHIS, HUDD will publish an annual monitoring report on the state of the housing sector, including the implementation of the housing policy and its programs.** The dashboard for annual housing sector performance using key indicators will be available in the public domain by December 2023. The findings will feed into the GoTN's efforts to identify the regulatory and institutional changes required to achieve its policy objectives. The reform is expected to lead to informed decision-making by housing sector stakeholders.

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

PA #5: To improve the operation and maintenance in multistoried apartments and promote climate adaptation, the GoTN has submitted to the State Legislative Assembly for approval thereof, a bill to repeal the Tamil Nadu Apartment Ownership Act 1994 and replace it with the Tamil Nadu Apartment Ownership Act 2022.

44. **The Tamil Nadu Apartment Ownership Act 1994 specifies the roles and responsibilities for O&M in multistoried apartments among homeowners, tenants, and homeowners' associations.** A key weakness in the old Act is that it does not allow apartment owners to form associations and forces them to register under different provisions of the relevant legal framework, thus leading to contestation over the O&M of common areas, resulting in asset life reduction and safety issues, especially during extreme weather events such as cyclones and flooding. Contestation over the O&M of common areas has also discouraged apartment homeowners who might otherwise rent out their vacant units.

45. **A draft bill was submitted to the State Legislative Assembly on May 5, 2022, with provisions for apartment owners to better organize themselves and attend to the O&M of common areas of their properties.** This bill was passed on May 10, 2022, and has been submitted for the Governor's assent. It is expected to encourage more developers and property owners to provide apartment-type housing solutions, which would be more compact and resource-efficient, instead of low-density plotted development. This should also lead to better floor space utilization leveraging the additional FSI provisions for these segments through TNCDBR—a policy initiative under the DPL1. Improved O&M of common spaces in apartment buildings, particularly stairwells and elevator shafts, will lead to longer lifespans, and make them more resilient to disaster and climate shocks. The proposed amendments will also alleviate regulatory barriers for the association of apartment owners to redevelop dilapidated buildings that meet age- and condition-related criteria, which will help improve housing quality and climate resilience of these buildings, as well as enhance the safety of residents.

46. **The reform is expected to lead to an additional stock of vacant housing units for rent.** The success of the proposed reform will be captured through the number of associations of apartment owners that register under the new Act, from zero as of April 2022 to 500 by December 2023.

PA #6: To enhance business environment, the GoTN has issued a government order mandating all planning authorities to move to an online single-window approval system for issuing planning permissions.

47. **The current planning and building approval systems require considerable processing time, thereby contributing to longer waits for developers to obtain approvals and higher project costs.** Such systems are predominantly semi-automated in Chennai, and paper-based outside Chennai. Reducing the processing time will reduce development costs—so that savings can be passed on to buyers—and also build transparency into the system.



48. **The DPL1 introduced measures for streamlining the planning approval processes for small-scale residential buildings that serve EWS, LIG, and MIG households.**²⁷ The provisions under the DPL1 excluded private developers in the affordable multistoried housing space, as these developments are typically larger. The new GO 56/2022, which was issued on April 18, 2022, takes the DPL1 measures a step further by upgrading and scaling up the partially automated building plan approval system in Chennai to a completely automated system for the entire state. Based on the new GO, each approval department should integrate their online portal into the Single Window Online System and facilitate application review by sharing documents and plans submitted by applicants for obtaining no-objection certificates from different departments. This single-window approval system is also expected to create a transparent system for enforcing regulations which ensure disaster and climate resilience of built structures. The whole system went online on May 1, 2022.

49. **The expected result of the reform is a faster and more transparent approval system that would incentivize private sector developers to invest in housing developments in general.** It is envisaged that the average time to obtain planning permissions will be reduced from about 2-4 months in June 2020 to less than 45 days by December 2023. The faster approval will contribute to increasing the supply of affordable housing, given that the profit margins of developers engaged in such housing are particularly affected by the time lag between development and sales.

Pillar 3: Promoting sustainability and climate resilience with private sector engagement

PA #7: To promote energy efficiency and build climate resilience in EWS and LIG housing, the GoTN has issued a government order to adopt mandatory thermal comfort and energy efficiency design criteria, in accordance with the Eco-Niwas Samhita 2018 Code, for all new housing developments supported by TNHB and TNUHDB.

50. **The RUDF established under the DPL1 introduced design innovations for improving the TNUHDB's EWS housing projects.** Some TNUHDB projects under planning and early construction stages have been designed using the RUDF and have received positive feedback. The RUDF recommends the adoption of relevant codes such as EDGE and the National Energy Conservation Building Code to enhance energy efficiency. Under DPL2, the GoTN has scaled up the operationalization of the RUDF through GO 57/2022 issued on April 19, 2022. This GO mandates all new TNUHDB and TNHB housing projects to comply with Eco-Niwas Samhita (ENS) requirements, including the adoption of climate resilient principles for planning and building design, requirements for better energy efficiency, and enhanced thermal comfort. As the public sector contributes to the vast majority of all EWS and LIG housing in the state,²⁸ this GO would ensure that most of the future affordable housing development will be climate resilient and energy efficient. Furthermore, it is expected that this will create a demonstration effect of the benefits of complying with ENS standards, so that the private sector will also adopt ENS elements in their housing projects.

51. **The envisaged result of the reform is improved thermal comfort in government-led affordable housing developments, along with greater resource efficiency and potential savings in maintenance costs.** By December 2023, it is expected that 100 percent of new affordable housing developed by the TNHB and the TNUHDB will have ENS-compliant features incorporated in their design.

²⁷ The DPL1 reforms focused on giving planning permissions to plots up to 30 square meters to mobilize individual plot owners to construct additional floors that could be rented out, most likely targeting the EWS households.

²⁸ Coelho et al. 2021. The Geography of Affordable Housing in Chennai. The study found that the public sector provision accounted for more than 90 percent of all affordable housing units produced in the Chennai area between 2014 and 2018.



PA #8: To promote resilient urban growth in Chennai, the GoTN has amended the *Master Plan for Chennai Metropolitan Planning Area Rules 1974* to adopt an integrated land use and infrastructure planning approach to reduce carbon footprint and incorporate climate resilience measures in the preparation of master plans.

52. **The *Master Plan for Chennai Metropolitan Planning Area Rules 1974* was structured based on the planning practices of the colonial era, usually with a horizon of 20—25 years.** The planning exercises were expected to ‘fix’ land use and its spatial distribution, with provisions to be strictly followed during the planning horizon, and were undertaken with minimal engagement with citizens and their representatives. Given the rapid urbanization of the past three decades, a 20-year horizon with strict spatial norms would quickly render such a master plan obsolete. Many ostensibly ‘planned’ areas have grown in an organic manner, leading to a deterioration in the quality of urban life, inefficiency in resource utilization, and increased climate risks.

53. **Learning from past experience in Chennai, as well as from global best practices, the Chennai Metropolitan Development Authority (CMDA) decided to take a transformational shift in its master planning process.** A GO 68/2022 to amend the *Master Plan for Chennai Metropolitan Planning Area Rules 1974* was issued on April 26, 2022. The amended rules include the following measures to: (a) adopt climate resilience as a main theme for master planning, including mapping of relevant climate risks and hazards (such as inundation, erosion, landslides, among others) as part of plan preparation; (b) introduce the ‘Transit Oriented Development’ principle and facilitate nonmotorized travel modes to reduce the carbon footprint of urban growth, complemented by investment planning coordination across different sectors; and (c) request provisions in master plans to ensure inclusivity and accessibility to urban services by all citizens, taking into consideration the needs of vulnerable groups such as women, the physically challenged, seniors, and EWS households. This reform is expected to make future urban growth in the Chennai Metropolitan Area (CMA) more climate resilient than the ‘business-as-usual’ model, as well as to identify affordable housing nodes at climate-smart locations, leading to reduced vehicle travel, optimal resource utilization, and lower carbon emissions.

Table 7: PAs and Analytical Underpinnings of the Proposed DPL2

PAs	Analytical Underpinnings
Pillar 1: Strengthening policies and institutions for increased access to affordable housing	
PA#1	Eduardo Rojas.2001. The Long Road to Housing Sector Reform: Lessons from the Chilean Housing Experience, Housing Studies, 16:4, 461–483. Experiences and lessons from Chile’s housing policy and government’s institutional reforms shift from a direct provider to a market-enabler. Transparent targeting of public resources on lower-income segment.
PA#2	World Bank. 2022. Toward Inclusion, Resource Mobilization, and Economic Recovery: Subsidy Design for EWS Housing in Tamil Nadu. Comprehensive analysis of affordability of existing and proposed new housing programs of the TNUHDB, as well as financial access of potential beneficiaries. David le Blanc. 2005. World Bank Economic Evaluation of Housing Subsidy Systems A Methodology with Application to Morocco. WB Policy Research Working Paper 3529. Methodology to evaluate the efficacy of housing subsidy systems in a country. World Bank. 2021. Guidance Note: Addressing Gender Gaps in Housing Interventions. Informs the design of the housing program to ensure that the proposed policy change will improve the access to housing and living conditions for women-headed households and female beneficiaries.
PA#3	The World Bank, 2004, Community-driven Development Approaches in Housing Sector Projects in Transition Economies, Social Development Notes, The World Bank, Washington DC. Focuses on the benefits of taking a community-driven approach for improving O&M in apartments where the roles of beneficiary and public provider are ambiguous.



PA#	Analytical Underpinnings
	Gol, Minutes of 5th Meeting of the Central Sanctioning cum Monitoring Committee for PMAY, February 3, 2016, Ministry of Housing and Urban Affairs, Gol. Highlights the importance of establishing community-driven O&M systems for PMAY housing units/projects with basic minimum service standards.
PA#4	World Bank. 1993. The Housing Indicators Program. Framework for analyzing housing sector and a comprehensive set of indicators. World Bank. 2020. The Urban Land and Housing Market Assessments: A Toolkit Provides solutions for practitioners with varying levels of resources and places with different data availability.
Pillar 2: Enhancing the enabling environment to increase the affordable housing supply	
PA#5	World Bank. 2018. How to Develop the Formal Urban Rental Market in India. Focus on Tamil Nadu. Washington D.C. 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 Markets. Washington DC: World Bank. International experiences and lessons learned on rental housing policies implemented across the world.
PA#6	Rashid, A. A. 2012, July. The Role of Urban Governance to Enhance Kuala Lumpur City Region Development. Global Journal of Human Social Science Arts & Humanities. Introducing 'one-stop' approval to expedite online plan approval significantly enhances development. Hammah, N. K. 2015, July 27. Streamlining of Building Permit Approval Processing of Town and Country Planning Department in Ghana. Cogent Social Sciences, 17. doi:10.1080/23311886.2015.1060730 Recommends the adoption of a One-stop Centre workflow for reducing the approval times.
Pillar 3: Promoting sustainability and climate resilience with private sector engagement	
PA#7	UNIDO (Ed.). 2008. Module 18: Energy efficiency in buildings. In Sustainable Energy Regulation and Policy-making Training Manual (pp. 18.1–18.114). United Nations Industrial Development Organization. Importance of energy efficiency in buildings, the methodology used to determine energy efficiency, financing mechanisms and approaches to implement policies that facilitate higher energy efficiency.
PA#8	Deloitte consultants. 2021. Assessment of Master Planning Process and Capacity for the CMA, Final Report. Current planning practice in CMA, highlighting weaknesses, gaps and providing recommendations. WRI India. 2021. From Master Planning to Strategic Spatial Planning. Webinar, 14 September 2021. Basic elements on Strategic Spatial Planning and the rationale for adopting this practice as opposed to the traditional myopic and static master planning process. UN Habitat. 2016. Addressing Climate Change in National Urban Policy: A Policy Guide for Low-Carbon and Climate-Resilient Urban Development. World Bank. 2020. Handbook for Gender-Inclusive Urban Planning and Design.

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

54. **The proposed DPL2 is consistent with the World Bank Group (WBG) Country Partnership Framework (CPF) FY18–22 for India discussed by the Board on September 20, 2018 (Report No. 126667-IN).** Green, livable, productive, and resilient cities are an integral part of focus area 1 of the CPF for facilitating growth and poverty reduction while promoting greater resource efficiency. Furthermore, the CPF recognizes that India could be missing out on the opportunities and gains associated with urbanization due to its 'messy' urban growth characterized by rapid urban sprawl, outdated land use regulations, low level of infrastructure investments, and dysfunctional housing markets. The CPF highlights the need to address these challenges while leveraging private finance and strengthening public sector institutions; these are two catalytic areas that will enable the delivery of results at scale. The proposed operation aims to strengthen institutions, regulations, and financing in the housing sector—all much needed in a fast-growing urban area—while supporting efforts to enhance state capabilities to change the business-as-usual model to a more sustainable path. As the challenges faced by the housing sector in Tamil Nadu are similar to those in other states of India, the lessons can be shared with them, and the proposed policy interventions can potentially be replicated.



55. **This operation is aligned with the World Bank's South Asia Regional Strategy on transitioning to resilient development and building back better.** It supports housing sector investments in Tamil Nadu and contributes to two of the three pillars in the Strategy's operational framework: promoting green growth; and boosting resilience across the economy, markets, and society.

56. **Maximizing finance for development (MFD).** The proposed DPL2 is MFD-enabling as the reforms to introduce the segmented housing program include the facilitation of access to credit from private lenders and enable housing finance institutions to extend loans to EWS households. The single-window system to streamline planning permitting processes is poised to remove one of the major barriers to private sector investments in residential development. In addition, the establishment of the TNIHIS will provide much-needed housing sector information to help the private sector make informed investment decisions on its product offerings.

57. **Gender.** The operation is informed by the WBG's Gender Strategy 2016–2023 for Gender Equality, Poverty Reduction and Inclusive Growth (Report No. 102114). The PAs will help achieve the three strategic objectives, namely: (a) improving women's health and living conditions by enhancing their access to secured and affordable housing; (b) increasing women's economic opportunities by increasing access to and ownership of housing assets; and (c) enhancing women's engagement in community development through O&M of housing and inclusive planning. A gender indicator "EWS housing units owned or co-owned by women (excluding households without an adult female) (percent)" will measure the outcomes on bridging the gender gap in access to homeownership.

58. **Climate co-benefits.** Tamil Nadu is highly vulnerable to climate change. Increased frequency and intensity of extreme events are projected, such as extreme heat events, flooding (related to heavy rains, hurricanes, and coastal storms), droughts, and wildfire. The operation will support the GoTN's priority of strengthening climate and disaster risk resilience through (a) mandating key housing institutions to embed climate resilience considerations in all housing projects; (b) adopting a community-driven approach for improved O&M in affordable housing and building disaster and climate resilience; (c) mainstreaming design features for energy efficiency and thermal comfort into all new affordable housing projects developed by TNHB and TNUHDB; (d) incorporating hazardous mapping and climate resilience measures into master plans to guide sustainable urban growth. The Climate Change Technical Note P178329 appended to the Program Document discusses the climate interventions in greater detail. A climate indicator "New affordable housing developed by TNHB and TNUHDB that have *Eco-Niwas Samhita* compliant features incorporated in the design (percent)" is included in the results framework.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

59. **Citizen and stakeholder consultations.** HUDD has initiated consultations on the proposed reforms with the private sector, as well as with the broader civil society, academia, and development partners. DPL2 reforms have been validated through public consultations and citizen engagement via different forums, including focus group discussions (community groups, banks, and developers) on some subject areas (PA#2 and PA#6) and open public consultations on some others (PA#3, PA#5, PA#8). The Tamil Nadu Apartment Ownership Act amendment and the RWA bylaws were placed in the public domain to solicit citizen feedback. The CMDA has initiated a citizen-centric visioning exercise for the CMA as a part of the operationalization of the new planning rules (PA#8). Consultations have also been undertaken with development partners active in urban and housing engagements, including the ADB, and the Deutsche Gesellschaft für Internationale Zusammenarbeit. While both agencies have indicated support to the reform trajectory, no co-financing is proposed.



5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

60. **The overall poverty and social impacts of the policies under the DPL2 are expected to be positive, and will benefit the poorest segments by increasing the availability of affordable homes and their access to basic services.** The policy reforms draw upon the lessons learned from the DPL1. The Poverty and Social Impact Assessment (PSIA) prepared for the DPL1 supports such expectations and its findings remain relevant for the proposed operation. The proposed DPL2 is expected to promote the development of an efficient and inclusive housing market that can better respond to increasing demand in the low- and middle-income segments. Increasing the availability of affordable homes will also increase the disposable income of households, leading to a possible reduction of poverty and social inequalities. The enhancement in the capacity of GoTN institutions and systems that is being supported under this DPL series will help sustain the positive social impacts to be achieved. An updated PSIA has been conducted for DPL2 to elaborate on the potential positive and negative effects of each PA on the poverty status and social welfare of households, taking into account the context of the second wave of the COVID-19 pandemic. A summary of these impacts is provided in Annex 4.

61. **Key findings on the poverty and social impacts include the following:** First, GO 76 empowers the TNHB to move down-market through encouraging mixed-use and mixed-income development to allow cross-subsidizing LIG and EWS households, therefore directly benefiting the poor. Meanwhile, product differentiation ushered in by GO 54 and GO 64 will enhance inclusiveness and the efficiency of the government's EWS housing program. The availability of a menu of housing solutions, particularly the introduction of smaller units, gives households in the bottom two deciles (who were previously excluded) access to the government's housing programs. Moreover, the facilitation by the TNUHDB to help EWS households pay beneficiaries' contributions through home loans from housing cooperative societies or primary lending institutions/banks will also enhance affordability for those who have not saved enough to pay the beneficiary co-payment upfront, yet are eligible for a mortgage. Second, GO 55 has mobilized community-driven O&M systems with clarified roles and responsibilities, financing mechanisms and governance structure, as well as grievance redress mechanisms, all of which will lead to improved O&M and longer asset life. Consequently, longer asset life of housing will indirectly increase affordable housing supply, and improved O&M will enhance quality of life as well as beneficiary satisfaction. Third, mainstreaming climate- and disaster-risk considerations in urban planning, design, and in the O&M of housing assets can potentially protect low-income families from the prolonged negative effects of disasters and reduce their economic losses. The adoption of measures to incentivize compact urban forms and the supply of affordable housing units at smart locations under integrated transportation and land-use planning practices will also benefit the urban poor, as such measures tend to reduce transport costs and increase access to jobs and services for urban poor households. Consequently, urban dwellers will no longer be 'priced out' to the urban outskirts. Lastly, the promotion and facilitation of development can create new employment opportunities for low-income unskilled workers. The enhanced planning permitting system will attract more investment and faster development, resulting in more demand for construction work and increased employment opportunities for the state's labor market.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

62. **PAs under the DPL2 are expected to have overall positive environmental effects** and are consistent with the broader vision of mainstreaming environmental sustainability and climate resilience in the affordable housing sector. An environmental analysis (EA) has been carried out to understand the potential risks associated with this operation, building on the findings of the EA and lessons from the DPL1. The analysis entailed the following: (a) assessing the impacts of the PAs on their likelihood to cause



significant adverse or positive effects on the environment, forests, and other natural resources, especially in relation to the state's environmental priorities; (b) assessing the GoTN's systems for reducing adverse effects and enhancing positive effects, along with potential gaps in these systems; and (c) providing recommendations to incorporate environmental considerations to prevent, minimize, mitigate, or compensate adverse—and enhance positive—environmental impacts.

63. **Key findings from the EA indicate that the proposed DPL2 will further embed sustainable development and climate resilience principles through various policy reforms and development-related regulations.** It will also better align key institutions in the housing sector with the TNAUHP and build the overall capacity from an environmental perspective. The specific actions proposed under the operation will help the GoTN tackle housing sustainability challenges through an inclusive and integrated land-use and infrastructure planning approach for the CMA, integration of resilience measures in amended rules and regulations, and improved O&M mechanisms. Community-driven O&M systems will lead to enhanced asset life (durability), safety, and resilience of government-sponsored EWS housing units. The platforms for knowledge exchange and increased transparency through the TNIHS are expected to increase the overall efficiency of this sector and build capacity of the private sector. The GO to mandate thermal comfort and energy efficiency in all new TNHB and TNUHDB housing projects through application of the ENS 2018 Code is expected to have significant positive environmental effects. Annex 4 summarizes the key environmental impacts of each PA.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

64. **Tamil Nadu's public financial management (PFM) systems have an acceptable framework with formal mechanisms, and the rules for financial accountability are generally sound.** Budgets are prepared within the fiscal targets set in the TNFRA and are approved by the Legislative Assembly before the start of the fiscal year in February/March and published on their website. The GoTN follows the cash basis of accounting. It has implemented an end-to-end computerized Financial Management System and Integrated Human Resources Management system—which is robust and well established. The accounting and internal controls are governed by the State Financial Rules. The state finance and accounts are consolidated by the Office of the Accountant General (Accounts and Entitlement) (OAG) based in Chennai and departments carry out accounts reconciliation on a regular basis. The monthly accounts (unaudited) up to December 2021 are available on the OAG's website. The state finances are audited by the state office of the Comptroller and Auditor General (CAG) of India, which is independent and has the mandate for financial, compliance, and performance audits. The CAG's audit report is usually made available to the public within a year from the end of the fiscal year and is submitted to the legislature. The independence of the CAG and the auditing standards are acceptable to the Bank.

65. **The TNUHDB and the TNHB, the two leading government agencies responsible for providing affordable housing in Tamil Nadu, largely rely on manual systems of accounting, contract management, and financial reporting.** The TNHB shifted to an accrual-based accounting in 1986 and has been submitting yearly accounts to the legislature. The TNUHDB follows the single-entry cash-based accounting system. Accounts up to 2018–19 have been completed and submitted to the legislature. TNUHDB internal audit function, though mandated, is defunct due to the lack of human resources; annual entity audits are completed by the Local Fund Audit Department with a lag of about two years. TNUHDB has initiated accounting reforms by transitioning toward a double-entry and computerized accounting system.

66. **The proposed loan will follow the Bank's disbursement procedures for DPLs.** When disbursing the loan, the Bank will deposit the financing proceeds into a designated foreign currency account of the GoI, held with the RBI. The GoI will transfer the local currency equivalent of the tranche to the GoTN, as



per its on-lending arrangements for external development funds. Disbursement of the loan proceeds would not be linked to specific purchases; however, the 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. Any such ineligible expenditures shall require the GoI/GoTN to refund the amount to IBRD. A confirmation will be obtained from the Finance Department, GoTN, of the 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 INR. Given the low risk, a specific audit report is not required.

67. **The Bank has reasonable assurance that the control environment for foreign exchange in the RBI is satisfactory for the purposes of this operation.** This is based on the RBI audit report and the satisfactory outcomes of other operations, which have been disbursed and managed through the RBI. The RBI audit report ending March 31, 2021, has a clean, unqualified opinion and was conducted following auditing standards generally accepted in India.

68. **The procurement assessment—based on the experience of various operations in Tamil Nadu, as well as the country procurement system assessment (2020) conducted by the World Bank—confirms that procurement in Tamil Nadu is guided by a well-established procurement framework.** It is designed to meet the core Procurement Principles of value for money, economy, efficiency, effectiveness, integrity, transparency and fairness, and accountability. Procurement in the state is carried out as per the Tamil Nadu Transparency in Tenders Act (TNTTA) 1998, the Tamil Nadu Transparency in Tenders Rules 2000, the Public Works Department Manual, and other related GOs issued from time to time. The TNTTA has provisions on procurement planning, tendering, and the evaluation process. The Tamil Nadu State departments and government agencies have a clearly defined delegation of authority. The GoI's e-Marketplace portal is used by all implementing entities.

69. **The TNUHDB and the TNHB largely rely on manual systems of contract management.** Based on the complexity, market condition and value, an appropriate method of procurement and contract type is framed. The procedure for bid submission and opening, evaluation and contract award, is based on the criteria provided in the bid documents. There is no restriction to open competition. The State has a GO in place regarding the use of e-procurement for contracts above INR 1 million, which is not followed consistently by all agencies. The use of the National Informatics Centre (NIC)'s e-Government procurement platform is limited to inviting bids through e-bidding; the contract management module is not being used. Tenders are advertised in newspapers and the central e-procurement portal. The publication period is adequate for potential bidders to submit bids. The state has taken a policy decision to shift to e-procurement for all procuring entities of the GoTN, including the TNUHDB and the TNHB, from April 1, 2023. Measures are being taken to update the NIC e-procurement platform for Tamil Nadu.

70. **The Indian Contract Act 1872, the Sale of Goods Act 1929, and the Arbitration and Conciliation Act 1996 (Revised 2015 and 2018) govern contracts.** Contracts are administered in line with the provisions listed in the Standard Procurement Documents. Based on a review of information on activities tendered, contracted, and completed during the last three years, gaps have been observed in terms of reduced competition, delayed contract completion, and non-disclosure of contract awards. Disclosure by publishing contract award information within a reasonable time can ensure transparency and the timely implementation of remedial measures.

71. **The internal control framework is embodied in the State financial rules, TNTTA, and procurement rules.** Internal controls at the State are robust, though there are deviations in their application. However, the extent of deviation is decreasing due to the use of technology and the adoption of e-payments. Entity-level internal audits are not conducted in government agencies and departments.



Oversight on compliance with internal controls is vested with the head of the Administrative Department and the Finance Department, and reviewed by the CAG during annual audits. Audit findings are submitted to the State Assembly and the Public Accounts Committee for review and action. Reviews of audit reports by the Public Accounts Committee, including the findings on procurement process compliance and contract implementation as part of the financial audit, will help in measuring performance and taking timely remedial action.

72. **Under the governance framework of India, all government departments and agencies are covered under the Right to Information Act 2005 and the Central Vigilance Commission Act 2003.** The Prevention of Corruption Act 1988 is the governing law that defines the legal framework to prevent corruption in the country. The State Vigilance Commission has the jurisdiction and power to cause an inquiry or investigation for improper or corrupt practices. The State Chief Minister's Office has an online public GRS for registering grievances and tracking actions taken. Tamil Nadu has also set up a *Lokayukta* (Office of Ombudsman) under the Tamil Nadu Lokayukta Act 2018.

73. **Based on the combined assessment, the fiduciary risk of the operation is considered Moderate.**

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

74. **HUDD of the GoTN has assigned the TNUHDB to coordinate the monitoring and evaluation of the results indicators of the proposed operation.** The World Bank will monitor the status of implementation through biannual implementation support missions and the tracking of results indicators in the policy and results matrix (Annex 1). The outcomes of supervision missions will be reflected in the Implementation Status and Results Reports, and an Implementation Completion Report will be completed within six months of the closing date of the proposed operation.

75. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as PAs or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local or national grievance redress mechanisms, or the World Bank'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 World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank 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 World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate 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

76. **The overall risk associated with the operation is Moderate.** The proposed DPL2 engages the same government institutions whose capacity has been enhanced through the DPL1 and the ongoing TNHHDP. The concepts and actions proposed in deepening the housing sector reform are well understood by the key counterparts and are well internalized in the sector strategies and policies. Therefore, all risk categories except the two explained below are rated as Moderate.

77. **Environmental and social risks are Substantial.** The TNUHDB have started preparing projects using the Social Sustainability and Grievance Management Framework and the Environment Management Framework introduced under the DPL1. However, the GoTN has not yet established a systematic way to



incorporate considerations of social or environmental aspects when providing affordable housing solutions. The proposed DPL2 focuses on enhancing housing sustainability through improving the O&M of housing units, enforcing compliance with the energy efficiency building code, and integrating climate resilience in the master planning process. Nonetheless, there remains a risk that these adopted measures may not be adequately implemented. This risk will be mitigated through technical and capacity-building activities under the ongoing TNHHDP.

78. **Stakeholder risk is considered as Substantial.** The independent review and engagement of civil society and nongovernment organizations with the urban poor and in the housing dialogue in Tamil Nadu have offered important insights for policymakers. However, there is a risk that these viewpoints are not adequately reflected in the reform design. To mitigate this risk, stakeholder engagements have been carried out in all the policy dialogues and reform actions. Any residual risk will be mitigated by the ongoing TNHHDP, which aims to sustain a dialogue with the wider stakeholders and support the implementation of the PAs under the DPL1 and the proposed DPL2.

Table 8: Summary Risk Ratings

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



ANNEX 1: POLICY AND RESULTS MATRIX

PAs and Triggers		Results		
PAs Completed under the DPL 1	PAs Proposed for the DPL 2	Indicator Name	Baseline	Target
Pillar 1 – Strengthening Policies and Institutions				
PA#1: The GoTN has issued the first State-level Affordable Urban Housing and Habitat Policy	PA#1: To align the Tamil Nadu Housing Board with the TNAUHHP, the GoTN has issued a government order to empower the Tamil Nadu Housing Board to better serve lower-income households, use inclusive cross-subsidies, mobilize the private sector and develop mixed-use and mixed-income adequate habitats.	RI #1: Total government-sponsored housing solutions produced to serve EWS/LIG households (number)	47,600 (March 2020)	119,700 (December 2023)
	PA#2: To enhance the efficiency and inclusiveness of the GoTN's EWS housing program, the GoTN has issued government orders to: (i) offer a menu of housing solutions which take into account household affordability through a participatory approach; and (ii) facilitate access to private housing finance.	RI #2: Pilot projects for which adequate locations have been identified, demand for smaller units has been enlisted, tripartite agreements with beneficiaries and lenders have been signed, and planning has been mandated according to identified demand and financial access (number)	0 (April 2022)	5 (December 2023)
		RI #3: EWS housing units owned or co-owned by women (excluding	43 (December 2021)	100 (December 2023)



PAs and Triggers		Results		
		households without an adult female) (percent)		
	PA#4: To improve monitoring and support informed decision-making in the housing sector, the GoTN has issued a government order mandating: (i) the establishment of an integrated information system; and (ii) the publication of an annual monitoring report on the state of the housing sector.	RI #4: Dashboard for annual sector monitoring and performance using housing indicators is available in public domain	No (May 2022)	Yes (December 2023)
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		RI #5: Proportion of complaints channeled through the GRS resolved within 60 days (Percent)	40 (December 2020)	70 (December 2023)
	PA#3: To promote the sustainability and climate resilience of new assets, the GoTN has issued a government order mandating the establishment of community-driven operation and maintenance systems in new government sponsored EWS housing units.	RI #6: Households in TNUHDB tenements that are part of RWAs participating in O&M mechanisms (percent)	0 (April 2022)	80 (December 2023)
Pillar 2 – Developing an enabling environment				
PA#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).	PA#5: To improve the operation and maintenance in multistoried apartments and promote climate adaptation, the GoTN has submitted to the State Legislative Assembly for approval thereof, a bill to repeal the Tamil Nadu Apartment	RI #7: Associations of apartment owners registered under the Apartment Ownership Act 2022 (number)	0 (April 2022)	500 (December 2023)



PAs and Triggers		Results		
	Ownership Act 1994 and replace it with the Tamil Nadu Apartment Ownership Act 2022.			
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.		RI #8: Rental housing units registered in Rent Portal of Tamil Nadu (number)	3,500 (June 2020)	10,000 (December 2023)
PA#5: The GoTN has: (a) amended urban regulations through the Tamil Nadu Combined Development and Building Rules (TNCDBR), 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.	PA#6: To enhance business environment, the GoTN has issued a government order mandating all planning authorities to move to an online single-window approval system for issuing planning permissions.	RI #9: Average time to obtain planning permissions	2–4 months (June 2020)	Less than 45 days (December 2023)
PA#6: The GoTN has mandated, through a notification in the Government Gazette: (a) for all housing developments exceeding 3,000 m ² to either designate 10 percent 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.		RI #10: Shelter Charges mobilized for supply of EWS housing (amount)	US\$26.1 million (June 2020)	US\$75 million (December 2023)



PAs and Triggers		Results		
Pillar 3 – Crowding private sector participation (DPL2 revision: To promote sustainability and climate resilience with private sector engagement)				
PA#7: Securities and Exchange Board of India (SEBI) has approved TNSF’s Private Placement Memorandum (PPM).		RI #11: Investment mobilized for affordable housing projects (amount)	US\$21 million (June 2020)	US\$120 million (December 2023)
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.		RI #12: Housing projects supported under TNSF that receive green housing certification (percent)	0 (June 2020)	75 (December 2023)
	PA #7: To promote energy efficiency and build climate resilience in EWS and LIG housing, the GoTN has issued a government order to adopt mandatory thermal comfort and energy efficiency design criteria, in accordance with the <i>Eco-Niwas Samhita</i> 2018 Code, for all new housing developments supported by TNHB and TNUHDB.	RI#13: New affordable housing developed by TNHB and TNUHDB that have <i>Eco-Niwas Samhita</i> compliant features incorporated in the design (percent)	0 (December 2021)	100 (December 2023)
	PA#8: To promote resilient urban growth in Chennai, the GoTN has amended the Master Plan for Chennai Metropolitan Planning Area Rules 1974 to adopt an integrated land use and infrastructure planning approach to reduce carbon footprint and incorporate climate resilience measures in the preparation of master plans.	Supporting the above indicators		



ANNEX 2: FUND RELATIONS ANNEX²⁹

India—Assessment Letter for the World Bank

May 5, 2022

Recent Developments, Outlook, and Risks

1. Growth recovered in fiscal year (FY) 2021/22, while inflation rose. After a strong rebound in April–September 2021, real GDP grew by 5.4 percent (year-on-year) in 2021Q4, reflecting some softening in industries and an upward revision in historical growth. High frequency indicators in 2022Q1 suggest a temporary and milder-than-expected impact from the Omicron wave in the context of a high vaccination rate¹. Consequently, real GDP growth is estimated at 8.9 percent in FY2021/22 (April–March), back to pre-pandemic levels, following a contraction of 6.6 percent in the previous fiscal year. While the recovery has become more broad-based, it is still lagging in contact-intensive services and in micro, small and medium enterprises (MSMEs). Headline inflation rose rapidly in recent months, reaching 7 percent in March 2022, and bringing the fiscal year average to 5.5 percent. Inflation is being partly driven by higher food prices, but core inflation has also risen. The authorities have to date refrained from using administrative measures to contain inflationary pressures with few exceptions.² The current account balance returned to a deficit estimated at about 1.6 percent of GDP in FY2021/22, which reflected the recovery in domestic demand and higher oil and commodity prices.

2. Growth is expected to soften in FY2022/23 on the back of external shocks. Growth is now projected at 8.2 percent in FY2022/23, with 0.6 percentage points of the deceleration reflecting projected headwinds from the impact of the war in Ukraine. The war in Ukraine and related sanctions on Russia are expected to affect the macro economy through multiple channels, most prominently through higher oil and other commodity prices and lower external demand. These price shocks are expected to adversely impact both domestic consumption and investment and increase inflationary pressures, with weaker external demand weighing on exports (partly offset by rising wheat and rice exports). In addition, financial and confidence effects due to high uncertainty are expected to weigh on domestic demand at least in the short term. Inflation is projected at 6.1 percent in FY2022/23, reflecting higher food prices and input costs, rising oil and commodity prices and sticky core inflation amid strengthening demand. The current account deficit is expected to widen to about 3.1 percent in FY2022/23, reflecting both higher international oil prices and pent-up domestic demand amid economic recovery from the pandemic.

3. The financial sector has been recovering but prospects remain uncertain. Bank credit growth has increased to 9.6 percent in March 2022, rising above pre-pandemic levels. However, the recovery appears uneven. On the demand side, the acceleration in bank lending is mainly driven by demand from MSMEs, while large corporations have been shifting towards funding from capital markets. On the supply side, credit growth by private banks continues to outpace

¹ As of mid-April, 98.3 percent of the population over 15 years has been vaccinated with at least one dose and 89.9 percent with two doses.

² The authorities had cut crude palm oil import duties before the outbreak of the Ukraine war in the face of rising prices on this important food staple in India.

²⁹ The assessment in this annex is prepared by IMF staff using data collected from the GoI and IMF staff estimates.



credit growth by public banks. The aggregate gross NPL ratio across the banking sector has declined to 6.9 percent from over 8 percent in March 2020. However, this improvement may turn out to be temporary, and the Reserve Bank of India stress tests suggest that bank wide gross NPA ratio may increase to 8.1 percent by September 2022 under the authorities' baseline growth path, and 10.5 percent for public sector banks.

4. Uncertainty about the economic outlook is exceptionally high, with near-term growth risks tilted to the downside. The downside risks are driven in large part by the ramifications of the war in Ukraine and related sanctions on Russia, which can be amplified if other macroeconomic risks materialize—for example, future pandemic waves, including from the emergence of new variants that could put pressure on the health system and on the recovery; further or protracted disruptions to food supply chains; geopolitical tensions; or a widespread global risk-off event associated with faster-than-anticipated monetary policy normalization in advanced economies. On the upside, a successful implementation of the announced wide-ranging structural reforms could increase India's growth potential in the medium- and long-term. Given the recent volatility of inflation expectations and the significant risks of second-round effects in light of the protracted and large oil and commodity price shock, inflationary risks are on the upside.

Policy Response and Settings

5. Fiscal policy is projected to remain accommodative in the near-term. The general government fiscal deficit is projected to decline modestly from 12.8 percent of GDP in FY2020/21 to 10.4 percent in FY2021/22, reflecting strong growth in revenues and a partial withdrawal of support measures. The FY2022/23 budget is estimated to broadly maintain the accommodative fiscal stance from last fiscal year and emphasizes capital expenditure and infrastructure spending in particular, while current spending is projected to be contained (although food rations have been extended to September 2022). Heightened uncertainty around the outlook, reflecting the war in Ukraine, would require that policies remain agile and adjust swiftly to maintain macroeconomic stability. An accommodative fiscal stance, with additional support targeted to vulnerable households, is warranted given weaker growth prospects. The authorities' continued focus on public infrastructure also bodes well for supporting the recovery. In that context, implementation remains key. Education, health, and social safety nets are among the other long-standing expenditure priorities, which are critical for achieving the Sustainable Development Goals and boosting potential growth. The continued practice of enhanced fiscal transparency, and the budget's realism regarding macroeconomic and revenue projections are also welcome.

6. A concrete medium-term fiscal consolidation plan remains critical to ensure credibility and reduce fiscal risks. Medium-term fiscal space is more limited given the sharp increase in public debt—estimated to have reached 90 percent of GDP in FY2020/21 and



expected to moderate slightly to 87 percent in 2022/23.³ Public debt is projected to remain elevated over the medium-term, and a gradual fiscal consolidation will be critical for meaningful debt reduction. Fiscal risks have increased given the higher debt level, but India's public debt is denominated in domestic currency and predominantly held by residents, helping to reduce external financing risks. While a privatization program, if fully implemented, can provide fiscal space, a concrete medium-term consolidation plan anchored on revenue mobilization and improved expenditure efficiency will be needed to put debt on a durable downward trajectory, regain fiscal space, and reinforce market confidence.

7. The Reserve Bank of India (RBI) has maintained an accommodative stance since early 2019 to support the economy through the pandemic but has recently appropriately shifted towards reduced accommodation. Starting from March 27, 2020, the repo and reverse repo rates were gradually reduced by 115 and 155 basis points (bps), respectively, to 4 and 3.35 percent, building on the pre-COVID easing of 135 bps to further support the economy amid the COVID-19 shock. While maintaining the accommodative stance, and in light of inflationary pressures, the RBI signaled in April 2022 a pivot toward tighter policy. Furthermore, in an off-cycle MPC meeting in May 2022, policy rates were raised by 40 bps and the cash reserve ratio was raised by 50 bps, with forward guidance emphasizing the withdrawal of accommodation, while still supporting growth.

8. Given the recent sharp increase in global commodity prices, higher domestic input costs and sticky core inflation, monetary policy needs to remain nimble. Inflationary pressures remain elevated given rising commodity prices and sticky core inflation. Inflation has risen above the RBI's target bank of 4 ± 2 percent and inflation expectations have remained elevated, with higher volatility. Over the near term, given the sizable and likely protracted shock, second round effects are highly likely. Monetary policy will need to respond nimbly, including through well-communicated expectations about the trajectory of inflation and the path of policy rate actions to address any second-round inflationary effects. Exchange rate flexibility should remain a shock absorber, while avoiding excessive volatility.

9. A combination of near-term targeted support and structural reforms in the financial sector are important to ensure a speedy and sustained recovery of credit. Borrower and lender relief measures adopted during the pandemic have expired except for a government guarantee scheme for MSMEs, which has been extended for FY2022/23. In this context, while targeted support can enhance the ability of the financial sector to sustain growth, policies should also facilitate the exit of nonviable firms and further strengthen the balance sheet of banks. By encouraging banks to increase capital buffers and to recognize problem loans, the authorities would prevent the potential increase in corporate insolvencies from negatively affecting credit supply. In this respect, an appropriate design of the recently established National Asset Reconstruction Company (NARCL) should follow best international practice to achieve

³ Debt was projected to be sustainable in the Debt Sustainability Analysis for Market Access Countries last completed in September 2021, owing to a favorable debt dynamic. An update of the Debt Sustainability Analysis will be conducted in the context of the IMF's 2022 Article IV consultation with India.



effective loan loss recoveries and limit costs to taxpayers. Structural reforms in the financial sector, including governance reforms in public sector banks and continued efforts to reduce the government's presence in the sector, are also important to maximize medium term growth.

10. India's external position is sufficiently strong to withstand external shocks in the near term, and the government is taking steps to promote trade and investment.

Pandemic-induced current account surpluses and large portfolio capital inflows in 2020-21 as well as the additional SDR allocation of about 0.6 percent of GDP allowed the RBI to replenish its international reserves. The current account balance returned to deficit from 2021H2, reflecting recovering domestic demand and rising oil and commodity prices. While FDI inflows remain steady, the portfolio investment flows are highly volatile. In 2022Q1, India experienced large speculative capital outflows, which reflected investors' concerns about the Omicron wave, the rise in U.S. yields and expectations of future U.S. Federal Reserve policy tightening, and the outbreak of the war in Ukraine. The exchange rate depreciated somewhat but remained broadly stable (and in line with fundamentals), and international reserves are at a comfortable level (covering about 8 months of prospective imports). The focus on bilateral trade agreements and the shift from direct export promotion to the development of export infrastructure (under the Trade Infrastructure for Export Scheme) is expected to support a sustainable increase in exports over the medium term. The authorities have eased limits on foreign portfolio inflows and have not resorted to any major capital flow measures (CFMs) on outflows or foreign exchange intervention (FXI) in recent months.

11. A continued push for structural reforms is needed to achieve more inclusive and sustainable medium-term growth. The authorities' structural reform package—including reforms to trade FDI regulations and privatization of non-strategic sectors—is an important step in the structural reform agenda. However, delays in other reforms—including agriculture, financial sector, and labor markets—could hurt growth over the medium term. It is also crucial that the social safety net adequately protect those who might be hurt during the transition. This may require expanding coverage through portable urban programs to scale up support for informal workers and vulnerable households, improving the identification and targeting of new beneficiaries, and ensuring that the job market can accommodate the people impacted by the reforms (including through active labor market policies). Overall, the growth benefits of these reforms will depend critically on the effectiveness, capacity, and timing of implementation. Looking ahead, long-standing priorities include infrastructure investments, land reforms, and labor reforms—including increasing female labor force participation and access to finance to create more and better jobs.

IMF Relations

12. India is on a standard 12-month Article IV consultation cycle. The 2021 Article IV consultation was concluded by the IMF's Executive Board on September 17, 2021. The next Article IV consultation mission is expected in September 2022. The IMF continues to engage closely with the Indian authorities through capacity development (CD) activities, including through the South Asia Regional Training and Technical Centre (SARTTAC).



India: Selected Economic Indicators, 2017/18–2022/23

Population (2020/21): 1.38 billion
 Quota (current): SDR 13,114.4 millions/ 100 percent of quota
 Per capita GDP (2020/21 estimate): 1927 USD
 Literacy rate (2018): 74.37%
 Poverty rate \$1.90 a day PPP (2011): 22.5%
 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/	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
					Est.	Projections
Output						
Real GDP growth (%)	6.8	6.5	3.7	-6.6	8.9	8.2
Prices						
Inflation, CPI-Combined (%)	3.6	3.4	4.8	6.2	5.5	6.1
General government finances						
Revenue (% of GDP)	20.0	20.0	19.9	18.3	19.7	18.9
Expenditure (% of GDP)	26.2	26.3	27.4	31.1	30.1	28.8
Fiscal balance (% of GDP)	-6.2	-6.4	-7.5	-12.8	-10.4	-9.9
Public debt (% of GDP)	69.7	70.4	75.1	90.1	86.8	86.9
Money and credit						
Broad money (% change)	9.2	10.5	8.9	12.2	9.1	7.2
Domestic Credit (% change)	7.8	11.7	8.3	9.2	10.9	10.8
Credit to the private sector (% change)	9.5	12.7	6.3	5.7	10.4	10.8
3-month Treasury bill interest rate (%) 2/	6.2	6.2	4.4	3.3	3.5	...
Balance of payments						
Current account (% of GDP)	-1.8	-2.1	-0.9	0.9	-1.6	-3.1
FDI, Net Inflow (% of GDP)	1.1	1.1	1.5	1.6	1.1	1.6
Reserves (months of imports)	7.9	8.2	11.1	9.0	8.1	7.3
External debt (% of GDP)	20.0	20.1	19.7	21.4	21.0	21.3
Exchange rate						
REER (% change) 3/	3.5	-5.0	3.3	-0.9	-1.0	...

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. 2019/20 = Apr-2019 - Mar-2020).

2/ For 2021/22: Data provided is average of April 2021 to January 2022 to reflect fiscal year.

3/ For 2021/22: The change in the average for April-December 2021 from April-December 2020.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

V. IRAI ANBU
CHIEF SECRETARY




SECRETARIAT
CHENNAI - 600 009.

HOUSING AND URBAN DEVELOPMENT DEPARTMENT
D.O. Letter No.17952/UHD2(3)/2021-2, dated 12.05.2022

Dear Mr. David R. Malpass,

Sub: Development Policy Operations – Second
Tamil Nadu Housing Sector Strengthening
Program – Letter on Development Policy – sent –
Regarding.

I am writing to you with sincere gratitude for having strong and vibrant partnership between the Government of Tamil Nadu and World Bank which have evolved over a long period of time. The partnership has translated into several path-breaking projects and programmatic approaches to various challenges in the field of education, health, infrastructure development, housing etc.,

2. Tamil Nadu is the most urbanized State in the country with share of about 55 percent population living in Urban areas. Although, Tamil Nadu is leader in various sectors, its rapid economic growth have led to key challenges in the housing sector especially access to affordable housing by Economically Weaker Section (EWS) people.

3. Keeping this in view, the Government of Tamil Nadu requested World Bank to support Housing Sector Programs particularly the World Bank funded Tamil Nadu Housing Sector Strengthening Program (TNHSSP). The first TNHSSP Development Policy Loan became operative from July 2020. It focuses on reforms in housing policies, institutions and regulatory environment that are building blocks to create a housing market and to increase access to affordable housing. There is a need to consolidate and deepen the reforms ushered in by the first phase of the program. This has necessitated the proposed second Development Policy Loan.

4. The proposed Second TNHSSP DPL will build on the first operation and incrementally strengthen regulatory environment and institutions for an efficient, inclusive and sustainable housing ecosystem; mainstream climate and disaster resilience into the sector; and scale-up some of the first-generation reforms. Our government remains deeply committed to introduce requisite policy interventions, regulatory framework, Acts,

P.T.O.



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structural and institutional changes to operationalize the reforms through the second DPL. (A detailed note on TNHSSP is annexed herewith for kind reference).

5. Hence, we request World Bank assistance through 2nd tranche of TNHSSP DPL to support GoTN in designing and deepening the reforms through the programmatic DPL series. We are strongly committed to carry-out the series of reforms effectively and look forward to the continued support of World Bank in this endeavor.

with regards,

Yours Sincerely,


M. K. Muthu

Encl: (As above)

To

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



Annexure

Note on Tamil Nadu Housing Sector Strengthening Program:

The Tamil Nadu Housing Sector Strengthening Program (TNHSSP) is a programmatic intervention comprising of two development Policy Loan (DPL) 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 FY 2018-2022. The Program Development Objective (PDO) of the First Tamil Nadu Housing Sector Strengthening Program (TNHSSP) DPL of the series of operations is to "support the Government of Tamil Nadu (GoTN) to increase the access to affordable housing by strengthening policy, institutions, and regulations of the housing sector". The Program Document of the first TNHSSP DPL further states that the policy, regulatory, and institutional changes supported under the proposed DPL series will be introduced in a sequenced and phased manner, contextualized to the policy environment of the GoTN. The First TNHSSP DPL was centered around 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.

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
- Prior action #2. TNUHDB's Board has adopted environment, resilient urban design, social sustainability frameworks and grievance management redress systems, whose application is mandatory for all TNUHDB EWS/LIG housing units.



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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).
- 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.
- 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.
- 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.

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).

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- 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.

The first TNHSSP DPL brought in the Tamil Nadu Urban Affordable Housing and Habitat Policy which set out the long-term vision and road map for housing sector reforms in Tamil Nadu. The policy laid down our vision to shift the role of the Government from that of being a 'provider' of affordable housing to that of being an 'enabler' of the housing market. The initial reforms were focused on unlocking first-generation regulatory barriers as well as creating an enabling environment that would lead to increased production and access of affordable housing in the state through incentivizing land owners and private sector developers in this space. Reform areas under the first DPL include bringing in transparency in real estate sector through setting up of the Appellate Body under Tamil Nadu Real Estate and Regulatory Authority (TN-RERA), encouraging rentals through the Tamil Nadu Regulation of Rights and Responsibilities of land lords and Tenants Act, 2017, simplifying planning permissions and approval process, and bringing in premium Floor Space Index (FSI) incentives for Affordable Housing. Substantial achievements have been made following these housing sector reforms in Tamil Nadu. Since 2020, the proportion of affordable housing projects registered with RERA has increased by around three-folds; approximately 25,000 units have benefited from increased FSI incentives showcasing the positive impacts of reforms undertaken; supply-side segmentation of housing solutions focusing on Economically Weaker Section (EWS) households have been introduced; and the Tamil Nadu Shelter Fund Tier-II has financed its first private-sector led mixed-income project.

The Program Development Objective of the second TNHSS DPL is "to support the GoTN to increase the access to and sustainability of affordable



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housing by deepening policy reforms and strengthening institutions". To ensure continuity of the programmatic approach and deepening of reforms, the proposed Second DPL follows the same three pillars, albeit updated and taking into account emerging policy priorities of the GoTN. The three updated pillars are: (i) strengthening policies and institutions for increased access to affordable housing; (ii) enhancing the enabling environment to increase the affordable housing supply; and (iii) promoting sustainability and climate resilience with private sector engagement.

Proposed Prior Actions:

PA #1: To align the Tamil Nadu Housing Board with the Tamil Nadu Affordable Urban Housing and Habitat Policy, 2020 (TNAUHP) the GoTN has issued a Government order to empower Tamil Nadu Housing Board to better serve lower-income households, use inclusive cross-subsidies, mobilize the private sector and develop mixed-use and mixed-income adequate habitats.

PA #2: To enhance the efficiency and inclusiveness of the GoTN's EWS housing program, the GoTN has issued Government orders to (i) offer a menu of housing solutions which take into account household affordability through a participatory approach; and (ii) facilitate access to private housing finance.

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

PA #4: To improve monitoring and support informed decision making in the housing sector, the GoTN has issued a regulation mandating: (i) the establishment of an integrated information system; and (ii) the publication of an annual monitoring report on the state of the housing sector.

PA #5: To improve the operation and maintenance in multistoried

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apartments and promote climate adaptation, the GoTN has submitted to the State Legislative Assembly for approval thereof, a bill to repeal the Tamil Nadu Apartment Ownership Act 1994 and replace it with the Tamil Nadu Apartment Ownership Act, 2022.

PA #6: To enhance business environment, the GoTN has issued a Government order mandating all planning authorities to move to an online single-window approval system for issuing planning permissions.

PA #7: To promote energy efficiency and build climate resilience in EWS and LIG housing, the GoTN has issued a Government order to adopt mandatory thermal comfort and energy efficiency design criteria, in accordance with Eco-Niwas Samhita 2018 Code, for all new housing developments supported by TNHB and TNUHDB.

PA #8: To promote resilient urban growth in Chennai, the GoTN has amended the Master Plan for Chennai Metropolitan Planning Area Rules, 1974 to adopt an integrated land use and infrastructure planning approach to reduce carbon footprint and incorporate climate resilience measures in the preparation of master plans.

As part of the proposed operation, to enhance inclusiveness in our housing program targeted at the Economical Weaker Section (EWS) of the population, GoTN issued a Government order to introduce a diverse set of housing solutions to enhance affordability for the poorest and most vulnerable groups. To promote the sustainability and resilience of housing assets, we have clarified roles and responsibilities for different institutions and establish a standard procedure for community-driven operation and maintenance systems. To better monitor the performance of the housing sector, GoTN has issued a Government order to set-up an Integrated Housing Information System, and mandate the publication of an Annual State of Housing Sector Report.



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Further, Tamil Nadu State legislative assembly have passed Tamil Nadu Apartment Ownership bill, 2022 and forwarded for Hon'ble Tamilnadu Governor's assent which will increase sustainability of multi-storied apartments through improved operation and maintenance and climate adaptation measures. To enhance the ease of doing business for real estate development and reduce transaction cost, GoTN has issued a Government order to adopt online single-window approval system for issuing planning permissions. To improve the integration of energy efficiency and climate resilience considerations in building lifecycles, as well as to enhance compact development and foster affordable housing provision, we have amended the Tamil Nadu Combined Development and Building Rules. A Government order has been issued to adopt mandatory thermal comfort and energy efficiency design criteria for all new housing developments supported by TNHB and TNUHDB. To better manage urban development and promote sustainable and resilient growth in and around Chennai Metropolitan Area, GoTN has revised the Master Plan for Chennai Metropolitan Planning Area Rules, 1974 to adopt an integrated land use and infrastructure planning approach for the preparation of the Third Master Plan that will incorporate climate adaptation and mitigation measures through a socially-inclusive participatory planning process.

In this calendar year, the state remains deeply committed to amending the Tamil Nadu Housing Board (TNHB) Act, 1961 and the Tamil Nadu Slum Areas (Improvement and Clearance) Act, 1971 to allow the roles and functions of both the agencies to be aligned with the objectives and principles set out in the Tamil Nadu Affordable Urban Housing and Habitat Policy, 2020 (TNAUHP). However, the amendments had to be left out of the prior actions of this proposed DPL as we believe that given the sensitive nature of both the Acts, it should be made available for public consultations for a longer period to ensure that all stakeholders have ample opportunities



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to provide their feedback on this important piece of legislation. On conclusion, these proposed reforms are expected to lead towards achieving better outcomes from implementation of Pradhan Mantri Awas Yojana (PMAY) Urban Mission and setting up of a portable subsidy program in the medium- to long-term. Both DPL operations are expected to be transformational and will serve as a showcase in Housing Sector for other States in India.

V. IRAI ANBU
CHIEF SECRETARY TO GOVERNMENT

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E. Raju
13/5/2022
SECTION OFFICER



ANNEX 4: SUMMARY - ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS

PAs	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 1: Strengthening policies and institutions for increased access to affordable housing		
PA#1: To align the Tamil Nadu Housing Board with the TNAUHP, the GoTN has issued a government order to empower the Tamil Nadu Housing Board to better serve lower-income households, use inclusive cross-subsidies, mobilize the private sector and develop mixed-use and mixed-income adequate habitats.	Expected positive effects: The GO will enable TNHB to comply in a more structured manner with the environmental management framework introduced as part of the DPL1. The GO also provides the basis that will operationalize the adoption of environmental sustainability and climate adaptation approaches in TNHB-sponsored housing.	Expected positive effects: The GO empowers the TNHB to move down-market through using innovative instruments in affordable housing provision, such as PPP for mixed-use and mixed-income development to allow across-subsidizing LIG and EWS households. It is expected to result in an increase of affordable housing supply lower-income groups, therefore directly benefiting the poor. The GO also enables the TNHB to use innovative measures to partner with the private sector and landowners to increase access to land for affordable housing provision through negotiated agreements, which would be a more participative approach to land acquisition.
PA#2: To enhance the efficiency and inclusiveness of the GoTN's EWS housing program, the GoTN has issued government orders to: (i) offer a menu of housing solutions which take into account household affordability through a participatory approach; and (ii) facilitate access to private housing finance.	No positive or negative effects on the environment are envisaged. The beneficiary-targeting methodology will target resources for the poorest and most vulnerable segments who were excluded previously. This PA primarily pertains to the creation of a larger menu of options for targeted beneficiaries.	Expected positive effects: The availability of a menu of housing solutions, particularly the introduction of smaller units allows the bottom 20 percent households, who were previously excluded, to have access to the government's housing programs. The beneficiary-targeting methodology is demand responsive. The facilitation of access to private housing credits will not only help extend affordability, but also better target GoTN resources to the poorest segment.
PA#3: To promote the sustainability and climate resilience of new assets, the GoTN has issued a government order mandating the establishment of community-driven operation and maintenance systems in new government sponsored EWS housing units.	Expected positive effects: The increased ownership by RWAs and community-driven O&M systems will lead to promotion of improved maintenance practices, thereby enhancing asset life, increasing safety and improving health conditions for the residents of new government-sponsored EWS housing units. This will also pave the way for a greater emphasis on sustainability and climate resilience principles in the day-to-day operations and building maintenance	Expected positive effects: the community-driven O&M systems empower residents to improve O&M, leading to longer asset life and improved quality of life and greater beneficiary satisfaction. The representation of women and the vulnerable in RWAs seeks to enhance their voice in decision-making in the management of O&M. Institutionalizing the grievance management system will



PAAs	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
	systems of the new assets, including awareness training and capacity-building for the residents.	make the O&M system more accountable.
PA#4: To improve monitoring and support informed decision-making in the housing sector, the GoTN has issued a government order mandating: (i) the establishment of an integrated information system; and (ii) the publication of an annual monitoring report on the state of the housing sector.	Expected positive effects: The establishment of the TNIHIS and the publication of an annual report on the state of the housing sector will ensure transparency (with increased accountability and effectiveness) in the adoption of approaches in the affordable housing sector leading to environmental sustainability. The inclusion of climate vulnerabilities and decarbonization parameters in the household-level data of the TNIHIS will promote the development of climate shock-proof low-income households in the future.	Expected positive effects: The establishment of the integrated information system will enable the government to develop public programs based on the disaggregated information collected on vulnerable households. In addition, it will help gradually improve the targeting (i.e., eligibility) criteria that will take into account household affordability.
Operation Pillar 2: Enhancing the enabling environment to increase the affordable housing supply		
PA#5: To improve the operation and maintenance in multistoried apartments and promote climate adaptation, the GoTN has submitted to the State Legislative Assembly for approval thereof, a bill to repeal the Tamil Nadu Apartment Ownership Act 1994 and replace it with the Tamil Nadu Apartment Ownership Act 2022.	Expected positive effects will be indirect: the PA will improve the operation and maintenance in multistoried apartments and promote climate adaptation, thereby enhancing asset life (durability), increasing safety, and improving environmental health conditions for the residents.	No adverse social impacts are envisaged. Expected positive social impacts: the strengthened Apartment Ownership Act will help improve the O&M of the housing, thus increasing the durability and life span of these assets and contributing to the wealth accumulation of the apartment owners. Meanwhile, it is expected that more apartment owners will be encouraged to engage in the rental market, thus expanding rental housing options for those in need.
PA#6: To enhance business environment, the GoTN has issued a government order mandating all planning authorities to move to an online single-window approval system for issuing planning permissions.	No adverse environmental impacts are envisaged. The application of an online single-window system will enhance overall efficiency, induce transparency and reduce gaps in coordination in the entire project cycle, especially in terms of obtaining requisite environmental clearances and permits (such as coastal regulation zone/EIA/Fire Safety etc.) and thereby improve compliance with required regulatory frameworks of the GoI/GoTN. This action is expected to streamline and expedite delivery for the sector.	No adverse social impacts are envisaged. Expected positive social impacts: the enhanced system for planning permissions is expected to attract more investment and faster development, including housing, resulting in more demand for construction work. Therefore, it is expected to catalyze new employment opportunities for a significant portion of the state's labor market.



PAs	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Operation Pillar 3: <u>Promoting sustainability and climate resilience with private sector engagement</u>		
PA #7: To promote energy efficiency and build climate resilience in EWS and LIG housing, the GoTN has issued a government order to adopt mandatory thermal comfort and energy efficiency design criteria, in accordance with the <i>Eco-Niwas Samhita</i> 2018 Code, for all new housing developments supported by TNHB and TNUHDB.	Expected positive effects: this GO will mandate thermal comfort and energy efficiency in all new TNHB and TNUHDB housing projects. Use of local materials and energy efficiency equipment or appliances, and mainstreaming climate adaptation through climate-smart design in walling, roofing and insulation in all affordable housing projects, will be promoted. In addition to applying green building design principles, the usage of climate-friendly designs and construction practices is expected to increase through a gradual market shift.	Expected negative impact: mainstreaming of energy efficiency parameters might increase capital costs for some new housing. Although they will be offset by reduction in O&M costs, initial investments will have to be made by the owner or by the beneficiary of government housing program (3–7 percent more costly than usual). ³⁰ Expected positive social impacts: increased sustainability of housing stock and reduced utility management cost for households.
PA#8: To promote resilient urban growth in Chennai, the GoTN has amended the <i>Master Plan for Chennai Metropolitan Planning Area Rules</i> 1974 to adopt an integrated land use and infrastructure planning approach to reduce carbon footprint and incorporate climate resilience measures in the preparation of master plans.	Inclusion of environment sustainability principles and climate resilience in the master planning rules will play a central role in reducing climate-linked vulnerabilities for the built environment and will also encourage higher-density development to promote optimum utilization of common natural and physical resources. The integrated land-use and infrastructure planning approach will provide guiding principles for managing urban development, identifying key nodes and corridors for economic growth, designating and managing protected and reserved environmentally sensitive areas, and reduce the carbon footprint of the CMA.	Expected overall positive social impacts: (i) increased access to urban infrastructure and services for all residents of CMA due to coordinated land use and infrastructure planning; (ii) improved social inclusion due to planning considerations that address the needs of the all inhabitants, especially vulnerable groups such as women, youth, disabled people, the elderly, minorities and others; and (iii) increased safety and reduced vulnerability to climate risks and disasters for CMA inhabitants, due to enhanced climate adaptation and mitigation measures included in the master plans.

30 Asrani S. et al. 2022. Thermally Comfortable Affordable Housing: A Study on Residential Building Code in India. *The Journal of Engineering Research (TJER)*, Vol. 18, (2), Pg. no. 124-136.