

**INTEGRATED SAFEGUARDS DATA SHEET  
APPRAISAL STAGE**

**Report No.: ISDSA2381**

**Date ISDS Prepared/Updated:** 04-Feb-2013

**Date ISDS Approved/Disclosed:** 05-Feb-2013

**I. BASIC INFORMATION**

**1. Basic Project Data**

<b>Country:</b>	India	<b>Project ID:</b>	P119039
<b>Project Name:</b>	India Low-Income Housing Finance (P119039)		
<b>Task Team Leader:</b>	Michael Markels		
<b>Estimated Appraisal Date:</b>	19-Feb-2013	<b>Estimated Board Date:</b>	25-Apr-2013
<b>Managing Unit:</b>	SASFP	<b>Lending Instrument:</b>	Financial Intermediary Loan
<b>Sector:</b>	Housing finance (100%)		
<b>Theme:</b>	Other Financial Sector Development (100%)		
<b>Financing (In USD Million)</b>			
<b>Financing Source</b>			<b>Amount</b>
BORROWER/RECIPIENT			3.00
International Bank for Reconstruction and Development			0.00
International Development Association (IDA)			100.00
Total			103.00
<b>Environmental Category:</b>	F - Financial Intermediary Assessment		
<b>Is this a Repeater project?</b>	No		

**2. Project Objectives**

To provide access to sustainable housing finance for low income households, to purchase, build or upgrade their dwellings.

**3. Project Description**

The project has two components which are (1) technical assistance to strengthen the capacity of the National Housing Bank (NHB) and Primary Lending Institutions (PLIs), and (2) a credit line. The two components are mutually dependent as the funding alone is not sufficient for lenders to start expanding to the informal among lower income groups. By combining the two, NHB and primary lenders will be given the necessary support and incentives to expand lending to lower income groups

who may earn their income in the informal sector (no documentation of income) or who may not have access to formal (titled) property as collateral for a mortgage.

**Project Components:**

The Project has the following components to support sustainable access to housing finance for low income households:

**Component 1: Technical Assistance to enhance the capacity of NHB and Primary Lenders:** (US\$8 million total: US\$3 million funded by NHB and US\$5 million funded by IDA).

- Technical assistance for NHB and PLIs. TA for NHB will include expertise in micro-housing and incremental housing finance.
- Capacity building will also be provided to build the operational capacity of NHB and PLIs, and to help develop market infrastructure that mitigates risks. Pilots will also be undertaken to find and prove bankable business models to address informality.
  - a. This will also include risk management once the assets are initiated, product development and training for staff. Practical tools will be developed - such as a scoring model to help PLIs reduce costs; to understand “how to” underwrite informality and low income; and to enhance the financial literacy of primary borrowers.
  - b. Market infrastructure means public utility-like institutions which provide a market-wide platform, such as credit bureaus for informal sector households to mitigate the risk of over-indebtedness. India-specific solutions will be developed - for example, there are two credit bureaus with scale in India: CERSAI, a formal mortgage registry, and CIBIL which covers other forms of charge as well. Enhancements to these systems are already underway with assistance from the IFC Advisory. The project will finance consultants who will identify gaps and solutions in credit reporting for use by PLIs which seek refinance from NHB under this project, as a complement to the CERSAI and CIBIL platforms.
- Development of Housing Finance Pilots. Small scale pilots will be run between NHB, social entrepreneurs and PLI’s to answer specific questions that are important to mitigate risks to PLIs of lending in informal settlements. The pilots will utilize both TA and the credit line at a relatively small scale (to the overall project). The proposed pilots are as follows (subject to mutually agreed changes by NHB and the Bank):
  - a. Experiment with lending in informal settlements.
    - i. Research types of loans that can be given in informal settlements.
    - ii. Experiment on the ground with different types of loans in informal settlements
    - iii. Suggest norms and guidelines based on these experiments
  - b. Work with Governments/Municipalities to develop in situ settlements
    - i. This sub-component will focus on policy changes to facilitate efficient and economical ways for low income households to acquire adequate housing under some form of tenure to in-situ settlements.
    - ii. Identify settlements in various States where Municipalities are willing to extend some form of tenure and where PLIs are willing to work and help develop in-situ housing.
  - c. Research various types of collateral to provide security for lending, including required documents for mortgagability
    - i. Research the types of ‘alternative’ collateral that have been used for smaller loans for incremental housing purposes. For example, the SEWA Bank’s experience shows that many of these

smaller, short term loans can be treated like any other micro-finance loan.

d. Pilot specific capacity building at NHB: To supplement NHB's risk management and supervision capacity.

Component 2, Credit Line: (US\$ 93 million funded by IDA): This will refinance eligible PLIs that engage in sustainable on-lending to the target primary borrowers. Through the proposed credit line, NHB will refinance secured and unsecured housing finance by qualified primary lenders for formal self-constructed housing and incremental housing. Retroactive financing will only cover loans that are eligible under NHB's lending criteria and are acceptable to the Bank (as described in the operations manual). NHB would take a corporate credit risk on the eligible primary lenders according to its policies and procedures. As stated above, pilots will be used to innovate and mitigate the higher risks.

Component 3, Project Implementation Unit: (US\$ 2 million, funded by IDA): A unit will be set up within NHB to help implement the project, carry out monitoring and evaluation, keep the project operational manual updated, be responsible for financial management and carry out any procurement necessary under the project. The unit will be staffed by a combination of reassigned NHB staff and new hires or contract arrangements. An "impact assessment" for the project will be financed under this component.

#### **4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

Urban areas of India.

India has over 5000 towns and cities of varying sizes. Most have low-income people and areas, and authorized (and unauthorized) slum settlements. While there are towns in tribal areas (e.g., districts), most tribal people who live in them would have lost their attachment to traditional lands and would not be guided by traditional tribal institutions. With regard to environment, the locational characteristics that are significant are sites in poorly managed urban areas with limited or no basic amenities and services such as water supply and sanitation.

#### **5. Environmental and Social Safeguards Specialists**

Meera Chatterjee (SASDS)

Sita Ramakrishna Addepalli (SASDI)

<b>6. Safeguard Policies</b>	<b>Triggered?</b>	<b>Explanation (Optional)</b>
Environmental Assessment OP/ BP 4.01	Yes	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/ BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	

Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	This OP is generally not applied to national level projects and has not been triggered in this case because the proposed activities support a national program and have related project implementation arrangements. Project activities are confined, aimed at local populations, and highly unlikely to generate disputes. There is a substantial TA component which does not call for application of the policy.

## II. Key Safeguard Policy Issues and Their Management

### A. Summary of Key Safeguard Issues

#### 1. Describe any safeguard issues and impacts associated with the Restructured project.

##### Identify and describe any potential large scale, significant and/or irreversible impacts:

Neither of the two social safeguards is triggered by the project as it will be implemented only in urban areas where tribal people would not meet the criteria set out in O.P. 4.10 (see I.4 above), and it would not result in any involuntary resettlement. The project will not finance group housing projects (by government, builders, or even beneficiary groups) that might cause land to be cleared for redevelopment, or slum-dwellers or encroachers to be removed. As part of their loan appraisal process, PLIs would ensure that the housing improvements/purchases to be made with the loans they are providing do not displace anyone. Loans would only be provided to people with evidence of tenure (right to occupy their dwellings) longer than the loan repayment period.

However, as the project is targeted at poor and vulnerable people, it has been designed to ensure that they would be reached, would receive project benefits, and would not be negatively affected in any way. The proposed credit line will be used by NHB to refinance PLIs that provide loans to poor customers who are categorized in India as belonging to an 'Economically-weaker section' (EWS), Low-income Group (LIG) or just above low-income group (LIG+). As protection of the poor and vulnerable from increased vulnerability is important, the project does not cover the 'poorest of the poor' who may not have the capacity to repay loans. Generally in the banking sector the most vulnerable are not expected to be covered as they cannot take on a long-term debt obligation because of the risk of indebtedness. People of both sexes and all communities would be covered by the project as the PLIs are expected to have 'no discrimination' policies and practices. The inclusion criteria to be used by PLIs in individual loan appraisal are: (i) evidence of tenure in their dwelling beyond the period of loan repayment; (ii) income level and type (formal/informal); (iii) repayment capacity for the size of loan requested; (iv) type of house purchase/ improvements to be made. The project will not insist on legal titles being held by borrowers as only very few target beneficiaries in the informal sector possess such titles. However, evidence of tenure is a necessary criterion for inclusion and, in keeping with the actual situation of target beneficiaries, a range of proofs of tenure will be used – e.g., 'no eviction notices,' notified slums, authorized/regularized slums, ration cards issued, electricity/water supply provided. The PLIs will follow

<p>'Know Your Customer' rules and will also be subject to Responsible Finance screening by a third party to ensure that they have ethical and effective collection behaviors. Further, some MFIs work through self-help groups (largely of women) as the social capital of such groups works as a form of 'loan protection' and also protects individual borrowers in times of difficulty. Although the PLIs' incentives are to ensure loan repayment, they also have a margin in their transaction cost coverage which could help them make repayment more flexible in times of crisis in individual households or wider stress.</p> <p>The proposed project interventions could lead to environmental issues, especially in the context of the informal housing sector which generally does not follow regulations such as municipal by-laws, land use and zoning safety provisions, etc. The environmental issues that may arise relate to housing location, basic amenities and services, and building safety. These issues assume importance in PLI lending operations, although the impacts are not significant in nature. In this context, OP 4.01 is triggered with a view to addressing the environmental impacts.</p> <p>As this is a national level project, O.P. 7.60 (Projects in Disputed Areas) does not apply.</p>
<p><b>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</b></p>
<p>Regarding the project's social dimensions, the potential long-term impact would be positive if low-income groups are assisted to improve their housing and can successfully repay the loans they have taken. Hence, positive impacts would be expected on the living conditions, health, safety, and economic opportunities of poor urban dwellers.</p> <p>The proposed project components will be implemented in urban areas. At this stage, no indirect and/or long term environment impacts are anticipated. However, the actual impacts will be ascertained once the PLI lending operations are initiated under the project, and specific urban areas are identified for the project implementation.</p>
<p><b>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</b></p>
<p>The project would not include the poorest of the poor who would not be in a position to repay loans taken because of the insufficiency or unreliability of their incomes. The PLIs' loan appraisal mechanisms would ensure that loans are made to people who are capable of repaying them, and would not be further pauperized in the process. The overall proportion of the project credit line that would flow to the "informal income, informal housing" section of borrowers has been scaled down as the project proposes to carry out pilots to assess the viability of lending to this segment. Social screening criteria laid out in the Social and Environmental Assessment (SEA) report would exclude housing in non-titled settlements, and settlements that are neither regularized nor notified slums, but would include poor and vulnerable households in slums regularized/notified by ULBs, irrespective of title holding. The project will not refinance construction on land from which government agencies or builders have removed squatters or encroachers without proper compensation.</p> <p>The environmental alternatives related to choice of PLI lending operations in the housing sub-sectors defined under the project, and the proposed environmental due diligence mechanism addresses the alternatives through a well defined screening process. The screening process includes exclusion criteria for site and location of housing, and basic minimum requirements for PLIs lending.</p>
<p><b>4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.</b></p>
<p>The Social and Environment Assessment for the project identified social risks and ways of mitigating them. A Social Due Diligence matrix has been prepared to ensure that end-borrowers</p>

are reached (i.e., not excluded, not discriminated against and not liable to become overly indebted) but not subject to unnecessary risks (i.e., have some security of tenure and not potentially exploited by third parties). If necessary more detailed measures will be incorporated into PLI lending guidelines that will be formulated in the first year of the project for the various income/housing categories of borrowers to ensure that the poor beneficiaries of this project sustain positive and not negative impacts, and the proposed pilots will also examine these issues and 'safeguard' them. The NHB will include staff who will develop guidelines, oversee, arrange for capacity building and ensure due diligence on the part of PLIs in assessing and mitigating social risks; and the PLIs in turn will build the capacities of their field staff to use these guidelines, and certify that they have done so in their applications for refinancing from NHB. The Bank team will review both levels of action during implementation support missions.

The environmental safeguards management for the project relates to considering appropriate measures to ensure environmental considerations in PLI lending to borrowers. The EA relates to environmental due diligence mechanisms in PLI lending operations, which will address: (i) analysis of environmental issues related to siting, basic amenities and services, building safety, and regulatory norms; and (ii) institutional mechanism for project implementation and monitoring, and to meet the requirements and standards of the World Bank's operational policies relevant to the project. An Environmental Due Diligence (EDD) mechanism, including basic environment, health, and safety (EHS) checklists is developed as part of the project preparations by NHB. The EDD will be enforced as part of lending operations by NHB/PLIs, and Environmental Monitoring and Evaluation criteria will be followed by PLIs that are accessing NHB line of credit under the proposed project. Further, the NHB will conduct the annual third party environmental auditing of the PLIs accessing the Bank's line of credit.

**5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.**

The key stakeholders of the project are (i) low-income people (EWS, LIG and LIG+) who will seek, receive and utilize housing finance under the project; (ii) PLIs (banks and MFIs that are either public sector, private or non-governmental agencies) whose key roles include mobilizing beneficiaries, appraising loans, overseeing repayment, and ensuring appropriate quality construction; and (iii) NHB which is the primary implementing agency receiving Bank funds and refinancing PLI lending. These groups have been consulted during project preparation to develop its design, and will be key in implementation, with NHB having the primary role in management, including M&E. Several consultations were held with PLIs during the course of project preparation, and they in turn were in touch with potential primary beneficiaries and reflected their voices in the meetings. Information on the project will be made public by the NHB through its website and offices across the country, and by PLIs through personal interactions with borrowers as well as through their websites and possibly other means of communication.

**B. Disclosure Requirements**

<b>Environmental Assessment/Audit/Management Plan/Other</b>	
Was the document disclosed prior to appraisal?	No
Date of receipt by the Bank	25-Jan-2013
Date of submission to InfoShop	31-Jan-2013
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	

"In country" Disclosure	
India	28-Jan-2013
<i>Comments:</i>	
<b>If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.</b>	
<b>If in-country disclosure of any of the above documents is not expected, please explain why:</b>	

### ***C. Compliance Monitoring Indicators at the Corporate Level***

<b>OP/BP/GP 4.01 - Environment Assessment</b>	
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
<b>The World Bank Policy on Disclosure of Information</b>	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
<b>All Safeguard Policies</b>	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
Have costs related to safeguard policy measures been included in the project cost?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] NA [ <input type="checkbox"/> ]

### **III. APPROVALS**

Task Team Leader:	Michael Markels	
<b><i>Approved By</i></b>		
Regional Safeguards Coordinator:	Name: Sanjay Srivastava (RSA)	Date: 04-Feb-2013
Sector Manager:	Name: Mehnaz S. Safavian (SM)	Date: 05-Feb-2013