GOVERNMENT OF ANDHRA PRADESH

WHITE PAPER
ON
STATE FINANCES

July 10, 2019

FINANCE DEPARTMENT

The Context

1. Andhra Pradesh is the eighth largest State in the country. With a geographical area of 1,62,970 square km, the state has the second longest coastline in the country with a length of 974 km. In terms of population, Andhra Pradesh is the tenth largest state in the country accounting for 4.10% of the total population of the country as per 2011 Census. The decadal growth of population rose from 18.88% during 1961-71 to 21.13% during 1981-91. Subsequently a significant decline was observed in the rate of growth of population and decline is even more prominent at 9.21% during 2001-11, lower than the All-India's growth rate of 17.70 percent. The density of population for Andhra Pradesh is 304 persons per square kilometre, as against 382 persons per square kilometre at all India level in 2011.

2. The literacy rate of the State is 67.35 percent in 2011 as compared to 62.07 percent in 2001. The literacy rate of the State is lower than the all India literacy rate of 72.98 percent. Female literacy rate has gone up from 52.72 percent in 2001 to 59.96 percent in 2011. The percentage of urban population to the total population in the State is 29.47 percent in 2011 as compared to 24.13 percent in 2001.

3. The GSDP of Andhra Pradesh at Current Prices for the year 2018-19 (Advance Estimates) is estimated at Rs.9,33,402 crores as against Rs.8,09,548 crores for 2017-18 (First Revised Estimates). As per the Advance Estimates, the GSDP at constant (2011- 12) prices for the year 2018-19 is estimated at Rs.6,80,332 crores as against Rs.6,12,793 crores for 2017-18 (FRE). The Per Capita Income (NSDP) of Andhra Pradesh at current prices has registered a growth of 13.96 percent as it increased from Rs.1,43,935 in 2017-18 (FRE) to Rs.1,64,025 in 2018-19.

4. The State of Andhra Pradesh had grown at an annual rate of 2.11 and 3.01 per cent in the nineteen sixties and seventies respectively, slower than the national average, though the State has been blessed with abundant natural resources and high value human resources. Although the State recorded an average annual growth of around 5.21 per cent in the eighties, it continued to lag behind the national growth trajectory.

5. While the overall national economic growth gathered unprecedented momentum with the launch of reforms in the nineties, Andhra Pradesh not only failed to harness the economic opportunities offered by the reforms and remained behind similarly placed States, but also lagged behind investing in the future by neglecting critical human development needs like quality education, health care, nutrition, social security for the

vulnerable, welfare of the weaker sections of the society, basic services for all citizens, and investment in critical infrastructure and industry.

6. The relative stagnation of twentieth century Andhra Pradesh was reversed by the comprehensive reform package combined with strategic investments in infrastructure, education, health care, human resources development, job creation, and above all good governance, together had contributed to unprecedented growth momentum between 2004 and 2009, during which the State took lead over the national growth march. The state's economic growth reached the peak of 12.02% in 2007-08. However, the tide turned after 2011-12 and the downward spiral reached its nadir during the past five years.

7. To add fuel to the fire, the bifurcation of Andhra Pradesh State was done in 2014 without consideration for the disastrous economic, financial, developmental, and institutional consequences on the five and half crore people of the State. Notwithstanding the damage inflicted by the bifurcation, the people of Andhra Pradesh who have the resilience and the capacity could have quickly recovered and launched themselves on the path of sustainable development, if only they had the leadership with vision, strategy, energy and above all selfless commitment for the transformational development of the state. These, unfortunately, became scarce commodities during the period following bifurcation.

8. The past five years of mis-governance, financial mismanagement, complete neglect of investment in human and physical capital, coupled with corruption have pushed the state into the dark ages that were never experienced in its history. The governance during the past five years was characterised by unbridled greed, blatant corruption, ruthless exploitation of natural resources for private gain, avaricious grabbing of land from small and marginal farmers, especially those from weaker sections, thoughtless and needless environmental destruction, privatisation of public institutions in favour of cronies and friends, failure to create employment for educated youth, politicisation of the government machinery at all levels, complete neglect of farmers, rural areas, youth, weaker sections, minorities, urban areas, and above all, serious mismanagement of the financial system.

9. In this background, this White Paper is the product of a comprehensive review of the financial situation of the State with due attention to the adverse impact of bifurcation on the residuary State of Andhra Pradesh, failure of the previous government to secure implementation of the assurances and commitments made by the Parliament to compensate the disabilities imposed on the State, and above all, the financial mismanagement and indulgence by the government during first five years following bifurcation. This White Paper is an attempt to inform the citizens of the State and other stakeholders regarding state of affairs prevailing in the State of Andhra Pradesh and to

seek their inputs for further action.

Economic Development Trends

10. After scanning the economic trends since formation of the State in 1956, major turnaround in the economy had occurred over the past two decades. The most significant event, however, was the bifurcation of the State in 2014. Therefore, the following is an analysis of the economic and financial trends over the past two decades with specific focus on the post-bifurcation period.

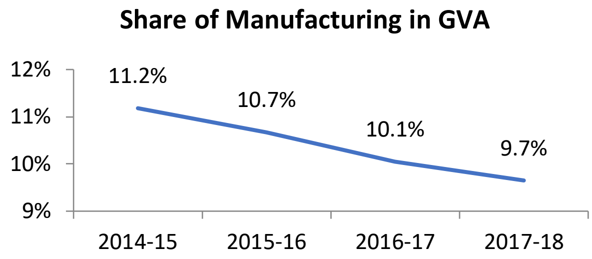
11. **Gross State Domestic Product (GSDP):** The highest growth of Gross State Domestic Product of the State was registered during the five-year period between 2004-2009. Although the residuary Andhra Pradesh registered a CAGR of 10.36% during the past five years, it needs to be qualified that this data is based on the much-criticised revised measurement formula of GDP with 2011-12 as the base year. More importantly, this growth was on the back of only two subsectors - livestock and fisheries – both of which were based on non-standardised measurement parameters. A deeper analysis suggests that annual crop (agriculture) sub-sector registered negative CAGR during the last five years. Agriculture growth declined by 4.12 per cent during the past five years reflecting the deep crisis that has engulfed the farm families, leading to suicides and chronic rural distress.

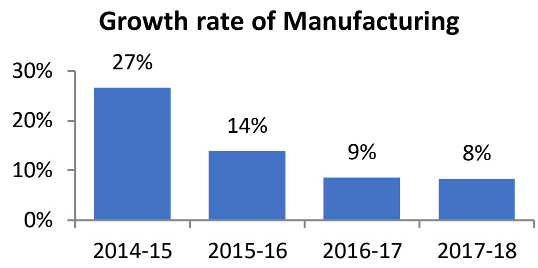
GSDP Growth Rate - 1999 to 2019

GSDP Growth Rate				
Sector	**1999 to 2004**	**2004 to 2009**	**2009 to 2014**	**2014 to 2019**
Agriculture	3.66%	6.14%	4.18%	10.92%
Industry	6.03%	10.91%	2.58%	10.74%
Services	7.51%	10.61%	9.38%	9.83%
Total	5.92%	9.56%	6.21%	10.36%

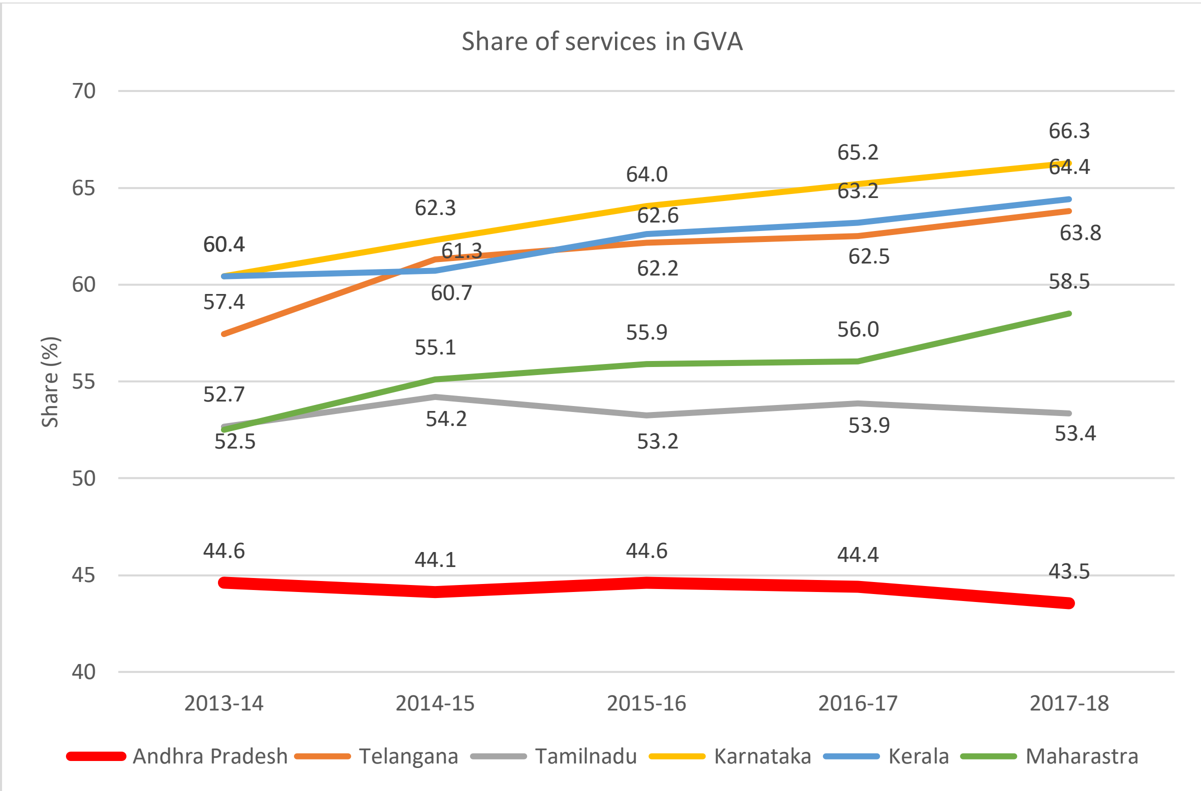
GSDP Growth Rate for Sub-sectors within Agriculture				
Sub-sector	**1999-04**	**2004-09**	**2009-14**	**2014-18**
Agriculture	2.01%	5.07%	1.02%	-4.12%
Livestock	9.88%	6.61%	3.51%	14.26%
Fishing	6.89%	5.31%	15.83%	29.38%

12. Further, in the industry sector, the share of manufacturing in GVA as well as growth rate of manufacturing sector witnessed a continuous decline during the past five years.





13. To make matters worse, services sector stagnated in the state during the past five years and has the lowest contribution to GSDP among the peer states. As service sector is the major creator of jobs, under-employment and unemployment reached its heights during the past five years.



14. **Gross Value Added (GVA):** The development trajectory had not only stopped but experienced serious reverses during the past five years. Gross Value Added (GVA), which is a sensitive measures of state's economic performance, as it considers employment creation as a key parameter of development, had grown by only 5% annually between 2014 and 2017, with Andhra Pradesh ranking 13 of the 16 big states. During this period, national average GVA annual growth was 7.1%, with Gujarat recording the highest at 11.6%. Contrary to the claims of industrialisation of Andhra Pradesh, the share of manufacturing in the GVA has declined from 14.5% in 2012 to 10.2% by 2017. The contribution of AP to national manufacturing GVA is insignificant at 2.7% of national

manufacturing GVA in FY 2017-18. The accelerated industrialisation of the state started last decade through SEZs, industrial clusters, coastal zone industrialisation have been abandoned.

15. **Inflation:** On the other hand, the prices have gone beyond any other state. Although between 2013 and 2017, inflation at the national level had fallen from 9% to 4.5%, on account of good monsoon and low global fuel prices, Andhra Pradesh remained an exception to this trend. During the period between 2014 and 2018, the average inflation in AP was around 7.6%. Andhra Pradesh has had the highest level of consumer inflation, especially food inflation, for any state in the country. The previous government not only contributed to the deepening of rural agrarian crisis, but further accentuated the problem by its failure to harmonise supply – demand management.

Per Capita Income Growth: The following table summarizes the per capita income trends in the state during the past 20 years:

Time Period	1999 to 2004	2004 to 2009	2009 to 2014	2014 to 2019
CAGR of PCI	8.19%	15.08%	12.93%	14.96%

16. The growth rate of per capita income was not only the highest but also equitable during 2004 to 2009 period, at 15.08%. However, the per capita income growth of the past five years was grossly iniquitous, as it benefited only the richer sections of the State living in few districts. While few districts witnessed high per capita income growth, others lagged behind.

District GDP Trends (Rs Crores)

District	Population (in lakhs) (projection)	GSDP (2014-15) I	GSDP (2017-18)	CAGR (%)
Visakhapatnam	44.17	53,597	73,592	10.71
Krishna	46.51	50,850	70,685	10.14
East Godavari	54.42	47,265	65,292	9.60
Guntur	50.32	47,952	61,800	9.74
West Godavari	41.14	39,326	55,795	12.79
Chittoor	42.97	33,222	48,238	11.54
Nellore	30.51	29,675	40,936	12.27
Kurnool	41.73	29,871	39,618	9.86
Anantapur	42.02	28,280	39,369	11.35
Prakasham	34.98	28,941	37,460	8.56

Kadapa	29.68	21,674	29,269	10.03
Srikakulam	27.83	17,519	23,289	9.34
Vizianagaram	24.14	16,391	22,045	11.43
Total/average	**510.41**	**4,44,564**	**6,07,389**	**10.52**

17. The geographic disparity is even more worrisome when the compounding effects are considered – the districts with low GDDP are the ones with low growth rate as well. The disparity is also visible in per capita income with Krishna district having almost double the per capita income of YSR Kadapa district.

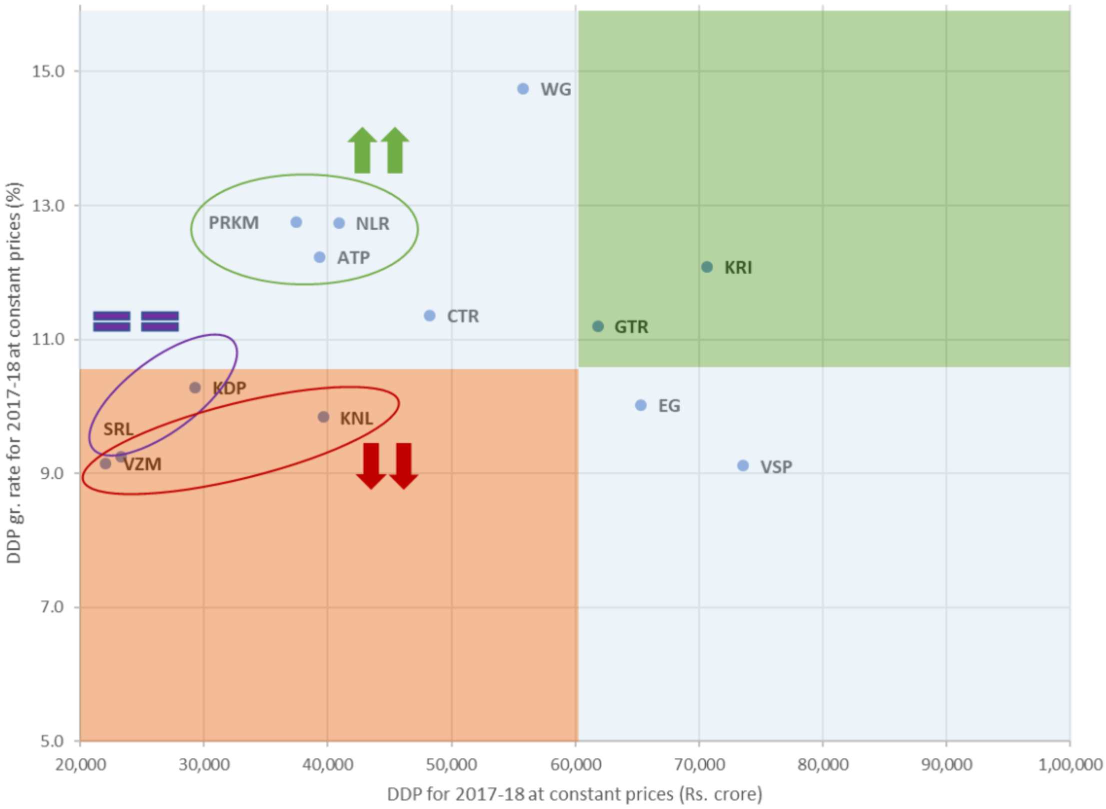


Table 3: District Per Capita Income (Rs)

District*	2014-15	2015-16	2016-17	2017-18
Krishna	1,18,961	1,36,763	1,63,815	1,89,121
Visakhapatnam	1,22,487	1,37,589	1,56,203	1,78,166
West Godavari	1,07,326	1,24,480	1,47,490	1,72,006
Nellore	1,05,851	1,21,517	1,33,970	1,56,106
Guntur	1,01,130	1,10,309	1,23,384	1,41,098

East Godavari	92,314	1,04,141	1,19,878	1,36,007
Chittoor	82,753	98,078	1,16,338	1,35,008
Prakasham	90,648	1,08,759	1,14,850	1,34,014
Kadapa	81,886	92,597	1,08,716	1,25,319
Kurnool	78,479	89,595	1,06,755	1,19,638
Anantapur	74,063	85,770	1,01,870	1,18,451
Vizianagaram	73,991	82,340	93,988	1,05,434
Srikakulam	68,233	78,088	88,638	99,792

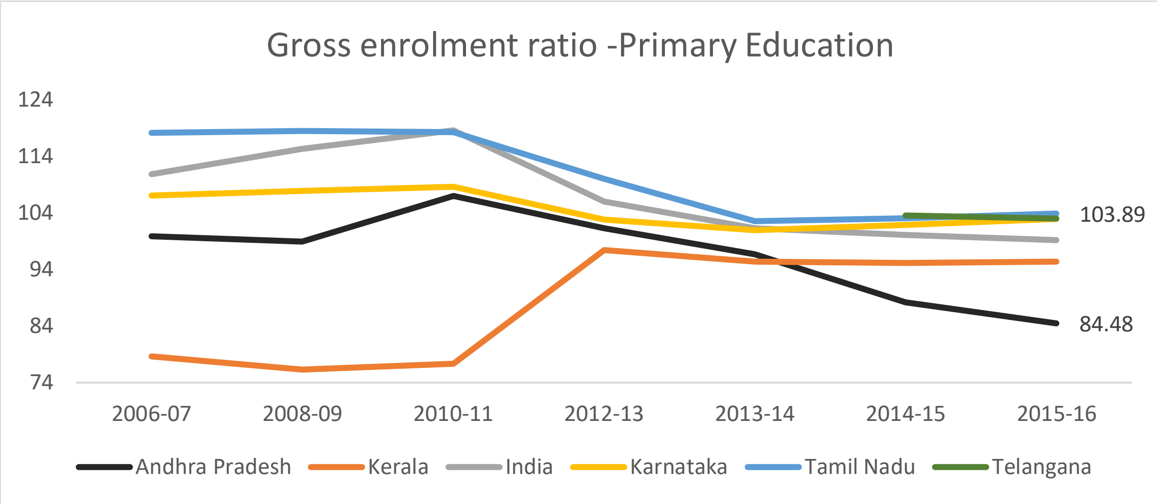
Human Development Indicators

18. The post-bifurcation half a decade has been the dark era for human development in the State. The critical pre-requisites for human development for the twenty-first century that include quality education, nutrition, health care, skills, employment, etc., were not only neglected, but were also starved of funds in order to smother the public provisioning of these essential services. The state witnessed serious decline in the quality of government managed health, education, and nutrition delivery system during this period, combined with increased privatisation of these public goods in order to transfer public resources to the private sector. Overall, the following outcomes of these critical sectors clearly demonstrate the damage done to the human development during the past five years.

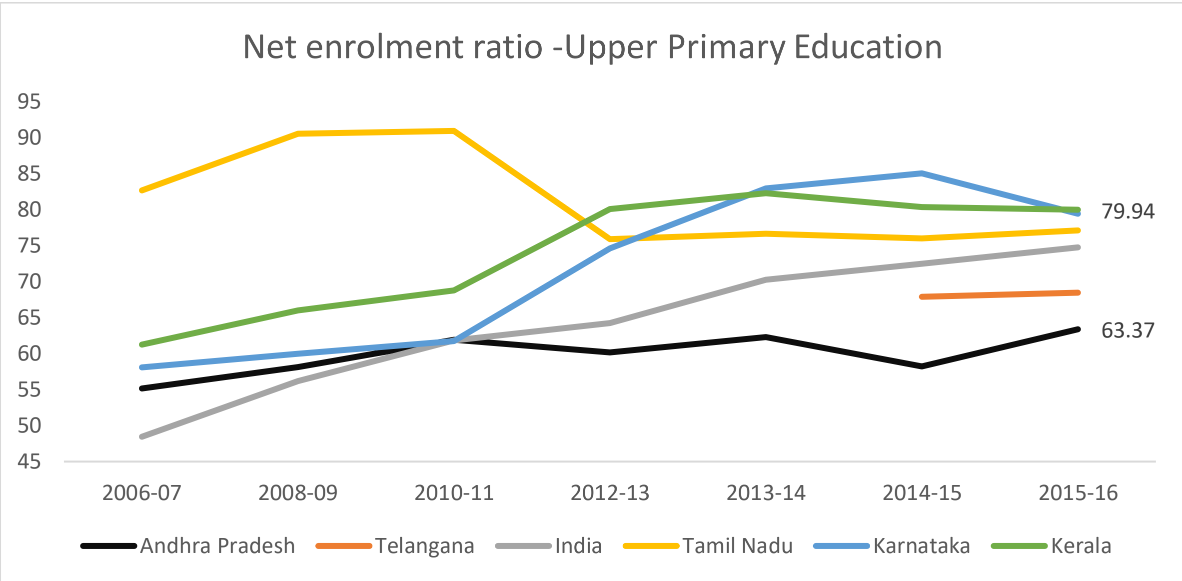
Education Outcomes

19. The net enrolment rate (NER) in primary education is the ratio of the number of children of primary school age who are enrolled in primary education to the total population of children of primary school age, expressed as a percentage. Andhra Pradesh is the bottom most state in the country in terms of NER at 72.1%, while states like Karnataka and Tamil Nadu lead among the southern states at 96.4% and 90.9%.

20. Total enrolment in primary education, regardless of age, expressed as a percentage of the eligible official primary school-age population in a given school-year. Andhra Pradesh is the bottom most state in the country in terms of GER as well at 84.48%. States like Tamil Nadu, Telangana and Karnataka lead among the southern states at 103.89%, 103.02% and 102.98%. Andhra Pradesh features as a state which is 3rd from bottom in terms of NER in upper primary education at 63.37% while Kerala and Karnataka lead the way with 79.94% and 79.37% for the same. Andhra Pradesh features as a state which is 3rd from bottom in terms of GER, as well, in upper primary education at 81.33% while Kerala and Tamil Nadu lead the rankings with 95.39% and 94.03%, respectively.



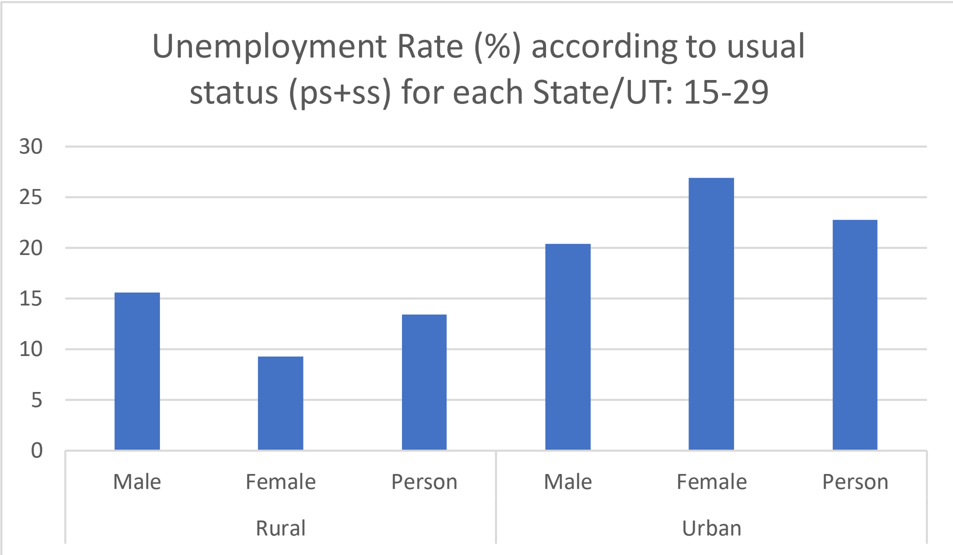
Upper Primary Education



21. Andhra Pradesh records one of the highest proportions of girls not enrolled in schools, along with other northern states. The state does not fare well with respect to neighbouring southern states. The State also records learning outcomes for standard III children comparable to Karnataka. However, it still has a long way to go to achieve outcomes comparable to Kerala.

Employment

22. According to the Periodic Labour Force Survey of 2017-18, unemployment rate amongst the youth (in the age group of 15-29) in both urban and rural is high in Andhra Pradesh at 16.1 percent. However, the unemployment rate in urban regions (22.8 percent) is higher than rural regions (13.4 percent). In urban areas, the percentage of female unemployment rate (27 percent) is higher than those of males (20.4 percent).



23. This problem is higher amongst those who have attended school. The unemployment rate among the secondary and above educated (13.3 percent) is higher than that among those whose educational level is lower than secondary. The highest unemployment percentage is amongst the graduates (23.6 percent), followed by those of diploma/certificate holders (17.6 percent). The unemployment rate amongst secondary and higher educated is higher Bihar and national average.

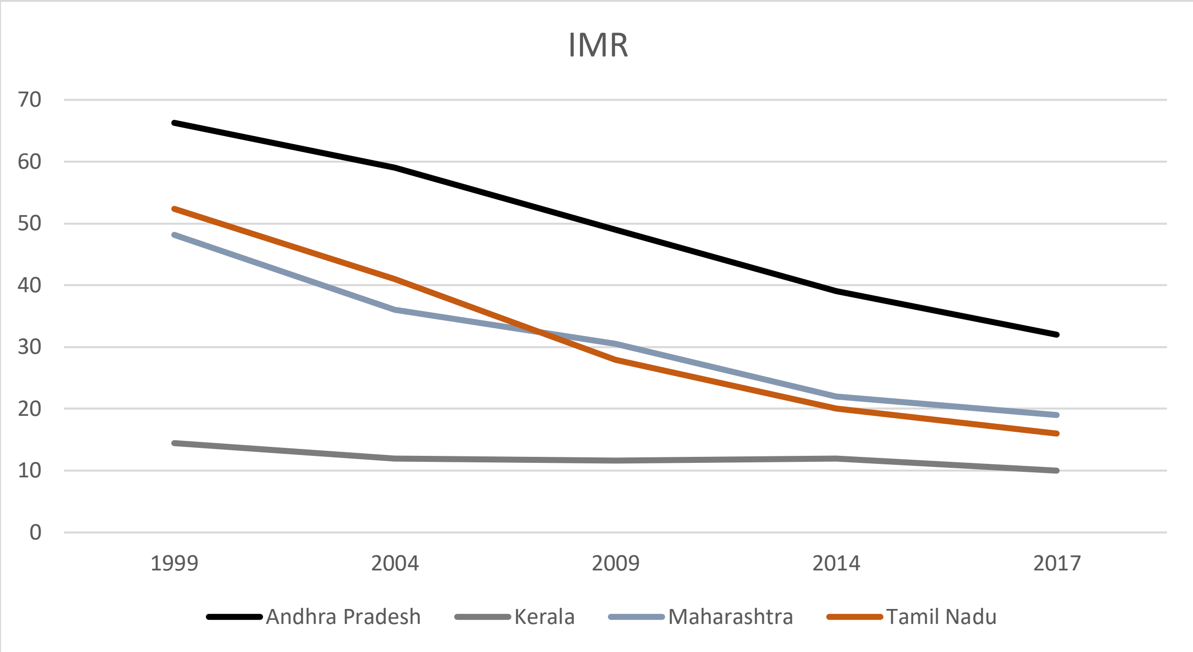
24. Similar trend is reflected in National Family Health Survey-IV. Percentage of males in the age group of 15-49 who are not currently employed increased from 0.8 percent in 2005-06 to 3.9 percent in 2015-16, while the percentage of men in the same age group who were employed declined from 87.5 percent in 2005-06 to 79.6 percent in 2015-16. Trend is similar amongst the females as well. Percentage of women in the age group of 15-49 currently employed came down from 50 percent in 2005-06 to 33 percent 2015-16. The employment generating potential has dropped so drastically that our children are leaving the state scouting for jobs elsewhere.

Health & Nutrition

25. Infant Mortality Ratio (IMR) figures have significantly improved over the years from 66 in 1999 to 32 in 2017. However, AP performance in IMR is poor in relation to Kerala, Tamil Nadu and Maharashtra. Maternal Mortality Rate (MMR) of AP has improved from 154 in 2004-06 to 74 in 2014-16. AP, however, performs badly in comparison to Kerala, Tamil Nadu, Karnataka. AP requires swift action to meet global best of 1 in IMR. The health care reforms and Arogya Sri launched between 2004 and 2009 have yielded dividends, though the benefits have not been harnessed during the past five years.

26. Andhra Pradesh performance in upgrading health facilities to IPHS standards is very poor. In terms of CHCs and PHCs it is far behind than Tamil Nadu which has above 90% mark in meeting IPHS standards.

Infant Mortality Ratio



Infant Mortality Ratio

State/UT	1999	2004	2009	2014	2017
Andhra Pradesh	66	59	49	39	32
Kerala	14	12	12	12	10
Maharashtra	48	36	31	22	19
Tamil Nadu	52	41	28	20	16

Maternal Mortality Rate

Maternal Mortality Ratio	2004-06	2007-09	2014-16
Andhra Pradesh	154	134	74
Karnataka	213	178	108
Kerala	95	81	46
Tamil Nadu	111	97	66

State Finances

27. The finances of the state that were precarious until around 2004, made dramatic upward turn after the enactment of the Fiscal Responsibility and Budget Management Act (FRBM) in 2005 that mandated elimination of revenue deficit and contained fiscal deficit at 3 per cent of the GSDP; and the introduction of Value Added Tax (VAT). In addition

to these measures, the overall buoyancy in the economy and a series of tax reforms contributed to the impressive improvement in the fiscal situation after 2005. The sales tax rates, which were ranging from 4 to 20 per cent until 2005, were replaced with Value Added Tax (VAT) that brought out a sea change in the tax structure. Introduction of VAT resulted in dramatic growth in tax revenues. There was also a marginal improvement in the transfers from the central government, from 4.95% of GSDP to 5.01 % of GSDP, during 2004-2009 period. However, the revenue accruals to the State exchequer have shown consistent downward growth spiral since 2009-10.

28. The fiscal situation of Andhra Pradesh since its bifurcation is as follows:

Particulars	**2014-15 10M**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
	Actual	**Actual**	**Actual**	**Actual**	**Pre-Accounts**
II Revenue Receipts	**65,695**	**88,648**	**98,984**	**1,05,062**	**1,14,684**
1 Tax Revenue	29,857	39,922	44,181	49,812	58,125
2 Non Tax Revenue	8,181	4,920	5,193	3,814	4,391
3 Share of Central Taxes	11,446	21,879	26,264	28,675	32,711
4 Grants-in-aid	16,211	21,927	23,346	22,761	19,457
III Capital Receipts	**30,140**	**60,953**	**67,897**	**86,888**	**1,08,177**
5 Open Market Loans	11,587	19,168	20,783	25,573	33,690
6 Floating Debt(Gross)	6,201	31,307	29,154	45,861	60,935
7 Loans form the GOI (EAP)	446	685	814	947	1,990
8 Other Loans (NABARD, etc.)	3,247	2,521	9,171	1,683	1,359
9 Deposits Transactions etc.(Net)	8,363	6,987	5,945	12,774	9,925
10 Loans and Advances	296	285	2,029	51	277
11 Other Receipts	-	-	-	-	-
12 Contingency Fund(Net)	-	-0	-0	0	-
IV Total Receipts(II + III)	**95,835**	**1,49,601**	**1,66,882**	**1,91,951**	**2,22,861**
V Revenue Expenditure	79,471	**95,950**	**1,16,178**	**1,21,214**	**1,26,410**
13 Of which Interest Payments	8,429	9,848	11,697	13,847	14,304

VI Capital Expenditure	6,520	14,172	15,181	13,491	20,444
VII Loans and Advances	745	674	564	2,781	1,843
VIII Capital Disbursements (14 to 18)	**9,099**	**38,640**	**34,776**	**55,089**	**73,283**
14 Floating Debt	4,906	32,603	29,154	45,630	57,626
15 Public Debt Repayment	1,410	2,683	3,079	6,650	14,903
16 Loans Form GOI	1,255	1,228	747	995	739
17 Other Loans	1,528	1,932	1,797	1,806	-
18 Interstate Settlement	-	195	-1	8	15
IX Total Expenditure	**95,835**	**1,49,435**	**1,66,699**	**1,92,574**	**2,21,981**
X. Overall Transactions (IV – IX)	**-**	**166**	**183**	**-624**	**881**
XII. Revenue Deficit (II – V)	**-13,776**	**-7,302**	**-17,194**	**-16,152**	**-11,726**
XIII. Fiscal Deficit (XII - VI - VII + 10)	**- 20,745**	**-21,863**	**-30,909**	**-32,373**	**-33,736**
XIV. Primary Deficit (XIII - 13)	**-12,315**	**-12,014**	**-19,211**	**-18,526**	**-19,433**
% of GSDP to Fiscal Deficit	-4	-4	-4	-4	-4
% of GSDP to Revenue Deficit	-3	-1	-2	-2	-1

State's Own Revenues

29. The percentage of revenue expenditure that can be financed from the total revenue of the State increased from 88 % in 2002-03 to 99.8% in 2005-06. Buoyancy in the state's own tax revenues complemented by improved devolution of central transfers based on the recommendations of the Twelfth Finance Commission, coupled with slower growth of revenue expenditure contributed to this trend. In 2006-07, the state achieved revenue surplus of nearly 7% for the first time in more than a decade.

30. The revenue surplus, which was nearly 1 % of GSDP in 2006-07, declined by 0.04% to 0.24 % in the subsequent years. Similarly, the primary deficit that achieved a surplus in 2006-07, turned negative in the subsequent years. The fiscal deficit, which was 1.87% in 2006-07, increased to 2.41 percent and 2.91 percent respectively in subsequent years, partly on account of overall global and national economic slowdown in 2008-09 and sub-optimal fiscal management efficiency.

31. In the accounts of 2010-11 and 2011-12, the proportion of revenue surplus in GSDP was 0.42 percent and 0.46 percent and that of fiscal deficit was 2 percent and 2.3 percent respectively. The Debt Swap Scheme (DSS) and stoppage of plan loans from the centre reduced the interest payment burden contributing to a change in the debt pattern. The savings in interest payments on outstanding central loans under the Debt Consolidation and Relief Facility (DCRF) as recommended by the Twelfth Finance Commission, contributed to the declining trend in interest payments.

32. However, the performance of the State on this front during the past half a decade has been disappointing. A key reason for the huge increase in the debt and inadequacy of the revenue deficit grant provided by the Fourteenth Finance Commission, is the underperformance by the State Governments with respect to tax collections. Owing to policy lacunae and insufficient tax effort by the State Government, the tax buoyancy and tax collections have remained suboptimal. The table below provides the comparison between what the Fourteenth Finance Commission has estimated the State's own revenues to be and what the State's own revenues actually are.

State's own revenues (all amounts in INR Crores, except where otherwise mentioned)					
Item / Years	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
	Accounts	**Accounts**	**Accounts**	**Accounts**	**Pre-Accounts**
Taxes on Sales, Trade etc.	25,833	29,104	32,484	36,155	42,525
State Excise	3,976	4,386	4,645	5,460	6,220
Taxes on Vehicles	2,487	2,082	2,467	3,039	3,359
Stamps and Registration Fee	2,884	3,527	3,476	4,271	5,428
Others	674	822	1,110	887	593
Total Tax Revenue	**35,854**	**39,921**	**44,182**	**49,812**	**58,125**
Non-Tax Revenue	9,495	4,920	5,193	3,814	4,386
Grand Total	**45,349**	**44,841**	**49,375**	**53,626**	**62,511**
Total Tax Revenues assumed by the 14th FC		47,810	56,058	63,853	72,732
Total Non-Tax Revenues assumed by the 14th FC		10,814	12,274	13,931	15,811
Total State's own tax revenues estimated by the 14th FC		58,624	68,332	77,784	88,543
Underperformance on account of Tax Revenue		**-16.5%**	**-21.2%**	**-22.0%**	**-20.1%**
Underperformance on account of Non-Tax Revenue		**-54.5%**	**-57.7%**	**-72.6%**	**-72.3%**
Underperformance on account of State's own Revenues		**-23.5%**	**-27.7%**	**-31.1%**	**-29.4%**

33. The Finance Commission has projected own tax revenues at 10% of the projected GSDP, however, the State severely underperformed. Particularly with respect to non-tax revenues, the State's collection on per capita basis is one of the lowest in the Country.

Expenditure Trends

34. It is apparent from the table below that the capital expenditure as a proportion of overall expenditure reached the highest of 18 per cent in 2006-07 as investment in infrastructure, especially irrigation in the form of Jala Yagnam, picked up momentum. However, it started to slow down since 2010-11 and stagnated at around 11 per cent during the past five years. Similarly, debt repayment obligation that was around 16 per cent in 2004- 05 was brought down to a modest level between 2005-2006, has again reached the lowest at ten per cent of the total expenditure in 2018-19. The total expenditure from 2004-05 to 2018-19 under Revenue, Capital and Loans and Advances along with the share in total expenditure is depicted below:

35. More significantly, the unit cost of capital works had been exorbitant and the expenditure efficiency on irrigation, roads and bridges, has been questionable, as most of the projects have not been completed and remained without yielding returns. The State was awarded double whammy during the past five years; on one hand, reduced capital investment and on the other hand inflated estimates, opaque procurement in order to award works and services contracts to select few, without any productive outcome.

Fiscal Indicators

36. As mentioned earlier, the combined State of Andhra Pradesh enacted Fiscal Responsibility and Budget Management Act (FRBM) in 2005 mandating elimination of revenue deficit and limiting fiscal deficit at 3 per cent of the GSDP. These limits were adhered to until 2014-15. Thereafter, the State breached the fiscal indicators established by the Thirteenth and Fourteenth Finance Commissions, which are considered sacrosanct for prudent fiscal management. Fiscal deficit that was 2.11 per cent in 2013 – 14, ballooned to 4.42 per cent in 2016-17 in tandem with outstanding debt and liabilities, which reached an unsustainable level of 27.87 per cent of GSDP by 2016-17. The fiscal situation continued to deteriorate in the subsequent financial years.

Gross Fiscal Deficit (GFD); Revenue Deficit (RD); Primary Deficit (PD)/ and Outstanding Debt as a percentage to GSDP

Indicator	**2013-14**	**2014-15 April May**	**2014-15 June to March**	**2015-16**	**2016-17**	**2017-18**

GFD/GSDP	2.11	1.12	3.89	3.67	4.42	4.08
RD/GSDP	-0.04	1.07	2.58	1.23	2.46	2.04
PD/GSDP	-1.55	1.28	4.07	1.97	2.75	2.33
Outstanding Debt &Liabilities/GSDP	22.22	20.47	28.25	27.78	27.87	27.83
Outstanding Debt &Liabilities/GSDP indicated by 14th FC	28.2	27.6	23.88	24.33	24.74	25.09

Note: Un apportioned amount is Rs. 33,478 crore for 2014-15; Rs. 23,483 crore from 2015-16 to 2016-17; and Rs. 17,031 crores from 2017-18 is included.

Revenue Deficit

37. Revenue deficit during first three months of 2014-15 financial year was Rs. 16,078.76 crore (excluding the RD grant of Rs. 2,303 crore). Even though, Government of India had to provide these grants as mandated in the Andhra Pradesh State Re-organisation Act 2014, the then State Government could secure the release of only Rs. 3,979.50 crores. Further the 14th Finance Commission recommended revenue deficit grant to eleven States, including Andhra Pradesh effective 2015-16. However, the actual revenue deficit during the past five years is given in the Table below:

Revenue Deficit

Rs in Crore

Revenue Deficit grants	Recommended by XIV FC	Received from GoI	Revenue deficit as per accounts (*)	Actual Revenue deficit
2015-16	6,609	6,609	7,301	13,910
2016-17	4,930	4,930	17,211	22,141
2017-18	4,430	4,430	16,151	20,581
2018-19 (Pro. A/c)	3,644	3,644	11,726	15,370
(*) After receiving RD grant from GOI				

38. It is evident that the previous government has had little control over the revenue expenditure, which continued to grow unabated, as it failed to manage its finances efficiently and prudently in accordance with the established norms, despite receiving revenue deficit grant awarded by the 14th FC. To make matters worse, government used the borrowed funds for financing revenue expenditure, which substantially reduced the resource availability for capital investment and above all in the critical human capital, which is resulted in the abysmal state of education, health care and nutritional services outlined above.

39. The Fourteenth Finance Commission estimated that post devolution revenue deficit for Andhra Pradesh for the five-year period 2015-20 would be Rs. 22,113 crores and for the same period the newly formed Telangana State would have a post-devolution revenue surplus of Rs. 1,18,678 crores. However, in reality, State's revenue deficit in the past five-year period stood at a whopping Rs. 66,362 crores. The present State of Andhra has essentially remained an agrarian State, with low economic buoyancy, leading to huge revenue disability.

Fiscal Deficit

Fiscal Deficit (Rs. Crore)

Item	2013-14	2014-15		2015-16	2016-17	2017-18	2018-19
		April to May	June to March				
Fiscal Deficit	-18,041	-10,972	-20,745	-22,059	-30,908	-32,373	-33,736
% to GSDP	-2.11	-1.12	-3.98	-3.66	-4.42	-4.03	-3.67

40. The fiscal deficit increased steeply from 2.11 per cent of GSDP in the pre-bifurcated Andhra Pradesh to 4.43 per cent in 2016-17 financial year, a trend that showed no sign of abating. Then government had abandoned all principles of prudence by not only breaching the 3 per cent of GSDP threshold and used borrowed funds for financing revenue expenditure, but also resorted to uncontrolled extra-budgetary borrowings.

Public Debt

Debt Servicing Costs (Rs Crore)

Year	Gross Loans	Net Borrowings	Debt Servicing			State's Own Revenue	Interest payments as % of state's own revenue
			Principal	Interest	Total		
2004-05	17,393	12,041	5,352	7,091	12,444	20,006	35
2005-06	9,923	4,621	5,302	7,008	12,310	23,898	29
2006-07	10,484	6,204	4,280	7,280	11,561	30,413	24
2007-08	13,502	8,032	5,470	7,589	13,059	35,858	21
2008-09	17,703	11,878	5,826	8,057	13,883	43,041	19
2009-10	22,136	15,933	6,204	8,914	15,117	42,979	21
2010-11	21,852	14,001	7,851	9,675	17,526	55,859	17
2011-12	22,826	14,857	7,969	10,561	18,530	64,978	16
2012-13	26,890	17,970	8,921	11,662	20,582	75,874	15
2013-14	28,965	21,836	7,130	12,911	20,040	79,596	16

2014-15	28,848	18,005	10,844	6,660	17,504	38,038	18
2015-16	22,375	16,533	5,842	9,848	15,690	44,842	22
2016-17	30,769	25,147	5,622	11,697	17,319	49,374	24
2017-18	28,203	18,752	9,451	13,847	23,298	53,626	26
2018-19 Pre-Act.	37,040	21,398	15,642	14,304	29,945	62,517	23

41. The promises made in the Parliament by the ruling as well as the opposition parties while bifurcating the state have remained unfulfilled leading to great financial and social distress in the State. The debt of the residuary state which was Rs 97,000 crores at the time of bifurcation has reached a whopping Rs. 2,58,928 crores in these five years by 2018-19. The interest on the debt alone is projected to be over Rs. 20,000 crores per annum, in addition to the repayment of principal to the tune of another Rs. 20,000 crores. Further, there are huge contingent liabilities in the form of guarantees given for loans availed by the State Government entities.

Interest Payments

42. With the growing debt, interest payments have increased in both absolute terms as well as percentage to GSDP. As the debt is being deployed for current consumption and to build low yielding assets the burden of interest is growing much faster than revenue augmentation. In other words, debt- servicing costs are eating into an increasingly larger share of new debt raised each year. This does not include the debt servicing obligations of the corporations and societies and the annuity commitments made without attention to the financial health.

Economic Development - Impact of Bifurcation

43. On June 2, 2014, the erstwhile State of Andhra Pradesh was bifurcated into the newly formed State of Telangana and the successor State of Andhra Pradesh. This bifurcation was done in unjust and inequitable manner against the wishes of the current Andhra Pradesh State’s population. The bifurcation would have the potential to cause grave economic hardships in the successor State of Andhra Pradesh, was not even considered.

States’ Own Revenues (2015-17) – Telangana and Andhra Pradesh

2015-16 (Amounts in Rs. Crores except where specified otherwise)			
State	**State's own revenues in Rs. Crores**	**Population in crores**	**Per capita revenues in Rs.**
Telangana	54,389	3.77	14,411
Andhra Pradesh	44,358	5.28	8,397

44. During the financial years 2015-16 and thereafter, the State's own revenues of Telangana were higher those of Andhra Pradesh by around 20 percent, though Telangana has significantly lower geographical area and population, when compared with Andhra Pradesh. The Fourteenth Finance Commission had assessed that post-devolution revenue deficit for Andhra Pradesh for the 2015-2020 period would be Rs 22,113 crores, while Telangana State would have a post-devolution revenue surplus of Rs 1,18,678 crores.

45. Unlike other state capitals, Hyderabad emerged during the last several decades not only as the political capital of united Andhra Pradesh but also as a super economic power house with major public and private sector industries, civil and defence research laboratories, information technology services centres, institutions of higher learning, super specialist hospitals, etc. For example, out of Rs 57,000 crores of software exports from Andhra Pradesh for the year 2013-14, Hyderabad city itself accounted for Rs, 56,500 crores.

46. As a result of skewed development, the present State of Andhra has essentially remained an agrarian State. Prior to bifurcation of the State, less than 25 percent of the State's economy was contributed by the Agriculture sector. Whereas, after bifurcation, more than 25 per cent of residuary AP economy is derived from agriculture. While services sector contributes significantly higher portion of Telangana State's economy, it constitutes only 41% of the Andhra Pradesh economy.

47. As a result of bifurcation, Andhra Pradesh has to incur huge capital expenditure to diversify the State's economy with emphasis on Industrial and Services Economy. Further, to enhance the tax base and tax effort, there is a need to expend huge resources on infrastructure development. The revenue disability of Andhra Pradesh is evident from the low tax to GSDP ratio in the successor State when compared with that of the Telangana State. Owing to huge tax base resulting from a service dominated economy, Telangana State has a major advantage.

Table: Gross State Domestic Product (GSDP) – Telangana and Andhra Pradesh

Telangana State			
Particulars	**2015-16**	**2016-17**	**2017-18**
GSDP (in INR Cr.) (Estimates)	5,63,356	6,41,985	7,32,657
State's own tax revenues (in INR Cr.)	39,974	48,407	56,539
Tax to GSDP	7.10%	7.54%	7.72%
Source - State Accounts for State's own revenues for 2015-16 and 2016-17			
Source - for State's own revenues for 2017-18, the figure is derived from the CAG provisional accounts			

As against this, the ratio for the Successor State of Andhra Pradesh much lower.

Successor State of Andhra Pradesh			
Particulars	**2015-16**	**2016-17**	**2017-18**
GSDP (in INR Cr.) (Estimates)	6,00,298	6,95,491	8,03,873
State's own tax revenues (in INR Cr.)	39,438	44,181	43,347
Tax to GSDP	6.57%	6.35%	5.39%
Source - State Accounts for State's own revenues for 2015-16 and 2016-17			
Source - for State's own revenues for 2017-18, the figure is derived from the CAG provisional accounts			

Special Category Status

48. Mindful of the potential plight of the successor State post bifurcation, the Parliament had resolved on 20th February, 2014 that residuary Andhra Pradesh would be granted Special Category Status, in addition to express provisions contained in the AP Reorganization Act, 2014 providing financial assistance to help Andhra Pradesh navigate through and overcome the post-bifurcation fiscal handicap. Most vital of the commitments was the grant of Special Category Status to the Successor State of Andhra Pradesh for a five-year period. Although TDP formed the government in the State in 2014 and the NDA Government in the Centre, of which TDP was a part, very few of these assurances and commitments, most notably Special Category Status, have not been fulfilled subjecting the people of Andhra Pradesh to gross injustice and disadvantage.

49. The Ministry of Finance, Government of India on September 08, 2016 issued a detailed note regarding Central Assistance to Andhra Pradesh. This note was released with much fanfare and the assistance was widely described by the previous Government in the State as a 'Special Package' equivalent to Special Category Status, calling it an act of benevolence by the Central Government. The then Chief Minister, went to the extent of declaring celebrations and placing a motion of thanks in the Legislative Assembly for this gracious dispensation. However, in actuality, what was released was a note describing the list of promises and announcements made with respect to the Successor State essentially in the backdrop of bifurcation and the status of implementation of them.

50. The note released has 11 points with points 1 and 2 giving a brief background of the State bifurcation and the list of commitments made to the State. The remaining points discuss about the manner in which those commitments were being met by the Central Government. No additional benefits were conferred on the State other than the existing commitments emanating from the Andhra Pradesh Reorganization Act and the promises made by the Parliament and the recommendations of the Fourteenth Finance Commission. However, some of the commitments existing prior to the release of this note were diluted.

51. Point No. 3 of the note specified that the resource gap for 2014-15 would be assessed on the basis of standardized expenditure. However, as per the announcement of the then Prime Minister on the floor of the house there was no such stipulation with respect to standardization of expenditure for assessment of resource gap. As a consequence of this, despite the fact that the revenue deficit of the State was Rs 16,078.76 crores, the amount released by the Government of India was only 3,979.50 crores.

52. Point No. 4 of the note specified that the Central Government had agreed to the State Government's request to hand over the responsibility for execution of the Polavaram Irrigation Project.

53. Point No. 7 specified that the approval for the establishment of the major port at Duggirajapatnam in Andhra Pradesh was subject to feasibility. This is in complete contradiction to the 13th Schedule to the AP Reorganization Act which mandates the Government of India to develop the major port.

54. Point No. 10 discussed the reasons for the non-grant of Special Category Status to the State of Andhra Pradesh, which we discuss in detail below.

55. Apart from the above, the note has specified that in accordance with the recommendations of the Fourteenth Finance Commission, enhanced devolutions and revenue deficit grants to the State Government. However, it is pertinent to note that the recommendations of the Finance Commission are Constitutional Obligations and fund release on that account does not essentially reflect on the Central Government's commitment to the State.

56. It is very unfortunate to note that despite the fact that the so called 'Special Package' did not bestow any additional benefits apart from the pre-existing commitments, the previous Government in the State lauded the announcement. The then Government should have protested against the Central Government diluting three of its commitments. It is amply clear that leaders at the helm of the previous Government were overjoyed with the prospect of indulging inn wide-scale corruption through the execution of the Polavaram project and were willing to compromise the rights of the people of the State of Andhra Pradesh.

57. It would not be out of place to state that, had the previous Government demonstrated commitment to fight for the fulfilment of promises made to the Andhra Pradesh State, The Central Government would have possibly taken a more serious view of the State's demands. However, the previous Chief Minister did not make sincere effort to safeguard the interests of the State. In the motion of thanks that was placed before the

Legislature to thank the Central Government for the Central Assistance, Legislators of the ruling party claimed that funds on the basis of the recommendations of the Finance Commission were released to the State owing to the pressure put on the Central Government.

58. The importance of Special Category Status in mitigating the economic hardships of the State cannot be overemphasized. However, the previous Government adopted a very harsh tone against the grant of Special Category Status and had stated on several occasions stated that the Status was not a real solution to the State's problems. During a debate on the floor of the house, the then Chief Minister went to the extent of making a mockery of the Special Category Status saying that States that had been enjoying such a status for long time had not demonstrated much economic development.

59. The grant of Special Category Status is positively imperative to compensate the State for the deprivation it has undergone and roadblock for the grant of special status was the view taken by the central Government regarding the issue of Special Category Status post the acceptance of recommendations of the 14th Finance Commission. The central Government has taken the view that, in accordance with the recommendations of the 14th Finance Commission, the concept of Special Category has ceased to exist and therefore the central Government has contended that the promise to the State of Andhra Pradesh regarding the grant of Special Category Status cannot be honoured. The section of the Fourteenth Finance Commission report, cited by the central Government is provided below:

Page 17; para 2.29 & 2.30

"We did not make a distinction between special and general category states in determining our norms and recommendations…... In our assessment of State resources, we have taken into account the disabilities arising from constraints unique to each State to arrive at the expenditure requirements. In this regard, we have observed that the North-eastern and hill States have several unique features that have a bearing on their fiscal resources and expenditure needs, such as low level of economic activity, remoteness and international borders. Our objective has been to fill the resource gaps of each State to the extent possible through tax devolution. However, we have provided post-devolution revenue deficit grants for States where devolution alone could not cover the assessed gap…...

We are of the view that intra-state inequality is within the policy jurisdiction of the States and provisioning of adequate resources through tax devolution should enable them to address intra-state inequalities in an effective manner."

60. In the notification concerning Central Assistance to Andhra Pradesh, issued on 8th September, 2016, point 10 relates to Special Category Status and it carries with it, the following two specifications:

- Following the recommendations of the Fourteenth Finance Commission, the class of Special Category States ceases to exist, and,
- The compensation for Andhra Pradesh would have to be provided in the form of funding for Externally Aided Projects.

61. With respect to the first specification that the Class of Special Category Status ceased to exist, the facts are as follows:

- ✓ The Finance Commission has merely conveyed in the report that for limited purpose of determining the States' shares in divisible pool and sanctioning the revenue deficit grant, the Commission has not taken into consideration, the Special Category Status of the States.

- ✓ Para 3.48 of the Thirteen Finance Commission report sought to justify the instrumentality of Revenue Deficit Grant by stating that in the case of Special Category States, cost disabilities are such as to require the use this instrument to address fiscal equalisation.

- ✓ However, the Fourteenth Finance Commission has made a departure from this theory and has not taken into consideration the distinction between General Category and Special Category States. The Fourteenth Finance Commission has assessed the pre-devolution revenue deficit of all the States and then estimated the post-devolution revenue deficit of all the States and has provided the post-devolution revenue deficit grant to States to fill the gap, regardless of whether or not they were enjoying Special Category Status. This is evident from the fact that the Fourteenth Finance Commission has provided post devolution revenue deficit grant to States such as Kerala, which are not enjoying Special Category Status, however, the Thirteenth Finance Commission has provided the grant only to States that were enjoying Special Category Status.

62. The Fourteenth Finance Commission has come out with an express specification as to the methodology it adopted in recommending grants to the States and this in no way affects the validity of Special Category Status. The table below provides the grants that were recommended to the States by the successive Finance Commissions:

State	Revenue Deficit Grant by 13th Finance Commission (amount in crores)	Revenue Deficit Grant by 14th Finance Commission (amount in crores)
States enjoying Special Category Status		
Arunachal Pradesh	2,516	534
Assam	-	3,379
Himachal Pradesh	7,889	40,625
Jammu & Kashmir	15,936	59,666
Manipur	6,057	10,227
Meghalaya	2,811	1,770
Mizoram	3,991	12,183
Nagaland	8,146	18,475
Tripura	4,453	5,103
States not enjoying Special Category Status		
Kerala	-	9,519
West Bengal	-	11,760
Andhra Pradesh	-	22,113

63. Further, the terms of reference released by the Ministry of Finance, Government of India, is binding on the functioning of the Finance Commission and those terms do not mandate the Commission to make any recommendations whatsoever on the continuity of the concept of Special Category Status. The same point was reiterated by Dr Y.V. Reddy, Chairman of the Fourteenth Finance Commission and other members of the Commission. The same point was reiterated by Shri N.K. Singh, Chairman of the Fifteenth Finance Commission, who went to the extent of making the statement that, 'the philosophy of Special Category Status never emanated from any Finance Commission but from the resolution of erstwhile National Development Council'.

64. The argument that the concept of Special Category Status is not invalidated is strengthened by the fact that North Eastern States and Jammu and Kashmir continue to enjoy additional grants from the Central Government even after the recommendations of Finance Commission are accepted. Apart from the PD-RD (Post-Devolution Revenue Deficit) Grant recommended by the Finance Commission, the States are entitled to grants from the Centre on various accounts, such as for Centrally Sponsored Schemes etc. If the view that, the Special Category Status has ceased to exist is true, then the per-capita grants apart from the PD RD grants should be nearly the same for the States enjoying Special

65. 2015-16 happens to the first year in which the 14th Finance Commission report has been brought into implementation. The table below conveys the Grants in Aid Per Capita

received by all the States it is apparent that, the States that were enjoying Special Category Status continue to enjoy additional grants.

2015-16 Grants data analysis (per capita basis)					
State	**Grants in aid and contributions (in Rs. Crores)**	**Finance Commission (in Rs. Crores)**	**Grants in aid other than FC RD Grant (in Rs. Crores)**	**Population (in Crores)**	**Grants in aid other than FC RD Grant per capita (in Rs.)**
States currently enjoying Special Category Status					
Arunachal Pradesh	2,550	-	2,550	0.15	16,779
Assam	12,825	2,191	10,634	3.32	3,204
Himachal Pradesh	11,296	8,009	3,287	0.72	4,561
Jammu & Kashmir	16,728	9,892	6,836	1.37	4,988
Manipur	4,438	2,066	2,372	0.29	8,271
Meghalaya	2,481	618	1,863	0.33	5,686
Mizoram	3,672	2,139	1,533	0.12	12,960
Nagaland	4,819	3,203	1,616	0.20	8,159
Sikkim	934	-	934	0.06	14,666
Tripura	4,566	1,089	3,477	0.39	8,955
Uttarakhand	5,304	274	5,030	1.09	4,633
Cumulative	**69,613**	**29,481**	**40,132**	**8.03**	**4,997**
States currently not enjoying Special Category Status					
Bihar	19,565	-	19,565	11.36	1,722
Chhattisgarh	8,062	-	8,062	2.77	2,907
Gujarat	8,949	-	8,949	6.48	1,381
Haryana	6,379	-	6,379	2.73	2,337
Jharkhand	7,337	-	7,337	3.58	2,050
Karnataka	13,929	-	13,929	6.49	2,148
Kerala	8,921	4,640	4,281	3.40	1,258
Madhya Pradesh	18,330	-	18,330	7.81	2,346
Maharashtra	16,899	-	16,899	11.93	1,416
Odisha	14,129	-	14,129	4.42	3,193
Punjab	4,174	-	4,174	2.92	1,429
Rajasthan	18,728	-	18,728	7.42	2,525
Tamil Nadu	19,260	-	19,260	7.66	2,515
Uttar Pradesh	31,861	-	31,861	21.52	1,481
West Bengal	28,214	8,449	19,765	9.62	2,054
Telangana	9,394	-	9,394	3.77	2,489
Andhra Pradesh	21,928	6,609	15,319	5.28	2,900

Cumulative	**2,56,059**	**19,698**	**2,36,361**	**119**	**1,983**
Source: State Accounts					
Population: Projection was done on the basis of CAGR witnessed during 2001-11					

66. As seen from the above table, the per-capita figure for grants in aid other than revenue deficit grant is significantly higher at Rs 4,997, when compared with the figure for the States not enjoying Special Category Status.

67. With respect to the second specification concerning the requirement to provide additional funding through Externally Aided Projects route, the Special Category States are continuing to receive additional funds as provided in the above table and we observe that they are receiving funds in the regular method and not through EAP route.

68. Therefore, it is apparent that the States enjoying such status are receiving additional central funding, has not altered. In all fairness, the previous Government should have made relentless efforts to put an end to this confusion regarding the concept of Special Category Status. However, the Government was endorsing the view that Special Category Status had ceased to exist. During the last year of the previous Government, when the then Chief Minister became conscious of the likelihood of the defeat of his party in the 2019 general elections to the State Legislative Assembly, he made a complete turnaround and proclaimed that he was the champion of the cause of the people of the State.

Mismanagement of Finances

69. The downward economic development trajectory and the irresponsible and extravagant management of the finances during the past five years has pushed the otherwise vibrant state into deep financial crisis. The new government has inherited a deeply indebted public financial system, empty treasury, and a gigantic debt, apart from unpaid bills amounting to more than Rs 16,000 crores. In this background, this government has to address the much-neglected welfare, development and institutional needs of the State, meet the expectations of the people, and honour the commitments made to the people of the State. Five years of mis-governance, battered economy, severe scarcity of financial resources, and badly damaged capacity of the government institutions are posing serious challenges to the new government.

70. The state had resorted to overdraft almost every month, thus resulting in serious decline of its rating amongst the states. A state that used to set the benchmark rate prior to 2014-15, is rated lowest amongst the states with consequential highest possible borrowing cost and low subscription when its most required. For the first time in the history of the country, the Chief Minister's Office directly dictated the treasury management, approving

which bill should be paid and which should not be, that has resulted in unmentionable mess in the public financial system and established direct channel of corruption.

71. Added to this, the unprecedented levels of profligacy and gross financial mismanagement during the previous Government's tenure has further jeopardized the State's financial position. Of all the aspects relating to the Andhra Pradesh State finances, most distressing is the debt position of the State Government. As mentioned above, the debt burden of the State has increased to whopping Rs. 2,58,928 crores. Further, there are huge contingent liabilities to the tune of Rs. 57,000 crores, in the form of guarantees given for loans availed by the State Government entities. Had all this debt gone to fund capital expenditure, it would have been partially excusable, as capital expenditure has the potential to bring about a paradigm shift in the economy of the State as the skill and infrastructure development will lead Andhra Pradesh into becoming an industry and services-oriented economy, which would have led to increased revenue generation capacity.

72. However, the entire debt has gone to fund the excessive revenue expenditure. Therefore, the per-capita debt has more than doubled but only a minuscule benefit of enduring nature has been created. The debt to GSDP ratio has also swollen significantly. The figures are provided in the table below.

Indicator	**2013-14**	**2014-15 April & May**	**2014-15 June to March**	**2015-16**	**2016-17**	**2017-18**	**2018-19 Provisional**
GFD/GSDP	2.85	1.12	3.89	3.67	4.42	4.08	3.67
RD/GSDP	-0.12	1.07	2.58	1.23	2.46	2.04	1.28
PD/GSDP	-1.55	1.28	4.07	1.97	2.75	2.33	1.90
Outstanding Debt & Liabilities/GSDP	22.22	20.47	28.25	27.78	27.87	27.83	28.18
Outstanding Debt & Liabilities/GSDP indicated by 14th FC	28.2	27.6	23.88	24.33	24.74	25.09	25.16

73. As stated above, minuscule capital expenditure was incurred and it should also be borne in mind that the interest burden on the State was also not so significant owing to the debt being very low when compared to the debt situation today. The reality was that vast monies have gone to fund the expenditure profligacy of the previous government. For instance, the key promise of the previous government was agricultural debt waiver. It was indicated that the entire agricultural debt outstanding on March 31, 2014 would be waived.

74. The agricultural advances outstanding on March 31, 2014, in accordance with the minutes of the 184th SLBC meeting, was Rs. 87,612 crores. However, the then Government limited the waiver amount to Rs. 24,000 crores duly imposing several conditions. Even this amount was not paid fully and nearly Rs. 8,500 crores were not disbursed to farmers. Consequently, the NABARD All India Rural Financial Inclusion Survey, 2016-17, indicates that indebtedness amongst agricultural households in Andhra Pradesh was as high as 77%, when compared to the National average of 47%. The policies, programs and actions of the previous government deepened the agricultural distress, instead of alleviating the structural problem.

75. Further, during the last five years, the government has indulged in financial malpractices. Diversion of funds without regard to the requirements of the departments and corporations has resulted in huge damage to the financial and operational health of various sectors.

76. For instance, the Energy sector which is one of the most crucial sectors, has been thrown in to chaos owing to the reasons described above. Due to lack of industrial growth leading to inadequate demand from sectors that consist of high paying customers, the State energy sector has been suffering for quite some time and the operation of the distribution utilities necessitates subsidy from the Government. As per the APERC Tariff Order for the year 2018-19, the revenue gap for both the distribution utilities that cater to the entire distribution activity in Andhra Pradesh is Rs. 7,983.39 crores. This amount is required as subsidy, should the energy sector not run into losses.

77. The amount allocated to the energy sector in the Budget for 2018-19 was only Rs. 2,500 cores, which was highly inadequate. To make matters worse, the then government launched new schemes months before the 2019 general elections, with the sole purpose of deriving unfair advantage in the elections, while starving the critical energy sector. Only Rs. 1,250 was released to the energy sector. This resulted in non-payment of dues to the several power generators. NTPC has threatened to discontinue power supply to the utilities due to huge dues, along with others. The total power dues on May 31, 2019 were astounding Rs 18,375 crores. Despite such huge financial commitments, the previous Government, has in a very insensitive manner denied funds to the sector placing the entire sector in jeopardy.

78. Another instance is that funds to the tune of Rs. 4,800 crores were availed as working capital financing through the Civil Supplies Department and the same have not been used for the intended purpose and was diverted for the hastily introduced schemes such as *Pasupu Kumkuma,* etc. Further the amount budgeted to be released to the Civil Supplies Department, amounting to nearly Rs 3,000 cores was not provided during the

previous financial year, subjecting the financial health of the Civil Supplies Corporation to great distress.

79. With total disregard to the State's financial capability, the previous Government assessed the requirement for the new capital at over Rs. 2,00,000 crores. However, the entire amount spent over the five-year period was a minuscule of the estimated amount. A Non-Convertible Debenture issuance was made by the CRDA (Capital Region Development Authority), a State-owned entity established for the purpose of capital city development, at a very high fixed interest rate of 10.32%. This was at a time when the interest rates on fixed deposits had fallen to less than 7%. Further, the NCD issuance had the guarantee of the Andhra Pradesh State Government. Despite this, the NCD issuance received a marginal over-subscription of 1.53 times at a high cost, indicating the poor investor confidence in the previous government.

80. The previous government borrowed recklessly and splurged on wasteful expenditure. Consequently, the debt burden on the citizens of Andhra Pradesh has grown to unsustainable levels. The outstanding government debt has reached a staggering Rs 2,49,435 crore at the end of March 2019. This does not include the extra-budgetary borrowings (EBR) that the government resorted to avoid the limits imposed by the FRBM Act, through the government owned corporations, societies and several special purpose vehicles (SPVs) created for the sole purpose of borrowing for which government has guaranteed that it would service the debt. These extra budgetary borrowings are around sixty thousand crores.

81. The debt burden had steadily increased since 2014-15 from Rs 97,177 crores to Rs 1,69,458 crore in 2015-16, Rs 2,01,314 in 2016-17 and Rs 2,25,234 crore in 2017-18. The state's market borrowing was a whopping Rs 1,34,551 crore in 2017-18 as against Rs 1,12,630 crore in 2016-17. A sum of Rs 14,756 crore was paid as interest alone in 2017-18, which was over Rs 3,000 crore increase from Rs 11,697 crore the previous year. Today, every citizen of the state, including the baby born today, on an average, has an outstanding debt of Rs 42,500, and another equal amount borrowed through SPVs and companies, a total of more than a lakh per person with ten thousand rupees interest per year for the rest of their lives. New projects have been taken up without any financial resources, with a clear intention to bequeath a bankrupt state to the present government.

82. It was also the first time that neither the Director of Treasury nor the Pay and Accounts Officer (PAO) or the Director of Works and Accounts managed the treasury operations. The AP Comprehensive Financial Services Company, set up as a private company, had taken over all treasury functions. This was the first time in the world that a private company and a person without any accountability to the government managed lakhs of crores of public funds.

83. The financial situation, as it stands today, stands crippled, the biggest legacy of the previous government. The resources are limited, the debt servicing obligations are overwhelmingly huge, and the vast unavoidable liabilities such as ones described in the table below, had placed the government in an unenviable situation. The present Government has commenced its journey with liabilities to GSDP ratio of more than 35 percent.

Particulars	**Amount in INR Crores**
Outstanding debt	2,58,000
Off budget borrowings (Contingent Liabilities)	58,000
Other dues (key ones are specified below)	
Power sector	18,375
Civil supplies department	10,000
Liabilities in other departments	18,000
Total	**3,62,375**

Way Forwards

84. As mentioned above, historical analysis reveals that the State finances and economy turned around since 2004-05, when late Dr. YS Rajasekhar Reddy, took over the reins of Andhra Pradesh. There was significant fall in the poverty levels in the State during that period and the overall poverty ratio in the State had come down to 9.20 percent by 2010, which was much below the national average of 21.92 per cent. Unfortunately, much of these gains have been undone during the past five years.

85. The new government faces several challenges, all bequeathed by the previous government, that include rural agrarian distress, rapid urban migration and consequential growth of slums with poor civic services, rural and urban areas without basic services, dysfunctional school education, completely collapsed public health system, and above all weakening of government institutions from village to the secretariat. State is ranked very low in the human development index (HDI), characterised by low literacy rates, especially female literacy, relatively high mother and child mortality and morbidity rates, high malnutrition levels amongst children.

86. Andhra Pradesh has relatively high proportion of young people, who need to be educated, endowed with skills and provided gainful employment in order to harness the ‘demographic dividend’. As mentioned above, the State is blessed with abundant natural resources, long coast line, and internally valued human resources. Unfortunately, during

the past five years, the inequities between regions and social groups have accentuated. The rural urban gap in terms of access to quality of services have also increased sharply.

87. This government recognises the gigantic challenges it inherited and seeks to convert every challenge into an opportunity through comprehensive development vision, strategy, programmes and institutions for the transformation of Andhra Pradesh State into a modern, developed and inclusive State. The government seeks to create a New Society where every single individual – from the new born child to the oldest and from the richest to the poorest and from the SC / ST / OBC / Minorities as well as the other Castes – believe and trust they are being given a fair and just opportunity to realise their full potential. In short, this government not only cares for its citizens but also creates opportunities to realise their dreams and aspirations.

88. The vision of the government is to script a brand-new chapter in the history of our State that is based on four pillars of principles and practices, that include *inter alia*: i) good governance; ii) accelerated, inclusive social and economic development; iii) eradication of poverty, deprivation, and above all corruption; and iv) a comprehensive and decentralised social security system for the weak and vulnerable sections of our society. In this direction this Government seeks to place highest importance to human capital development through investments in education, health care, nutrition, skill development, employment generation, social security and welfare for the weaker sections of the society.

89. Above all else, this Government is committed to securing Special Category Status for the State from the Central Government. It wound bring Godavari waters to Srisailam; stabilise Krishna delta ayacut; and ensure timely completion of Polavaram, Vamsadhara, Veligonda, Handri-Neeva, Galeru-Nagari and other major projects. The Government will deliver piped drinking water to every household; establish underground drainage and sewage management systems for the urban areas; comprehensive pollution control systems, and environmentally friendly policies and programs; replace the existing fleet of public transport buses with Electric Vehicles; set up steel plant in Kadapa; introduce modern transport system for the major cities, and above all facilitate rapid industrialisation of the State.

90. Further, the Government is committed to the implementation of pro-poor and pro-people policies, strategies, programmes and projects in harmony with the United Nations' Sustainable Development Goals (SDGs) and national development priorities. The Government will compressively address and correct the legacies of not only unjust and iniquitous bifurcation of the erstwhile State of Andhra Pradesh, but more importantly, the ailments of mis-governance, corruption and systematic weakening of governance institutions of the post-bifurcation phase.

91. In this background, the Government - with its commitment to ensure transparent, corruption-free, pro-people, responsive and effective governance - have decided to place the above information in the public domain with a view to invite the attention of the public at large and other stakeholders to the distressing financial situation prevailing in the State. We earnestly hope that this would invite widespread discussion and debate about not only the current state of affairs but also invite people's constructive suggestions for putting the state on the accelerated development track. This Government of the people, by the people, and for the people, is committed to transforming the State and creating the ecosystem where every citizen becomes active partner in its accelerated development process. Accordingly, we invite all citizens to become active partners in the transformational development *Yagnam*.