

Office of the Deputy Chairman
Planning Commission

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Andhra Pradesh Annual Plan

The Annual Plan discussions with CM, Andhra Pradesh were concluded on 21st April. in a meeting with Chief Minister. A detailed note will be put up separately by Member Dr. Abhijit Sen but I thought I would present some Prime Minister's information.

1) The annual plan for 2008-09 has been fixed at Rs.44,000 crores which represents a 47% increase over the level of Rs.30,000 crores last year. The large increase is funded mainly by a ~~32% increase in the State's Own Tax Revenues over the actuals of 2007-08 and a projected realisation of Rs.12,000 crore from sale of land.~~ We indicated that the prospects of mobilising such a large amount from sale of land were somewhat uncertain. During 2007-08, the State claims to have mobilised Rs.6,568 crores from the sale of land. CM felt that while it is ambitious he wants to give special push to plan expenditure in the current year. The tax projections are also optimistic since tax revenue growth has been 19.6%, 22.0% and 20.7% in 2007/08, 2006/07 and 2005/06 over the respective previous years. In the end we felt that we could not deny them the opportunity to be ambitious in their plan, but we made it clear that the State should identify a plan-B of the core element to be funded in case the projected resources do not materialise.

2) ~~Andhra Pradesh's economic performance over the past several years has been very good.~~ After achieving a growth rate of 5.7% in the 9th Plan, the State achieved 7.4% in the 10th Plan. It has targeted 9.5% in the 11th Plan and the estimated growth in the first year of the 11th Plan was 10.4 percent. (This is based on State government data as CSO information is not available).

3) The State seems to have ~~done well in agriculture.~~ Prof. Abhijit Sen, who is the Member responsible for A.P., frankly admitted to CM that he was sceptical three years ago whether A.P. would turn around in agriculture, but was very happy to acknowledge that he was wrong at the time! The State has reported substantial increase in food grains production from 134 lakh tonnes in 2004-05 to 190 lakh tonnes in 2007-08, an increase of over 40% in three years. The base year figure for 2004-05 was unduly depressed, but even if this is ignored, the growth from 2005-06 is 12 percent over 2 years, which is surprisingly good. The ~~State has also done good work in developing district specific agricultural development plans for the RKVY.~~ Chairman NRAA confirmed that their work is much better than others – of course we will only know the results in a couple of years.

4) The State has seen significant improvement in its fiscal position with the fiscal deficit declining from 4.5 percent in 2002-03 to 3 percent in 2007-08 and the primary deficit from 0.9% in 2002-03 to 0.2% in

2007-08 (RE). This has happened even while Plan expenditure has increased from 5% of GSDP in 2002-03 to 8.7% in 2007-08 and as much as 12% in 2008-09, if the proposed Plan is realised. This represents a massive increase in Plan expenditure of 7 percentage points of GSDP. Even if the latest numbers prove unachievable the overall increase will be impressive.

5) Andhra Pradesh has achieved an impressive increase in investment in irrigation which accounts for around 40% of the total plan. We were earlier sceptical of the large increase targeted by the CM, but the latest assessment is that implementation of these projects seems to be proceeding well and the State is well positioned to achieve a large increase in the irrigation potential in the course of the 11th Plan. They are proceeding with command area development work in parallel with the main irrigation projects which is important to achieve effective utilisation. They have implemented Participatory Irrigation Management though their statutory framework lags behind that of Maharashtra. They have also not yet benchmarked irrigation project performance as well as Maharashtra has done. We will be pursuing these issues with them.

6) The State has been very successful in using improved infrastructure to obtain high levels of private investment. They have been successful in attracting private investment in infrastructure in ports. Gangavaram port, for example which is entirely a private sector "minor port" south of Visakhapatnam, now has a capacity which rivals that of Visakhapatnam and is expected to exceed it very shortly. In a recent breakfast meeting in New York with several very substantial investors, one of them – Warburg Pincus – who have actually invested in Gangavaram expressed satisfaction with the implementation record. ~~The CM told CM that his State's performance was applauded by investors in New York.~~


7) The State has also invited bids for the Hyderabad Metro which is proposed to be constructed on the PPP mode. The project has a capital cost of Rs.10,000 crores of which 20 percent is expected from viability gap funding under the VGF scheme and 10% from the JNURM. The project includes real estate development that would help to cover substantial operational losses. For PM's information, the RFP document as well the concession agreement used by A.P., are based on the Planning Commission model documents. ~~Their current schedule is to award the project by the end of June. This will be an outstanding success if achieved.~~

8) A.P. has also initiated an innovative scheme for building model schools in each block based on PPP. The scheme involves government providing land, some contribution to the running costs with complete management control by the private sector. Seats for 75% of the students are filled with admission decided by the State Government and 25% of the students can be admitted on the basis of management quota. (For PM's information, we have had a brainstorming session with several private parties involved in Primary Education to see how the PPP mode

could be used in the scheme to set up one model school in every block. The AP model is being studied in this context also).

9) AP's experience with the Power Sector is very good and indeed a model for others. ATC losses have been reduced from 25% in 2001 to 17% by 2006-07. This is a much faster reduction than achieved by other States. This has been done through focussed management attention to distribution combined with improved governance and legislative steps declaring power theft a cognizable offence.

For information.


(Montek Singh Ahluwalia)
April 23, 2008

Prime Minister