Economic Restructuring
in
Andhra Pradesh

An Analytical Introduction to

The Andhra Pradesh

Economic Restructuring Project

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Foreword

In 1995 before the World Bank aided Andhra Pradesh Economic Reform Agenda was conceived, the Centre for Environment Concerns published a research study titled “Foreign Funding to Andhra Pradesh”. The study brought out the increasing role of foreign assistance in the state budget and rising dependence on it both for resources and development ideas and direction. By then Andhra Pradesh was already a World Bank favorite and this got consolidated with Andhra Predesh being the first state in India to come under the World Bank Structural Adjustment scrutiny. The book was completely sold out and led to efforts for bringing out an updated analysis as the situation unfolded. This book is a part of that effort and is being followed up currently by closer examination at the sector level – electricity, forestry, poverty and health.

Dissecting the thinking or implementation of Structural Adjustment Programme (SAP), either holistically or sectorally, has been a priority for civil society organisations and their networks, since the decade of the eighties. In fact, the opposition has been so strong and organised that it got institutionalized at the international level in the form of ‘Structural Adjustment Programme Review Initiative Network (SAPRIN) during 1997 to study the country level impacts of SAPs in a participatory fashion. This opposition has stemmed, not only because of the long-term negative socioeconomic impacts associated with the implementation of the SAP in most of the countries, but also due to undemocratic and non-transparent ways in which the elements of the SAP continue to be negotiated between national governments and the World Bank.

Given this global experience, civil society in India has not been surprised when these attributes associated with the SAP have surfaced after it was implemented under the name of ‘Andhra Pradesh Economic Restructuring Programme (APERP)’ in the state of Andhra Pradesh (AP) in India since 1997/98 – the first case of direct sub-national application of an SAP at the Asian level. In fact the qualitative as well as the quantitative findings in context of APERP provide one more opportunity to civil society for exposing:

- the structural and non structural defects associated with the design of any SAP;
- the ways in which the WB serves the economic objectives of multinational players through the route of the SAP;
- the methods adopted by the ruling elite to achieve their political objectives through the implementation of the various elements of the SAP; and
- the non-transparent and undemocratic precedents that get established due to the implementation of a state level SAP

This effort is to provide an analysis of the possible disastrous implications of the various measures being promulgated by the State Government under the guidance of the WB and bilateral donor agencies in areas like irrigation, education, health, power and roads. The publication also analyses the implications of the APERP on the macroeconomic fabric of the State. Even though this explication may sound overly pessimistic, readers should note that this 'realistic' analysis is based on similar sectoral experiences in countries where SAP has been implemented. In fact, it is this cruel reality that is generally found to be kept missing in the mainstream economic literature published and financed by government machineries and funding institutions. The obvious reason being, to generate mass support for their programmes.

On reading the analysis, the readers would realize how APERP is one of the most non-transparent and undemocratically decided package of policies that has been ever trusted on the people of AP. The critique also shows how the AP-leadership, in order to portray a positive international image to suit its political objectives is going overboard with the agenda of liberalization, privatization and globalization, more so at the cost of the people who have voted them to power.

It is also quite tragic to see that international bureaucracy working with the WB or other donor agencies are being a party to such endeavours while preaching the importance of transparency and democracy in other states and countries. In fact one feels quite shocked that these agencies continue to support the government in spite of the way in which it has dealt with recent protests against power tariff hikes. What they fail to understand is that implementation of their ideas without any public debate is only increasing the social strife in the state.

Such an analysis would be of no use unless it becomes a basis of actions that could be taken up by various civil society groups working on different elements of the SAP, in AP, nationally as well as internationally.

We would therefore encourage civil society to reproduce the sectoral/holistic analysis in the publication in their local languages and discuss it with people. They could also use this analysis to brief as well as question members of legislative assemblies, municipal corporations and parliamentarians from their respective constituencies on similar issues. This information could be used to spark off debates on generic issues such as transparency and legitimacy of any reform process. More so, this available information can be used to generate more micro information at the state level. Groups could keep each other posted about the actions they are initiating on the basis of this publication and can also test the possibility of replicating programmes being undertaken by various groups.

We at Focus-India Programme and CEC are quite sure that it is such people driven processes that will ultimately lead to the downfall of opaque decision making processes/partnerships and institutions like the World Bank. More importantly, these processes will give confidence to the people to express the fact that it is not the government, bureaucracy or international institutions, but they who are central to any economic reform programme/decision making process.

CHAPTER - 1

The Background

If one has to go by the views being circulated in the media and among the influential sections, Andhra Pradesh (AP) is the most happening state. Nationally and internationally it is being talked of as a trendsetter. While one may dispute this, the fact that AP is the first state formed on language basis is indisputable. In 1952, the state of Andhra was formed with the Telugu speaking areas of erstwhile Madras State. Later, larger state of Andhra Pradesh was formed on 1-11-1956 with the inclusion of Telugu speaking areas of Hyderabad State, which was ruled by the Nizams before its integration into India. At present, AP consists of 23 districts and is divided into three broad geographical regions: Coastal Andhra, Telengana, and Rayalaseema.

Among all the states in India, Andhra Pradesh stands fifth in terms of population. According to the 1991 census the population of AP is 66.5 million, constituting 8% of India's total population. The population density in the state is 276 persons per square kilometer, which is less than the national average. 73% of the population live in rural areas. Incidentally the rural sector provides employment to more than 70% of the population of AP.

Comparative Social Development Indicators

	Andhra Pradesh		Six States*		All India	
	1981	1991	1981	1991	1981	1991
Poverty (%)/a	43.6	26.6	44.2	23.0	48.3	22.5
Literacy (%)	40.0	27.2	47.4	35.3	51.8	39.3
Female literacy	24.2	32.7	34.0	42.4	29.8	39.3
Crude birth rate	31.6	25.8	30.4	27.8	33.8	29.9
Infant mortality	86.0	73.0	86.3	65.1	110.0	80.0
Sex ratio	975	972	964	935	935	927

*Haryana, Karnataka, Maharastra, Punjab, Rajasthan, and Tamil Nadu

/a Expert Group estimates

Source: World Bank (1997): Andhra Pradesh – Agenda for Economic Reforms, p.8

AP fares very poorly in terms of social indicators. Literacy rate in AP is less than the national average. In 1991 while at the national level 52% of the population was literate, in AP the figure was only 44%. This gap is even more pronounced in the case of female literacy. As per the 1991 census, in AP 32.7% of the female population are literate as compared to 39.3% at the national level. This picture is even more dismal in the case of women from SC and ST communities among whom only 16.2% and 7.3% respectively are literate.

Situation in the education sector is not far from different. Problems relating to low enrollment and retention and high dropout rate beset the education sector in AP. Among the school going age children only 48% are enrolled. Out of the total enrolled children only 35% complete elementary education. Among SCs and STs this stands at 27% and 18% respectively only. One of the important causes for this dismal situation is the under provision for education. Budgetary allocations for education in AP declined to 3% of GSDP in 1995-96 compared to 3.7% at all India level and 6.6% in the case of Kerala.

Comparison of Education Expenditure

	Percentage of NSDP Spent on Education (%)	Share of Primary Education in Total State Expenditure (%)	Per Pupil Expenditure on Elementary Education (Rs)
Andhra Pradesh	3.0	6.9	222
Kerala	6.6	12.7	777
All States	3.7	9.9	32

Source: Report of the Rural Poverty Task Force, Andhra Pradesh – 2000

Health indicators also show the relative deprivation prevailing in AP. The rate of decline in infant mortality is lower than in any other Southern state. In AP it declined from 86 per 1000 live births in 1981 to 71 in 1991. It declined from 37 to 17 in Kerala and 91 to 58 in Tamil Nadu during the same period. Related to this, nutrition levels in AP are quite low. According to the National Nutrition Monitoring Bureau (NNMB) there has been a steady decline in cereal and milk consumption in AP. Though severe malnutrition declined during the past two decades, moderate malnutrition remained at the same level.

Trends in Average consumption of Food Stuffs and Nutrients in AP (gr./CU/day)

	Cereals & Millets	Pulses	Milk and milk products	Protein	Energy
1975-79	568	31	98	59.8	2447
1988-90	534	28	82	55.7	2340
1996-97	496	30	76	51.6	2161
RDA	460	40	150	60.0	2425

RDA: Required Dietary Allowance
Source: Report of the Rural Poverty Task Force, Andhra Pradesh – 2000.p.5.

This dismal situation in the health sector is because of abysmally low budgetary allocations towards health expenditure. Annual budgetary allocations for health have been less than one percent of the state's GSDP, which is less than two-thirds of what would be necessary to meet the health norms set by the central government for a basic package of primary health services.

Different Estimates of Rural Poverty for Andhra Pradesh: 1993-94	
Studies	**Head Count Ratio**
Expert Group Method	15.9
Deaton, A.	29.0
Datt, G.	28.9
AP	27.0

Poverty rate in the state declined from 40% in 1981 to 27.2% in 1991. Poverty in rural areas has declined faster than in the urban areas. While rural poverty declined from 48.4% to 15.9% in 1993-94, urban poverty declined from 50.6% to 38.3% during the same period. Notwithstanding these numbers general living conditions of the poor deteriorated because of decline in wages and high inflation rates. During 1981-90 real wages received by the male farm workers is estimated to have increased by 5.74% and during 1990-99 by 1.53%. In the case of female farm workers this increase is 4.76% and 1.94% for the two periods respectively.

State Ranking on the Basis of Alternative Indicators of Well Being – 1993-94

States	Head Count Ratio		Life Expectancy		Infant	Literacy	
	Rural	Urban	Male	Female		Male	Female
Punjab	16	16	13	12	14	8	11
AP	15	14	7	5	8	2	5
Gujarat	14	15	6	6	10	11	9
Kerala	11	10	14	13	15	16	16
Haryana	13	12	11	10	7	9	8
Rajasthan	10	11	4	4	4	4	1
H P	12	13	-	-	-	14	14
Karnataka	7	7	10	7	9	7	7
TN	6	6	9	9	12	12	12
Maharashtra	5	4	12	11	13	15	13
WB	9	8	8	8	11	10	10
Assam	8	9	-	-	5	13	15
UP	4	5	2	3	3	3	3
MP	3	3	1	1	2	5	4
Orissa	2	1	3	2	1	6	6
Bihar	1	1	5	-	6	1	2

Note: The Ranking is from higher (16) to lower (1)

Source: Report of the Rural Poverty Task Force, Andhra Pradesh – 2000.Annex Table: 3

This dismal performance of AP on the social front has its roots in its precarious financial condition. Over the years debt burden has increased to unsustainable limits and the state is virtually in debt trap. The revenues mobilised by the state government are not even sufficient to meet the routine revenue expenditure, not to speak of capital and developmental expenditure. To meet the capital expenditure the state government is resorting to loans both internally and externally at increasing rates of interest. This in turn has debilitating impact on socioeconomic life in the state.

STATUS OF AP FINANCES

Rising Revenue Deficits: The basic feature of the state's finances in the last decade or more is that it has not generated revenues to cover its revenue expenditures, leave alone generating surpluses for capital formation. In fact it has been borrowing to meet its revenue expenditure.

REVENUE DEFICITS OF ANDHRA PRADESH			
			(rupees in crores)
Year	Revenue Receipts	Revenue Expenditure	Deficit
1986-87	2910.88	3099.33	-188.45
1987-88	3353.65	3316.50	+37.15
1988-89	3797.31	3764.01	+33.30
1989-90	4181.58	4419.81	-238.23
1990-91	5024.90	5182.50	-157.60
1991-92	5935.82	6105.39	-169.57
1992-93	6689.17	6812.98	-123.81
1993-94	7814.28	7581.97	-232.21
1994-95	8204.73	8932.46	-727.73
1995-96	9197.00	9964.00	-767.00
1996-97	10498.00	11386.00	-888.00
1997-98	13080.00	13783.00	-703.00

Source: State Finances: The Factual Position, Finance and Planning Department, GoAP, June 1996 and Strategy Paper on Fiscal problems, Finance Dept, February 2001.

In AP, a revenue surplus was financing expenditure from 1974-75 to 1982-83. Thereafter, a capital surplus i.e. borrowing has been financing the revenue deficit.

Increasing Public Debt: The extent of fiscal stress in AP can also be illustrated by the huge debt burden it has acquired over the last decade. While the quantum of loans has increased, the interest rates have also increased, thus adding to the fiscal crisis. While the expenditure since 1981 has led to large revenue deficits it has not resulted either in greater growth of the economy of the State or in a faster decline in poverty in the State. As a result fresh loans have had to be incurred to cover the revenue deficit.

PUBLIC DEBT OF ANDHRA PRADESH

(Figures in Rs. Crores)

Year	Loans Outstanding as at the end of March				Total	% Increase	Average Rate of Market Interest
	Central Loans	Market Loans	PF	Others			
1986	2538	644	246	694	4122	17.40	4.63
1987	2809	772	299	965	4845	17.54	6.10
1988	3069	933	404	1085	5491	13.33	5.70
1989	3372	1135	523	1193	6223	13.33	5.99
1990	3774	1357	594	1292	7017	12.76	6.71
1991	4368	1596	690	1414	8068	14.98	7.31
1992	5056	1935	819	1563	9373	16.18	7.41
1993	5852	2272	957	1886	10967	17.01	7.56
1994	7094	2609	1109	2085	12897	17.60	7.89
1995	8342	3047	1334	2401	15124	17.60	8.25
1996 (RE)	9526	3528	1534	2784	17372	14.58	8.70
1997	-	-	-	-	19970	14.96	11.80
CGR (%)	9.64	8.00	6.50	1.05	11.20	-	-

As the above table indicates, not only has there been a steady increase in the State's borrowings, but each year the State retires low cost debt and acquires higher cost debts, as the interest rates have almost doubled in the last decade, from 4.63% in 1986 to 8.70% in 1996. These borrowings are now being deployed for current consumption or for building low yielding assets. In addition, debt-servicing costs are eating into an increasingly larger share of new debt raised each year. In fact, close to 82% of fresh debt contracted goestowards debt servicing leaving very little for fresh investments. The State's debt servicing has gone up from Rs.190 crore in 1985-86 to Rs.3609 crore in 1997-98.

The following table indicates that the fiscal deficit has increased by 13.05% [CGR] in the 1990s and illustrates how past borrowings is draining the exchequer at present even as the public debt of Andhra Pradesh continues to increase. Since 1990-91, bulk of the fiscal deficit is due to debt obligation.

TRENDS AND MAJOR COMPONENTS OF FISCAL DEFICIT IN AP

(Rs. Crores)

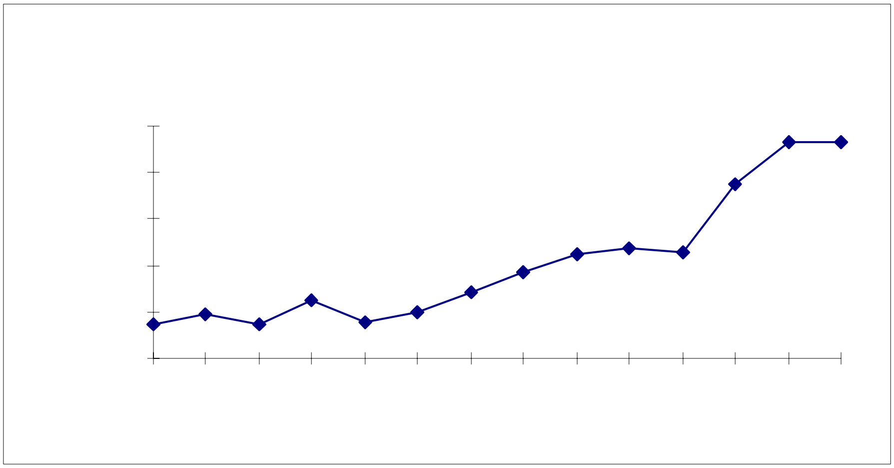
Year	Fiscal Deficit	Loan Repayments	Interest Repayments	Total Repayments
1989-90	791.59	256.45 (26.39)	270.94 (48.47)	727.39 (74.87)
1990-91	967.07	217.87 (22.53)	586.52 (60.96)	807.39 (83.49)
1991-92	1125.31	394.45 (35.05)	694.99 (61.76)	1089.44 (69.24)
1992-93	1569	256.73 (16.36)	826.92 (52.88)	1086.65 (69.24)
1993-94	1833.19	329.41 (17.97)	1024.98 (55.91)	1354.39 (73.88)
1994-95	2348.52	746.68 (31.79)	1256.38 (53.50)	2003.06 (85.29)
1995-96	2445.00	682.00 (27.89)	1527.00 (62.45)	2209.00 (90.35)
1996-97	2763.00	1208.00 (43.72)	1839.00 (66.56)	3047.00 (110.28)
1997-98	2428.00	860.00 (35.42)	2153.00 (88.67)	3153.00 (129.11)

Figures in Brackets are % of Fiscal Deficit [Col. 2]

Total borrowings in each financial year increased from Rs.556 crores in 1981-82 to nearly Rs. 3600 crores in 1996-97 – annual borrowings increased by 7 times in the course of one and a half decades. At the end of 1997-98 AP's total outstanding debt was Rs.19,970 crores.

Interest payments alone, which was 7.03% of revenue expenditure in 1980-81 rose to 10.71% in 1990-91 and to 14.02% in 1994-95. In 1997-98, interest payments formed 15.62 per cent of the revenue expenditure.

The gap in earnings of the State on revenue account to meet the revenue expenditure has been growing as graphically shown below.



Between 1988-89 and 1996-97, this gap between revenue receipts and expenditure increased by more than five times. Even though the State is earning every year more than what it earned the previous year, increased earnings are nowhere near meeting the revenue expenditure.

AP – a classic case of politicisation of the poor

AP governments have been traditionally famous for doling out huge food subsidies and for employing welfare schemes for the poor. Interestingly, The Comptroller and Auditor General of India, in many of its reports have pointed not only gross inefficiencies involved with this process but also massive politicisation of the poor under the garb of welfare.

Hence it would be interesting to see whether the poor have actually benefited as a result of the heavy emphasis on food subsidies and welfare programmes which have been actually carried out by incurring large revenue deficits? In view of the controversy regarding the estimation of these levels, the figures according to the Planing Commission methodology and the Expert Group's recommendation can both be considered.

There is no dispute in both these analysis that the major drop in poverty levels took place from 1973 to 1983 and not from 1983-88. According to Planning Commission, figures the drop before 1983 was 18.5 percentage points but from 1983 to 1988, it was only 4.7 percentage points. According to the Expert Group, the position is even worse; the fall before 1983 was 18.37 percentage points while after this it was only 2.68 for the period 1983-88.

Interestingly, the number of poor in AP as a percentage of the poor in the whole country actually went up from 1983 to 1988 (according to Planning Commission figures — from 7.6 per cent to 8.2 per cent and according to the Expert Group figures, from 5.2 per cent to 5.4 per cent). Therefore, by either method, poverty levels actually went up in the period after 1983 when the expenditure on welfare programmes increased at the expense of infrastructure.

Thus, while the pattern of expenditure since 1981 has led to large revenue deficits, it has not resulted either in greater growth of the economy of the State or in a faster decline in poverty in the State. All we are left with is only the loans that have been taken to cover the revenue deficits!

AP's External Debt

As the State found itself unable to finance basic developmental activities from its own revenues, it increasingly turned to the Centre for support. While there has been an annual increase of Central support for State Plans under its Plan assistance, it was quite unlikely to satiate the demands of the State completely, especially in the context of the Centre's overemphasis on tightening its fiscal deficit. Hence the State Government had to resort to external loans.

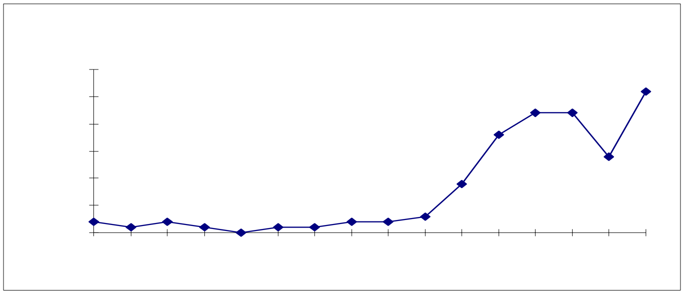
Preliminary reviews of budgets of AP indicate that the State has been increasingly resorting to borrowings from foreign sources for funding. Over the last six years, the foreign loans and contributions have increased more than ten-fold. Foreign components of the annual budgets from 1990-91 to 1996-97 have been as follows as follows:

Foreign Component of the AP State Budget

1990-91	Rs.48 Crores
1991-92	Rs.204 Crores
1992-93	Rs.438 Crores
1993-94	Rs.626 Crores
1994-95	Rs.570 Crores
1995-96	Rs.497 Crores
1996-97	Rs.936 Crores

As of January 1997, the State had 21 EAPs. The total cost of these projects is Rs. 5247.94 crores and the component funded by foreign loans is Rs.3942.03 crores. The World Bank funds seven of these projects. OECF, DFID, and the Netherlands Government are financing 3 projects each; the ADB and IFAD are financing 2 projects each, and SIDA is financing one project. These projects cover physical infrastructure such as irrigation, power, and transport as well as social infrastructure such as education, health, and sanitation. There are also 8 centrally sponsored externally aided schemes in AP with an expenditure of Rs.692.37 crores.

The following graphs show the trend of external loans received by the State and the percentage of external loans to total loans. From 1990-91 the amount of external loans borrowed by AP increased from Rs. 48 crores in 1990-91 to Rs. 626 crores in 1993-94. It declined to Rs. 570 crores in 1994-95 and to Rs 497 crores in 1995-96. Again, the external loans increased to Rs. 936 crores in 1996-97. Also, as a proportion of total loans, external loans are rising and hovering around one fifth of the total loans borrowed by GoAP



Analysis of the loans shows that more than 75% of the external loans have been borrowed for a few mega projects such as Srisailam Left Bank Power House project and Power Transmission Project, Hyderabad Water Supply and Sanitation Project, Kakinada Port Development Project and the Rayalaseema Thermal Power Station Project at Muddanur.

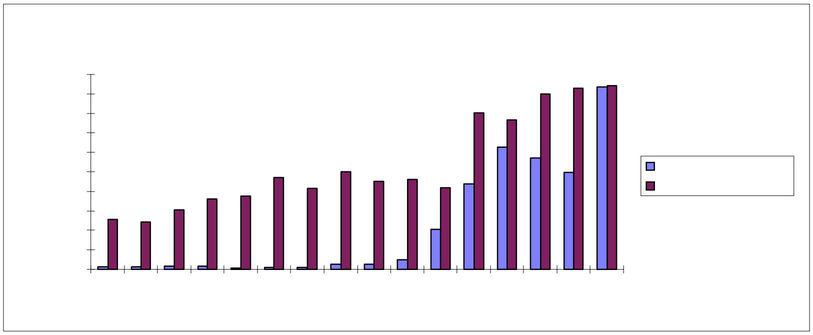
Funding for Development

Infrastructural development projects form the foundation for building any economic superstructure. These projects generally call for large investments to be made. For many years now, the government has been solely responsible for carrying out such development work.

Until 1989-90, the State was able to manage capital expenditure for by borrowing from the domestic market. This trend has changed from 1990-91 and external borrowings for capital expenditure are heavily being resorted to without conducting an analysis with respect to bunching of future payments vis-à-vis interest and actuals. External borrowings reached a staggering Rs.936 cr. in 1996-97, which incidentally equals 90% of the capital expenditure for the year 1996-97. This implies that if the government does not resort to external borrowings it would not be in a position to incur capital expenditure, given the dismal state of revenue collection.

With external loans comes a baggage of conditionalities, which reflect policy predilections of the lenders and AP has not been an exception, as we would see in the future sections. Hence one should not be surprised if the future developmental expenditures of the state are based on the priorities of the donor agencies rather than those of the State.

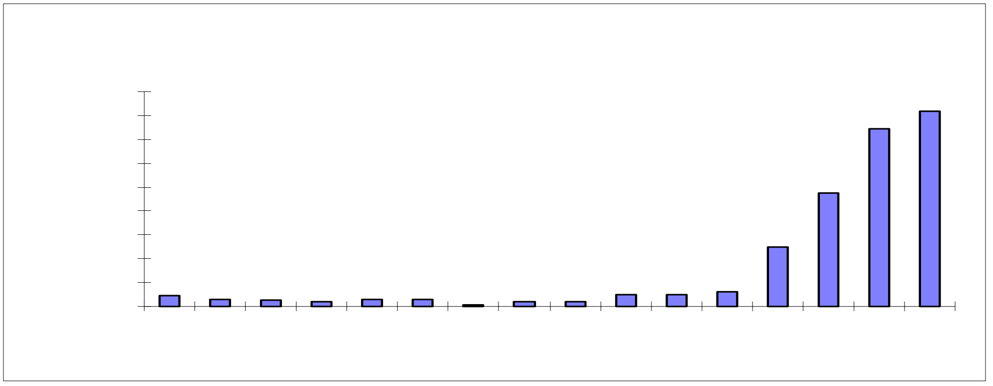
The graph below shows the status of loans on external account and capital expenditure.

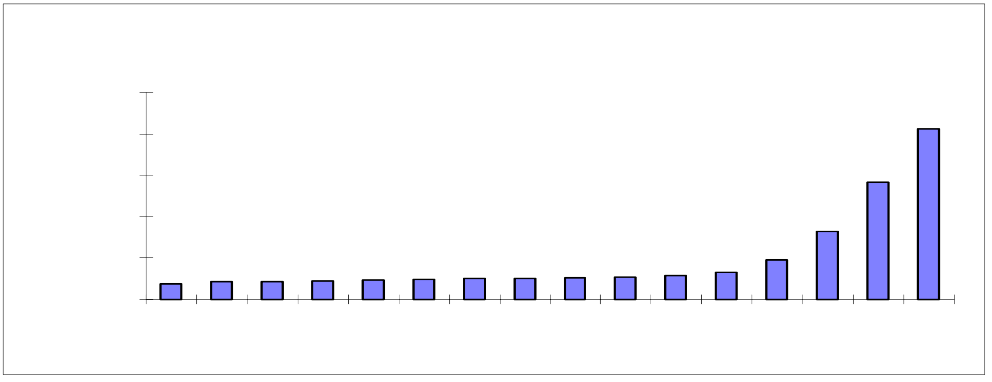


Impacts of Increased External Borrowings

The period up to 1990-91 has not been taxing for the State in terms of interest and repayments. However, from 1991-92 there is a quantum jump in both because of increased borrowings. The interest on external loans was around 0.5% of revenue expenditure until 1990-91. Subsequently it has grown and is now about 6%. Similarly, the repayment, which was around 0.25% of revenue expenditure, has now grown to about 2.5% by 1994-95.

The compound growth rate of repayment on external account during the period 1979-80 and 1994-95 is 23% per annum and the compound growth rate of interest payment on external account for the period is 18% per annum. *It is interesting to note that the repayment and interest payment growth rates are far higher than the borrowings growth rate*.





The increasing importance of EAP in Central assistance is shown by the fact that while the assistance for EAP in AP was 22% of the total Central assistance in 1991-92, it was 57% in 1993-94. Though it declined to 31% in 1995-96, it again increased to 52% in 1996-97.

Foreign Funding and Sectors

Analysis of the funding pattern over the past three decades for all the foreign funded projects shows the shifts in magnitude of funding.

- Up to 1985, irrigation and flood control as well as energy received heavy emphasis
- During 1986-90, while irrigation and energy continued to get a substantial share, diversification of sectoral allocation is noticed. The new sectors claiming allocation are education, roads, water supply and other infrastructure areas like ports, fisheries, sericulture, fertiliser industries, coal mining etc.
- The period 1991-95 witnessed a consolidation of this sectoral shift and irrigation and energy were allocated only 32% of the total outlay. Major emphasis was placed on education, roads, ports, fisheries, and other industries.
- Based on the external loans already finalised, the sectoral allocation for the period after 1995 shows that currently no loans have been lined up for the irrigation and energy sectors. This is because of the broad policy framework being adopted in the country to encourage private sector participation in these sectors.

Sectoral distribution of loans (US $ Million)

Upto 1985		**1986-90**		**1991-95**		**After 1995**	
Irrigation & Flood Control	227	Irrigation & Flood Control	386	Irrigation & Flood Control	498	Education	189
Energy	170	Energy	233	Education	406	Social Welfare	153
Agriculture	26	Education	90	Ports, Fisheries and Others	360	Ports, Fisheries and Others	86
		Roads	74	Roads	323	Agriculture	65
		Water Supply	65	Energy	189	Roads	50
		Ports, Fisheries & Others	58	Water Supply	177	Water Supply	49
		Agriculture	39	Social Welfare	91		
				Agriculture	71		
Totals	**448**		**908**		**2,115**		592

Source: 1) External Assistance, GOI; 2) Development Co-operation, UNDP

These sectoral shifts have several ramifications. These changes signify entry of the private sector into energy, roads, and other infrastructure projects. The entry of the private sector into these sectors can have various socio-political impacts. Since profit and return maximising objectives drive the private sector, there may be an increase in the tariffs, rates, or other costs of services rendered by this sector as compared with the current subsidised prices of these services. This can cause an increase in the cost of living to the people, which in turn can cause social and political stress.

The Issues

For resource strapped states, the availability of external aid temporarily eases the fiscal burden and lends an illusion of development activity in the short term but leads to long term problems that need to be addressed. There is need to examine issues related to foreign funds as these are increasingly setting agenda for development in the recipient countries.

One of the issues related to the foreign funds is its impact on the State's budget and the resultant debt burden it imposes on the people of the State. Foreign funding is acquired for infrastructural and welfare projects. While the returns on investment in infrastructure are traditionally low, returns on investment on welfare schemes cannot be quantified and anyway such expenditures are undertaken by the government with a long-term view of increasing the standard of living. If resources have to be raised from the activities that receive external aid, these activities would have to be commercialised (and perhaps even privatised) with the consequent increase in user cost. Alternatively, taxes and tariffs will have to be increased across the board in order to meet repayment obligations. If the burden of repayment is borne by GoAP by raising taxes, then even those who do not benefit pay. If there is an increasing commercialization of infrastructural and welfare schemes in order to make cost recovery possible, these essential services may move out of the reach of the poorer sections of the population.

Another issue pertains to the number of ways foreign funding affects the State's developmental priorities. The development interventions that have been practiced over the years in the name of development aid affects social, economic and political balances in the "target" area. Apart from straightforward dependencies created by conditionalities connected to 'tied aid', there are other ways in which external aid affects the State's budgeting and resource allocation process. Externally aided projects often provide only for capital expenditures while leaving the local government to raise resources for revenue or current expenditures. These loans also stipulate counterpart funding/ matching contribution from the home state or government and this pre-empts part of the State's budget leading to a measure of inflexibility in fiscal programming. For example, the total CERP outlay equals one-half of the annual plan outlay of AP during the eighth five-year plan. This project is spread over three-years and GoAP has to meet one third of the project cost. This means that nearly 20% of the plan outlay is already predetermined. In the case of APERP also while the total project cost is Rs. 3300 crore the World Bank will be providing only two-thirds of the funds requiring the state government to meet the remaining funds through counterpart funding. In addition to the domestic resource crunch, revenue expenditures are diverted to projects that are externally aided. Indirectly, therefore, the prioritisation of projects is determined by external agencies.

Historically one has seen that projects shaped and financed with the help of the World Bank have failed to demonstrate a key outcome - multiplier effects that trigger locally promoted development initiatives. On the other hand, there is clear evidence of more dependence on Bank money and projects becoming counter productive. To give an example - The money given in Bank projects to contractors for "works" is twice or even three times of what they would receive for similar jobs in projects funded by the State government. Also, tendering conditions favour large private enterprises. Contractors now seek World Bank rates for State Government Projects. This means reduced coverage and targets on infrastructure and social development programmes in locally funded projects.

Foreign borrowings have implications on political autonomy of the state. The state policies may be changed to suit the requirement of the foreign donor. The foreign agencies seek certain policy or structural conditions while granting of a loan. For example: the World Bank has listed some politically sensitive options to be explored by the centre and states to reduce the fiscal deficits, to qualify for further loans and grants. These invariably take the form of conditionalities. In addition, donor agencies schedule loans according to the their political priorities and agendas.

Since foreign loans are currently available, there seems to be a lack of effort on the part of the State to raise resources internally. For example: the Municipal Corporations of Hyderabad, Visakhapatnam, and Vijayawada are dependent on DFID for all their development expenditure. The revenue raised by these corporations is barely enough to meet working expenditures. These three cities, which are the richest pockets of the state, should be able to raise resources to meet its own development and maintenance. Foreign funding may mean choosing the politically convenient way of not raising revenues from these constituencies.

The fact that foreign funded interventions lead to organisational changes that suit the World Bank and not necessarily the project is evident from the case of Hyderabad Metro Water Works (HMWW) which was initiated in the year 1990. HMWW was responsible for supplying water to the twin cities and was a department of the GoAP, and not an autonomous body. It relied on the government for funds by way of grants. Hence it could afford to subsidise water supply. The sewerage section was a part of the MCH, which was again directly under the GoAP. While the World Bank loan was being negotiated, the HMWW and the sewerage section of MCH were merged and the HMWSSB was formed. This reorganisation and autonomy provided to the newly constituted Board enabled it to operate the organisation on commercial lines. The HMWSSB got constituted under the Hyderabad Metropolitan Water Supply and Sewerage Act, 1989, an act that was just promulgated before initiating the project. Under Section 8 of the Act, the Board is allowed to levy tariffs in order to provide sufficient revenues to cover its operating expenses, debt services, depreciation, capital costs. Two of the "covenants" of the World Bank conditinoalities were:

"HWSSB shall maintain a project cell staffed and organised in a manner satisfactory to the Bank."

And

"HWSSB by May 31, 190 and after, to staff an organisation under its Director of Finance, in a manner satisfactory to the Bank."

The moot question that should have been discussed with respect to these two covenants is: What does one mean by running an outfit "in a manner satisfactory to the Bank"? But this question was never debated upon during the planning or the implementation stage of the project, which the WB stopped funding in 1998.

Another important issue that comes up often is that a large portion of the project money goes back to the donor country or out of the recipient country through the purchase of equipment and material. The projects in Hyderabad do not require high technology in terms of material or equipment. The stringent conditions on specifications force recipients to entertain foreign tenders. Often these specifications are designed keeping in view foreign suppliers. The other source of reverse flow is training and consultancy and these are invariably sourced from outside the country of implementation. In the IPP-VII, of Rs. 379.2m set-aside for training and consultancy, about 5% (Rs.18.44m) has been earmarked for consultancy. It has been pointed out the plan for even a small building in IPP-VII has to be approved by a World Bank approved architect. The expenses for the architect's services are large in relation to the total project cost.

Looking at the number of different projects that are funded by the foreign agencies, there definitely appears to a certain adhocism about the actual process of identifying projects and identifying agencies to fund the projects. Therefore, it is not so much that projects are ranked in terms of priorities either at the national level or the state level or even at a local level and then donor agencies are identified, but the requirements of the donor are taken into consideration when putting up a project proposal. For example, the World Bank has structural adjustment, rehabilitation and environment on its agenda, and any project that has this component has greater chances of its being chosen for funding. The Netherlands government gives greater importance to gender considerations and so gender-centred projects are put before them. So is the case with the DFID, which emphasises on poverty alleviation.

The moot question is why do our policy makers find it convenient to resort to "conditionalities" of foreign donor agencies rather than take responsibility for running our institutions effectively? Does the MCH require personnel from DFID to design slum improvement programmes and oversee the work done? Alternatively, do we need experts from abroad to design our primary school curricula?

Another important issue related to foreign funded projects is the sustainability of the projects, which is related not only to the continued availability of funds after the project period is over but building up of self-sustaining institutions to continue the activities. More often than not, the question of how institutions can be run even after foreign funding has ceased is deferred.

All these issues need to be examined again in the background of implementation of comprehensive structural adjustment reforms under the World Bank financed Andhra Pradesh Economic Restructuring Project from September 1998.

In order to make optimum use of the book, it may be necessary (particularly for those who have had no prior exposure to the intricacies of development aid) to know a few general concepts relating to development aid, multilateral development institutions, and globalisation. This Annexure is meant to serve this end.

Bilateral aid is aid flow directly from one country to another country (e.g. USA to Hungary or Germany to India or even India to Bangladesh). *Multilateral aid* is simultaneously made available from many donor countries to one country through an intermediary institution, which they all support and contribute to. For example, while all US bilateral aid is channeled through its government agency, the USAID, over which the US government has full decision-making control, US multilateral aid is channeled through a variety of inter-governmental multilateral institutions ranging from the World Bank, to the ADB to UNICEF, UNDP, FAO, and other specialised arms of the United Nations system.

In the case of Andhra Pradesh, for example, the World Bank is financing AP Irrigation III project, Asian Development Bank is financing the Karimnagar highway, and DFID, which is a bilateral funding agency from Britain, is financing the slum development programme in Visakhapatnam and Vijayawada.

MDBs v/s other multilaterals. The World Bank and the IMF, formed under the Bretton Woods Agreement in 1944, are global multilateral institutions and are a part of the UN system according to the UN Charter. While these organisations are theoretically accountable to the UN, in principle they operate outside of it. Multilaterals operate at the global as well as regional level. At the regional level, regional development banks like the ADB operate. However, like the World Bank these banks also have no accountability to the UN system. The World Bank and the regional development banks are clubbed together as Multilateral Development banks (MDB).

MDBs such as the World Bank and the Asian Development Bank are to be distinguished from other multilaterals like UNICEF and UNDP. While the MDBs practically work outside UN framework the multilaterals like UNICEF and UNDP work within the limits set by the UNO. Because of this, their governing mechanisms also differ. In the case of MDBs, the voting power of member countries depends on the capital contributed by each country, while in the case of other multilaterals each country has one vote irrespective of its contribution to the finances of the organisation. This is also reflected by the fact that while the MDBs are not amenable to the underdeveloped countries vis-à-vis developed countries, other UN based multilaterals accommodate the interests of the underdeveloped countries.

Loans vs. grants. Aid or development assistance of a bilateral or multilateral type can be provided either in grant or loan form. Typically but not always, bilateral aid is in grant from while multilateral (MDB) aid is in the form of loans, to be repaid over a period. MDBs cannot give grants except by setting up a Consultative Group. The only exception to this general rule is the Japanese ODA, which provides assistance in the form of loans and not grants. Grant aid, by its very name, implies that the amount received does not need to be repaid while development assistance in the form of loans implies that the amount received needs to be repaid, even though the terms vary greatly, depending on whether the loans are concessional or not.

Concessional v/s hard loans. Concessional (or soft) loans such as those from the IDA or the ADB's Asian Development Fund (ADF) have very different maturity periods, interest rates and moratorium periods compared with hard loans received from the World Bank or the ADB's Ordinary Capital Reserve (OCR).

Concessional loans have 35-40 year maturity, annual interest rates of 1% or less, a commitment fee of less than 1% on the amount committed and a grace period or moratorium on repayment of 10 years. On the other hand, hard loans from the IBRD are derived from capital borrowed from international capital markets and are available at close to market interest rates (normally 10-11% per annum).

Developing countries with a very low GDP receive concessional loans through the IDA. Countries with a higher GDP on the other hand get hard loans through IBRD. It should be noted that the IBRD has no money of its own. What it has is the guarantee of the sovereign governments of all countries. Therefore, it can raise money from the open market at the lowest rate of interest. India, until recently, had remained the largest IDA recipient in the world. Its position has been recently taken over by China as the largest recipient of IDA funds. Still, India annually receives about 25% of the total IDA funds. ADB on the other hand has not given India assistance from the ADF. There are talks to graduate China out of the IDA as it attracts substantial private investment capital. India too, is expected to be graduated out over time.

Tied aid. Tied aid usually refers to aid provided by bilaterals and multilaterals, which has conditions attached to it. In case of bilaterals, "tied aid" is now very systematic in from of consultancy and other support, which has now more or less mandatorily provided from the North. Source tying requires that the foreign exchange value of the aid should be spent solely with suppliers from the donor country. National commercial advantage is a major political motivation for aid giving. Multilateral aid is theoretically free from the problem of source tying because of its requirement in most cases for international competitive bidding.

Aid India Consortium. The Aid India Consortium is a forum where both multilateral and bilateral aid agencies meet together to chalk out aid programmes for India in each year. It came into force in 1958 and is a consortium of donor countries and agencies chaired by the World Bank. The bilateral countries include Australia, Belgium, Canada, Denmark, France, W. Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, UK, and USA. Multilaterals include besides the World Bank, EEC, UN, and IFAD. Under this consortium, donors meet Government of India officials at regular intervals. Seventy percent of the aid received by India is channeled through this consortium. Aid under the consortium passes through four stages: First, the donors both bilateral and multilateral pledge the amount of aid each is ready to make at the consortium meeting. Second, the respective donor country governments will ratify these pledges. The third stage is that of aid authorisation. The fourth and final stage is that of disbursement of aid by the donor country.

Globalisation. Globalisation may be considered as a process of transnationalisation of capital and production based on a single global logic of exchange. Dramatic changes in technology, the deregulation of financial markets, and the liberalisation of trade have accelerated the process of globalisation or the process of linking the economies of the world together. The cross-border flows of goods and services, financial assets, technology, information, news and cultural interactions have reached unprecedented levels. The process of economic integration and information interaction between nations have occurred from times immemorial, but only during the past decade have they occurred at a speed and a scale to be identified as a phenomenon.

The emerging imbalance between the state and the market is characterised by the increasing marketisation of society and economic restructuring that focuses on the privatisation of social services. The changing role of the state began in the 1980s when its developmental role started getting minimised in favour of a private sector regulated by market forces. Since then, economic growth has become increasingly dependent on linkages to the global economy through competitive exports, rather than on the creation of domestic markets. The current globalisation of the market is the outcome of this changing balance between market and state.

The impact of globalisation is, however, quite uneven. Not all regions and countries are equally poised to take advantage of economic globalisation and the resulting intensification of international competition. With capital, labour, and goods moving ever more rapidly and freely without trade regulation, certain economies are becoming “growth basins” capable of drawing on the resources of others. However, other economies are experiencing a drain on their resources and are becoming debtors to creditor economies.

The globalisation process also has uneven benefits for different sectors within national economies. While export-oriented sectors (such as industrial manufacturing) have profited from a globalised market, non-export sectors (such as agricultural production for domestic use) have been threatened by intensified competition from imports in an increasingly unregulated domestic market. The globalisation process has thus the potential to exacerbate existing imbalances and inequities.

Centre-State Financial Transfers: Funds transferred by the Centre to the State include state's share income mobilised by the Centre and the foreign funds due to the state from the loans and grants under externally assisted projects (EAP). Modalities of routing foreign funds to states have been evolving over time. In the beginning there ere no transfers of specific external project assistance and all Central assistance came to the States in the form of loans/grants out of a common Central pool. Later 20 per cent and then 70 percent was transferred to the States. Now Central transfer of foreign aid and funds go to the States on a 70:30 proportionate basis as loans and grants respectively. Now a days funds under EAP are forming an important part of Central transferstotheStates.

CHAPTER - 2

Andhra Pradesh Economic Restructuring Programme

Introduction to APERP

With the advent of the Andhra Pradesh Economic Restructuring Project (APERP), the WB has succeeded in its plan to rope in states to implement its infamous Structural Adjustment Programme (SAP). AP is the first state not just at the country level but in the whole of Asia and is only one of the three instances in the world where the World Bank has embarked on a regional/sub-national level SAP. APERP also signals starting of second generation of economic reforms in the country, which lays stress on state level fiscal reforms.

The APERP, covering the period 1999-2004, consists of six components apart from fiscal reforms. The programme visualises spending of Rs.3300 crore on the six components. These components are District Primary Education (20.3%), Primary Health (8.5%), Integrated Child Development (12.4%), Rural Road Upgrading and Maintenance (21.6%), Irrigation Rehabilitation and Maintenance (12.3%) and Public Enterprise Reform (3.2%). The agenda of fiscal reforms cuts across all these components. While the World Bank meets the project expenditure to the tune of Rs.2200 crore remaining funds are to be made available by the AP State Government.

When the World Bank started implementing SAPs in early 1980s, it basically aimed at privatisation of the public sector industries thinking that privatisation of these enterprises would improve their performance. This could be considered as a first element of the Bank's long term strategy vis-à-vis privatisation. Soon the Bank evolved strategies for privatisation of physical infrastructure, and this constituted the second element of its long-term strategy vis-à-vis privatisation. Since the publication of the World Development Report of 1993, the Bank has been harping on the third element of its long-term strategy vis-à-vis privatisation, which is privatisation of social infrastructure. The significance of APERP is that all these three elements vis-à-vis privatisation are being implemented simultaneously.

An important aspect of the Bank's engagement with AP government is the shift from sector-specific policy guidelines associated with individual projects to comprehensive reforms aimed at macroeconomic structural changes. The stress on fiscal correction is to ensure that the impact of the programme extends beyond the sectors funded by the APERP. The World Bank conditionalities stipulate a timetable for a major fiscal contraction, which will define the agenda for development in the state. The Bank projects decline in the State's fiscal deficit from 3 percent of GDP to 2.5 percent by the year 2002-03. Salaries of government employees are projected to come down from 5.3 percent of GSDP to 4.9 percent during the same period, and staff strength in government excluding the education sector, to decline at the rate of 1.9 percent annually. As part of any other SAP, the reduction of deficits is linked to restructuring of public enterprises and subsidies at the state level.

By putting its money into APERP the Bank has given a clear signal that it wants to invest its resources on States that have embarked on a 'comprehensive Programme of economic and structural reform'. The Bank's Country Assistance Strategy (CAS) aims to initiate two or three such programmes in selected states in India over the next two years to support this objective. The Bank has observed that the APERP would be the first of these operations and would concentrate its effort on AP "which has emerged as one of the leading reforming states in the past three years."

What is important to note is that with APERP in motion, a precedent has been set which allows the Bank to have direct access to states. Through the example of the APERP the Bank conveys a simple message that scarce bank resources would be put to maximum effect if they were applied in a concentrated way in support of State Governments that have already demonstrated their commitment to reform. This linkage of investment with reform in such a comprehensive manner is a very significant one. (The World Bank's Project Appraisal document on APERP dated May 28, 1998, p.17-18.)

According to the World Bank the states of UP, Karnataka, Rajasthan and Orissa will be following the footsteps of AP.

The release of the World Bank loan to the AP Government under APERP took place in the face of US sanctions on India following Pokharan nuclear explosions in May 1998. This shows the Bank's commitment to the economic reform in Andhra Pradesh. Neither the CM nor the World Bank hides the fact that APERP is a culmination of a series of measures taken by the state government in keeping with the advice of the World Bank. In a letter dated May 14, 1998 the Chief Minister of AP assured the President of the World Bank that the state government "is doing all that is possible to mobilise resources, reorient expenditure priorities, and enhance the levels of efficiency and productivity", and that the government "has undertaken fiscal correction and introduced far reaching institutional reforms".

It is important to note that implementation of APERP is being taken up in the background of mounting debt burden of the state government. The total public debt of the state government more than doubled with in a span of five years, from Rs.9,955.83 crore in 1993-94 to Rs.20,430.28 crore in 1998-99. Increasing proportion of the government expenditure is going to meet the debt service obligations. In 1997-98, 14.72 per cent of the revenue expenditure went towards debt servicing. This increased to 16.78 per cent in the following year.

Even more alarming is the fact that the debt trap instead of being a future predicament has become a living reality. In 1996-97, Rs.2,257 crore were paid towards debt servicing. During the same year the state government received loans worth Rs.2,750 crore. Which means that around 82 per cent of the new loans went towards debt servicing in that year. This situation further deteriorated in the coming years. In 1998-99 Rs.2,722.20 crore was to be spent on debt servicing. During the same period new loans contracted by the state government amounted to Rs.2,700.02 crore. In other words the State is moving towards a dangerous situation where the new loans are not sufficient even to meet the obligations on old loans.

Policy Shift

The APERP is synonymous with the policy shift attempted by the State Government. The APERP follows in the wake of the World Bank's assessment of the AP economy contained in its report: 'Andhra Pradesh: Agenda for Economic Reforms' brought out in September 1996. This in fact is the first ever-state level study by the World Bank. The policies adopted by the State Government follow the advice rendered in this document.

This report first sets out the severity of AP's fiscal position and then its prescriptions of reforms both at the macro and the sectoral level. The report then sets out two scenarios: (a) the status quo scenario to predict what would happen if the state took no measures to correct the fiscal imbalances or reform its sectoral policies; and (b) the adjustment scenario to assess the impact of the comprehensive reform program as set out by the World Bank.

The following extracts from the World Bank's PAD on APERP clearly show the understanding between the important players on basic approach to the reform programme: "The dialogue with GoAP over the last 15 months contained a clear understanding that investment in the social sectors and in the state's infrastructure is a necessary condition for rapid economic growth. At the same time, it was recognised that setting the state's finances on a stable path was essential to the long run sustainability of each of the sector investments. This close linkage between fiscal reform and priority investment is the key to the design of the APERP. During project preparation, extensive debate took place on the optimum linkage between the investment programme and the fiscal reform. The strategic choice was focused on how far long-term investment programmes can be tied to fiscal policy conditions, which may fluctuate over relatively short periods. The outcome of this debate, agreed by the Bank, GoAP and the GoI, was to recognise that the APERP is a comprehensive investment programme, which must be justified up-front by an on-going fiscal reform programme, and which must continue to be justified by the achievement of fiscal and sector benchmarks overtime". (p.12-13)

Summary of the World Bank Recommendations

<u>Macro Level Reforms</u>

Under macro level reforms, the World Bank recommends reducing and reorienting welfare programmes. It recommends decreasing the number of beneficiaries under the subsidised rice scheme from the present 85% to 30% by 2001-02. It also asks the State Government to reduce salary bill by reducing state employment at least by attrition. It also recommends reduction of employment in state level public enterprises by one percent each year from 1997-98 that can lead to budgetary savings of about 2.3% of the state's GSDP in 2001-02.

As a part of strengthening the management of the government's expenditure under the macro level reforms the Bank has recommended re-examining and reforming the present system of intergovernmental transfers which according to the Bank erodes incentives for efficient expenditure management. It has also recommended, introduction of zero-budgeting and three-year rolling expenditure plans with continuos assessment of performance, efficiency and priorities along with including budget ceilings for each department at the beginning of the budget preparation to encourage prioritisation of programmes and minimise the need for supplementary budget allocations.

To improve revenue mobilisation, the World Bank has suggested an enactment of a comprehensive reform bill to simplify the system, broaden the tax base, and reduce the number of rates. It has also asked the Government to raise sales tax on some commodities and professional tax rates by 10 times.

In short, the macro level reforms specifically aim at reducing fiscal deficit.

Sectoral Reforms

The World Bank's state-level structural adjustment programme (SAP) emphasises on sectoral reforms as a means of reducing the fiscal stress and putting it back onto the rails of development. The World Bank warns, "Unless the state government reforms sectoral policies so as to attract private investment where possible and generates resources sufficient to meet these critical expenditure needs, the development of the state will not only continue to be below its potential but may even fall further behind the rest of the country". Thus the thrust of the sectoral reforms is on cost recovery.

The World Bank's recommendations at the sectoral level concentrating predominantly on physical infrastructure such as power, irrigation, roads and ports and social infrastructure such as education and health are expounded below.

In the case of power sector, the Bank calls for increasing tariff, particularly tariff on irrigation pump sets, corporatising power utilities i.e. the AP State Electricity Board and manage them on a commercial basis and calls for creation of an independent and transparent regulatory system. It also recommends that a separate legislation should be enacted to implement these reforms.

In the case of irrigation sector, the World Bank recommends increasing operations and maintenance (O&M) allocation to the required norms, increasing water tariffs to recover full costs of recurring expenditure, and formation of Water Users Association (WUAs) to involve farmers in the management of the network and entrust the O&M responsibilities of the distributory and minor canals to WUAs.

In the case of roads and ports sectors too, the Bank calls for increased private sector participation.

The social infrastructure reforms pertaining to health and education emphasise on an increase in cost recovery in higher education and tertiary hospital care to about 30% and 20% respectively of the cost of providing these services. These measures are expected to generate an additional non-tax revenue of about 1% of GSDP in 2001-02. At the same time the Bank calls for good quality universal primary education. In the health sector the Bank calls for measures to increase the cost effectiveness of service delivery by improving and streamlining the service norms. Policies to attract the private sector to provide health services, for a fee, to those now being catered to by the public sector is also as important recommendation of the Bank.

The World Bank admits that while some of the measures suggested would have an immediate positive fiscal impact (e.g. improvements in pricing and cost recovery or rationalisation of the rice scheme), others would have a negative one (e.g. an increase in allocation for O&M and capital expenditure). Therefore, the Bank says that in practice the speed and sequencing of the reforms envisaged in this report will need to be adjusted to take into account their net fiscal cost, the state's ability to finance it, and the political risks for the ruling parties!

The following table is a summary of the World Bank's estimates of key variables under the status quo and adjustment scenarios over the next five years:

Status Quo and Adjustment Scenario

	1990-96 Average	1995-96 Average	StatusQuo 2001-02 Projected	Adjustment 2001-02 Projected
Percentage of GDP				
Fiscal Deficit	3.3	3.4	4.2	2.6
Primary Deficit	1.3	1.1.	1.1	0.1
Interest Payment	1.9	2.3	1.3	2.5
Debt Outstanding	22.0	27.0	32.6	25.5
Total Revenue	14.6	14.3	14.5	17.2
Own Revenue	8.9	8.2	8.2	11.4
Tax Revenue	7.4	6.8	6.8	9.6
Non-Tax Revenue	1.5	1.4	1.4	1.8
From Centre	5.7	6.2	6.3	5.9
Total Expenditure	17.9	17.7	18.7	19.8
Revenue Expenditure	15.1	15.3	16.7	14.5
Capital Expenditure	2.8	2.4	2.0	5.4
Composition of Expenditure-I(%)				
Interest Payments	19.9	12.9	16.7	12.7
Salaries	39.4	41.0	44.0	32.2
Non-wage O&M	7.3	5.6	1.6	12.7
Rice Subsidy	5.9	10.0	10.9	2.0
Capital Expenditure	15.6	13.5	10.7	37.3
Composition of Expenditure-II (%)				
Education	16.1	15.3	13.1	18.5
Health	7.1	6.0	4.4	8.2
Memo Items				
Gr. Rate of GSDP %	3.0	4.8	3.5	6.3
Outstanding Debt Bi.RS.	111	180	416	361

Source: *India-Andhra Pradesh: Agenda for Economic Reforms*, World Bank, January 1997.

AP Leadership and the WB - made for each other?

The ascendance of N. Chandrababu Naidu to the Chief Ministership by usurping power from N.T. Rama Rao his father-in-law in September 1995 marks a watershed in implementing the liberalisation policies in the state. Even during N.T. Rama Rao's rule a section of the ruling Telugu Desam Party was inimical towards 'welfarist' policies like subsidies and prohibition programme and wanted to toe the market oriented development path. And Chandrababu Naidu represents this trend.

On assuming power Chandrababu Naidu hastened to obtain the image of 'development oriented' leader rather than one of welfarist leader. In order to fill the gaps in the state's finances to carry out his schemes he turned to the World Bank for assistance. In this effort he left no stone unturned. To impress the World Bank he made a special presentation before the President of the Bank James D. Wolfenshon, in October 1996 in New Delhi while he was on a visit to India, on the new policies being followed by the state government under his stewardship.

Prior to this meet, in order to impress the Bank, he raised the price of rice supplied under PDS, raised power tariff as well as irrigation charges. This is even acknowledged by the Bank in its 'India 1997 Economic Update: Sustaining Rapid Growth'.

> "Since July 1996, the state government *(of Andhra Pradesh)* has taken measures to improve public finances and sector policies. In particular, it has increased the cost of subsidised rice from Rs.2 to Rs.3.50 per kg and reduced per family allocation by 25 percent. It has also raised power tariffs by 20-60 percent to non-agricultural consumers, and by 10 to 25 times in the case of agricultural tariffs. Facing strong opposition to these measures, the government later reduced these increases by about 40 percent. While this is a significant increase, the revised average tariffs for farmers still cover only 9 percent of production costs. Other measures included tax increases; the first steps towards the reform of the power sector along the lines established in the CMNAP *[Common Minimum National Action Plan]*, and significant increases in irrigation charges alongside with important institutional reforms, such as the creation of Water User Associations and the devolution of operation and maintenance to them.
>
> Additional measures being contemplated include containment of the wage bill, further reduction of food subsidies, partial relaxation of prohibition, privatisation, further adjustments of water and rates, and other revenue enhancement efforts. The key fiscal objective is to achieve fiscal sustainability through a change in the composition of public expenditure. That is, a significant reduction in rice subsidies and employment in the state government and a corresponding increase in expenditure in social and infrastructure sectors particularly in primary education and health, nutrition, irrigation, and road sectors.
>
> Fiscal reforms will be accompanied by significant changes in sector policies-restructuring of the power sector; improvement in roads and irrigation sectors, and acceleration of users' participation in the management of public canal irrigation network."
>
> [From India 1997 Economic Update: Sustaining Rapid Growth, p.28, World Bank.]

The State Government also released ‘white papers’ on different sectors of the state’s economy for public discussion as a prelude to take up reforms. But one is not sure that inputs of public discussion found place in formulating the new policies. On the other hand, a comparison of the World Bank’s report *Andhra Pradesh: An Agenda for Economic Reforms* and the Bank’s *Project Appraisal Document (PAD) on APERP* and subsequent policies followed by the state government and the Acts enacted by it show that the World Bank has been more than influential in charting the developmental agenda of AP under the leadership of Chandrababu Naidu.

The dependency of the States Leadership on the World Bank in particular for both financial as well as policy assistance is amply illustrated in the Budget Speech 1997-98 by the Minister for Finance. He claims that “With the consent and cooperation of the Government, the World Bank has done a detailed study of our economic performance and financial management”, thus fully endorsing the report. Interestingly most development activities in the state in the area of health, cyclone relief and related activities, irrigation, power, pollution control and water supply are dependent on World Bank Aid. The other important areas such as education and tribal welfare also depend on DFID and IFAD funds! In fact, on a public platform in 1997 the then Finance Secretary of the AP government openly claimed that they welcome World Bank’s policy advice more than its money. This also points to convergence of ideas on reform policy between the Bank and the State Government.

A cursory look at the Finance Minister’s Budget speech 1997-98 shows that the World Bank has been mentioned at least 12 times:

p.2 & p.3:-	To endorse the World Bank paper
p.19:-	W.B.’s Cyclone Relief Project
p.20:-	W.B.’s appraisal mission for further work in 15 districts of A.P.
p.22:-	Posing of an irrigation project to the World Bank
p.27:-	Power sector restructuring and the W.B.
p.46:-	Health project under W.B.
p.49:-	W.B.’s Indian Population Project - VI
p.51:-	Drinking water scheme
p.64:-	A.P. Forestry Project
p.64;-	Industrial Pollution Control Project
p.66:-	State Highway Project

It should be noted that this list does not include the mention of other multilateral and bilateral agencies such as the OECF (Japan), IFAD, ODA (U.K.), and agencies from Australia and Netherlands.

Portents of Things to Come

The reforms based on the SAP raise many disturbing issues. The relevance of containing the fiscal deficit while seeking to balance the development objectives and fiscal viability of the state is still under debate. While the World Bank emphasises on reducing the fiscal deficit, the ***Human Development Report 1997*** released by the United Nations Development Programme (UNDP) warns the Indian government that its focus on reducing fiscal deficit was forcing major cuts in public spending and hampering poverty alleviation efforts. The report added that it was lack of financial decentralisation and “state minimalism” that was responsible for states not taking responsibility to alleviate poverty, provide education, health, sanitation and employment.

On following the agenda set by the Bank, the role of the government would change from that of a producer and an intense regulator to a facilitator of economic activity. The WB has argued that the developed countries could achieve present status because of the market forces and developing countries are lagging behind because of the commanding position occupied by the public sector and weak position of the market forces. But the reality is quite different. According to the World Bank’s index of privatisation, there exist many developed countries in which privatisation is far more limited than their developing counterparts. The share of private investment in infrastructure in 1995 was 14 per cent in the case of Japan, 13 per cent in France and 9 per cent in Germany. This share stood at 17per cent in Thailand and 35 per cent in Philippines. In USA and UK the share of private investment has reached 47 and 71 percent respectively. But this should be understood in the background of Thatcherism in UK and Reagonomics in USA.

While the World Bank categorically states that physical infrastructure should be increasingly left to the private sector, very little emphasis is laid on how this transition ought to take place and the problems involved. It is naïve to assume that the private sector will step in to fill the investment gaps if the government were to cut back on infrastructure spending. At the national level, the classic case has been that of power – the private sector was expected to participate and invest heavily and the government’s outlay was pruned accordingly. But the Enron episode and several others like Maheshwar only go to show that these entrants are all set to loot the Indian consumer under the garb of real cost pricing.

Cost recovery from the provision of basic infrastructure is the core of the World Bank’s prescription. The World Bank states, “In addition, there is an equally urgent need to improve non-tax revenue through the appropriate pricing of power, and enhanced cost recovery in irrigation, water supply, public transportation, higher education, hospital care at the secondary and tertiary levels and housing loans” [World Bank. 1997a: p.vi]. But not enough has been said about extending basic health and education to the entire population.

The reforms in the infrastructure sectors attempt to match the cost of services to user cost, which means that some categories of consumers will have to pay (when it was earlier free) or pay more (when it was earlier subsidised). For the provision of electricity and water, those who can pay may be made to cover the cost of supplying these services, but what about the poorer sections of the population? And what about the plan to collect tolls on roads and bridges? These are public goods and can certain categories of consumers be excluded because they cannot pay? Such questions are only being raised in conferences, but neither the WB nor the state government is ready to discuss the same with affected constituencies.

The new policy calls for private sector participation in social sector activities like education and health. The World Bank advice points to the history of private participation in the above fields. It needs to be pointed at that this participation mainly came from the missionaries and it does not work on the same lines of private capital which looks for profits wherever it ventures. Also, whenever and wherever the private capital entered these fields the needy from the lower income groups were kept away from these services. The classic case in this context is that of the private super specialty hospitals that enjoy government subsidies on the ground that they would treat a certain percentage of poor patients free of cost. Even government officials and ministers have accepted the fact that private sector super specialty hospitals have not been able to fulfill their promises vis-à-vis serving patients from lower classes in spite of the concessions enjoyed by them.

While it cannot be denied that a great deal has to be done in the provision of infrastructure both physical and social, there are serious doubts about whether the applicability of World Bank's prescriptions with respect to increasing the access of the poor to this infrastructure. On going through the set of prescriptions listed above one finds that these prescriptions are standard World Bank SAP prescriptions and do not appear to be based on conditions prevailing in Andhra Pradesh.

The SAP based reforms in AP envision constitution of 'independent' regulatory mechanisms for various sectors. While the avowed objectives of setting up these is to see that these sectors work efficiently, their main purpose is to design and legitimise user charges. Because of this 'independent' mechanism the political establishment is neither responsible nor answerable for user charge reviews. Recent experience with Electricity Regulatory Commissions in different parts show that they are concerned more about profits to the private investors rather than efficiency of the sector. They also proved to be least independent of the state governments and the World Bank.

Thus we see that the growing dependence of the AP government on the WB to provide it with solutions is significantly impacting its process of formulating policies and projects as well as management practices. A possible dangerous implication of this could be that future policies of the state would be a reflection of the neoliberal agenda of the Bank and other donor countries.

The experiences of the countries that had followed the path laid by the World Bank have many illustrations to show how already deprived have been further robbed on implementation of the neoliberal agenda of the Bank. Even according to a World Bank's own evaluation of 1995 which reviewed Bank supported adjustment programmes, in 23 out 53 countries which undertook such measures between 1980 – 1993, poverty increased in 8 countries and declined by less than 2 percent in 11 countries. Income disparities widened or remained unchanged in two thirds of the adjusting countries. The debt burden of 90 percent of these countries increased further. As a result, these countries were forced to spend increasing amounts towards debt servicing at the cost of welfare programs.

One of the steps taken by the indebted countries was to push the export of primary commodities, particularly, agricultural products at the behest of the World Bank. This step instead of salvaging these economies from the debt rap dragged them into even lower depths. Sadly the AP government does not seem to learn from these happenings. Witness the recent suicides of cotton farmers. In this context it is apt to note the concluding observations of the People's Tribunal that enquired into the spate of suicides of cotton farmers in AP: "it is (therefore) necessary for government to intervene in agriculture. Unless the government invests and creates the required facilities, the small and marginal farmers cannot be assured of a share in the development pie. Encouraging marketisation without taking these measures would only benefit agri-business interests and to some extent the big farmer. The policies of marketisation could be a noose around the small farmers' neck".

Furthermore, the whole APERP exercise also goes against the policy of transparency in governance advocated by both the parties to this loan. According to its participatory policy the World Bank is supposed to consult various stakeholders and civil society organisations from preparatory stage to the final stage. But in the case of APERP except some ministers of the state government and government officials the whole population is kept in the dark. Though, of late, the State Government is also talking about transparency in governance the way legislation regarding reforms in roads, irrigation and power sectors have been pushed through show the scant regard they have for popular concerns.

The measures taken to facilitate people's participation through Village Educational Committees (VEC), Water Users Associations (WUA), and Health Advisory Committees (HAC) are more part of the conditionalities imposed by the World Bank rather than the initiatives taken up the State Government to address the problems faced by the people. On the reverse side these measures are also undermining the Panchayat Raj Institutions as funds as well as some of its works are delegated to these new bodies.

Lastly from the budgetary point of view, the programs being implemented under World Bank loans severely curtail the maneuverability of the State Government in structuring its budget because of the counterpart-funding clause in these programs. The same logic applies in the case of the APERP. While total cost of the program is Rs.3300 crores, the World Bank is only going to provide only Rs.2200 crores i.e. 2/3 of the total funds. The remaining 1/3 i.e., Rs.1100 crores has to come from the state budget. The state government has to tailor its budget according to the needs of the World Bank financed projects.

CHAPTER - 3

Health Sector

SAPs advocate reduced government spending and reduced deficit financing, leading to privatisation of certain services. This applies to and has serious implications for the health sector. Experience worldwide with SAPs has shown that it affects the health of vulnerable people, particularly women, children and people from lower income groups. Their access to health services becomes even more difficult as public spending on provision of health services declines steeply in response to reform prescriptions. An UNICEF study found that SAPs led to substantially reduced budgets for health in all of sub-Saharan Africa, half of Latin America and a third of Asia. Because of this, per capita health spending declined by nearly 25% in 37 poorest countries. Children — more than any other group — bore the burden of adjustment. UNICEF estimated that more than one million children died in the 1980s due to malnutrition and deteriorating sanitary conditions resulting from reduced health budgets. These concerns apply to the currently ongoing structural reforms in AP also.

Present status of Health in AP

The health scenario in AP is a matter of increasing concern. Communicable diseases are still predominant in the rural areas and there is re-emergence of diseases thought to be eliminated long ago. Recent spate of deaths because of communicable diseases like malaria in the districts of Adilabad, Karimnagar, Srikakulam, Vizianagaram, Viskhapatnam, Kurnool and Anantapur show that communicable diseases are still taking heavy toll of human lives. Sadly, such incidences are taking place in spite of the availability of the necessary medication for more than four decades.

AP's crude birth rate is 24.1, crude death rate 9.1, and infant mortality rate 70. Communicable diseases constitute about 54 percent of the total burden of diseases, non-communicable diseases about 30 percent, and injuries about 16 percent.

In terms of both short duration morbidity and major morbidity, AP fares very poorly. While in the case of short duration morbidity national average is 122 persons per 1000 population in AP it is 132, and in the case of major morbidity national average is 4,578 persons per one lakh population in AP it is 7,684. The expenditure incurred by the rural households for treatment of illness AP is one of the highest in the country.

Very limited public funds are committed for health care in AP. Even the proportion of expenditure incurred on health is declining. Health expenditure as a proportion of total budgetary expenditure declined from 5 percent in 1986-87 to 4.1 percent in 1994-95. The same as a proportion of GSDP declined from 1.2 percent to 0.9 percent. The amount spent on health is far lower than that on the subsidised rice scheme, which accounts for 1.9 per cent of GSDP and the amount spent on subsidising public sector undertakings owned by the GoAP, which accounts for 1% of GSDP.

During 1990-91, per capita annual public health expenditure was only about Rs.51. While the essential clinical and public health package recommended in the 1993 WDR was estimated to cost about $12 annually per person in low income countries, the actual per capita annual public expenditure on health in AP was estimated to be only about $2-3 in 1994/95. The estimated additional resources for meeting the norms set by the central government for a basic package of services (more narrowly defined than the WDR package) would require more than 50 percent increase over the current spending level on primary health services alone.

The composition of public expenditure in the health sector has also changed substantially. The share of primary health increased from 48 percent in 1980 to 57 percent in 1993, while share of hospital services in the secondary and tertiary levels declined from 39 percent to 30 per cent in the same period.

Another dimension to the health scenario in AP is the large and fast growing private health sector. Out of 33,983 doctors registered with the Medical and Nursing Council of AP, only 5,148 doctors (excluding those in administrative posts) are employed in the government sector. The private sector accounts for over 80 percent of health expenditures, almost all of which is out of pocket spending. This high level of reliance on out of pocket sources places a disproportionate burden on the poor. Private health services are inaccessible to large sections of the rural population and do not cover many of the diseases most common among the poorest and most vulnerable sections of society.

Health as discussed under APERP

The APERP ostensibly attempts to strengthen the primary health care delivery system and to integrate it with the first referral health system. It aims to assist AP to put in place a coherent and effective health care system at the primary level and to complement the investments already made at the first referral level under the APFRHSP.

The APERP would focus on providing five clusters of highly cost-effective interventions: prenatal and delivery care; family planning services; management of the sick child; treatment of tuberculosis; and case management of sexually transmitted diseases. These were identified by the WDR (1993) as an essential primary care package for low-income countries

The AP Burden of Disease and Cost-Effectiveness Study located the ills of the health sector in the inefficient delivery of services. According to the project document lack of co-ordination between the DHS and the DFW in the delivery of primary health and family welfare services, co-ordination of activities undertaken by DHS, managerial training, and strategic planning capacity are important management and institutional problems faced by the primary health care system.

According to the project document, at the PHC level lack of autonomy enjoyed by the PHC medical officer in service delivery, lack of on-the-job training for medical officers, poor infrastructure facilities, poor health management information systems (HMIS), lack of motivation among PHC staff, and poor outreach services result in decreased access of beneficiaries to primary health care services. Women are particularly impacted by the lack of access to emergency obstetric care.

The project plans to overcome these shortcomings by

(a) setting up a mechanism at the state and district levels to co-ordinate programs of the Health and Family Welfare Departments

(b) providing timely access to emergency obstetrics care through the strengthening of the referral system from the community to the referral hospital

(c) targeting the poor, particularly tribal populations, to increase their access to primary health services free of cost

(d) strengthening capacity for planning in the health sector

(e) improved financial management capacity within the DHS

(f) strengthening and rationalisation of the referral system between sub-centres, PHCs and secondary hospitals

(g) setting up HMIS within the Departments of Health & Family Welfare

(h) strengthening the disease surveillance system, and

(i) greater participation of community-based organisations in delivery of outreach services. In addition, the project would provide an incentive package to doctors and other medical staff to encourage them to accept assignment in these areas and increase access to primary health care services for the tribal population.

As a part of the project a new drug procurement arrangement will be set up which adopts an open tender system, in which purchase orders are centralised at the state level.

The project aims at improving the health status of the population in the State through improvements in the quality and coverage of services in selected Primary Health Centers (PHC). Key performance indicators include: increase in outlay for supply of drugs, institutional deliveries, outpatient attendance; adoption and implementation of staffing norms at upgraded PHCs.

All the above is expected to indirectly benefit the State's population as a whole by reducing mortality, morbidity and disability and thus increase the earning potential of the poor. Improvements in management effectiveness, health planning capacity is also expected to enhance the effectiveness and quality of services.

Apart from various improvements suggested to improve the efficiency and effectiveness of the existing system the World Bank emphasises on a larger role for the private sector at the primary level. The Bank recommends encouraging a greater participation of the private sector in health care. It is of the opinion that private sector interventions will enhance the effectiveness and quality of services. Within the government sector the Bank wants introduction of self-financing and cost recovery.

Under this project, PHCs in the State would be divided into two groups, and appropriate norms of service have been developed for each group. Five hundred PHCs out of the State's network of 1,335 would be upgraded to perform enhanced services based on norms developed. About 450 of these PHCs would be strengthened under the project through the provision of civil works, equipment, and other inputs.

The health component would have a total cost of US$ 70.2 million, of which US$ 58.4 million would be financed by the Bank. About 30 percent of the total cost is recurrent expenditure. The GoAP's share of the total project cost would be US$ 2.4 million a year, which is about 10 percent of the total primary health budget. Under the government fiscal restructuring program, expenditure on primary health is expected to increase from 0.1 percent of GSDP in 1997-98 to 0.5 percent in 2002-03.

Main Loan Conditions

GoAP shall: (a) adopt, no later than six months after completion of the construction or upgrading of primary health centres' and there after implement, staffing and technical norms acceptable to the Association and the Bank; (b) beginning with January 31, 1999, provide an annual work plan acceptable to the Association and the Bank, setting forth each year activities to be carried out during the following Fiscal Year including the budgetary allocations; (c) by May 31 of each year, review with the Association and the Bank the progress achieved in implementing the annual work plan for the previous year; (d) implement each annual work plan in a manner satisfactory to the Association and the bank; (e) implement the formulation of the first annual work plan in accordance with the interim plan agreed with the Association and the Bank; (f) provide adequate budgetary allocations for the annual work plans and the interim plan and make such allocations on a timely basis; (g) implement the tribal strategy set out in the project implementation plan; (h) by December 31, 1998 establish and thereafter maintain a project management team, including a Project Director and two Joint Directors, a Project Governing Board, a Project Implementation Committee, and a District health Committee in each District, with powers, functions, organisational structure and resources available adequate land that may be required for new construction under the Project sufficiently in advance of commencing such construction activities; (j) to the extent practicable, make land available that is owned by the government and is free from encumbrances and encroachments or obtain such land on a voluntary basis in accordance with procedures satisfactory to the Association and the Bank; and (k) ensure that no involuntary resettlement arises from any use of land, or change of land use for Part B of the Project, except to the extent that the Association and the Bank agree in writing prior to any such proposed land use that arrangements for involuntary resettlement, if any, are satisfactory to the Association and the Bank.

The Bank's Approach

An important state level project that preceded APERP's health component was the AP First Referral Health Systems Project (APFRHSP) financed by a loan from the World Bank. The APFRHSP marks a major Bank intervention in AP's health sector and is seen as the first reform based lending to the country in the sector. This project is formulated in the wake of the World development Report – 1993 titled "Investing in Health" which argued for extensive private sector participation in providing health services. While the APFRHSP deals with the referral health/secondary sector, the health component of the APERP deals mostly with the primary health sector.

The APFRHSP is a seven-year project initiated in 1995. Its total cost is estimated at about Rs.608.32 crores. While the World Bank would finance 88.6% of the total project cost, remaining cost would be borne by the GoAP. This project aims at strengthening the referral health systems in the state. The project aims to be able to cover outpatients and the inpatients from the pre project phase of 9 million and 0.6 million annually to 12 million and 1 million respectively. The project covers 160 hospitals that come under the APVVP.

This project envisages two key shifts:

a) shifting from epidemiological to burden of disease (In AP the percentages of disease pattern is 54% communicable, 30% non-communicable and 16% injuries. Non-communicable diseases are seen as on the rise) and

b) enhancing the role of the private sector (seen in the form of passing on diagnostic services to the private sector).

This takes the form of firstly, seeking private providers in, case finding, diagnostic and treatment of priority health problems of public significance such as TB, Malaria, STD, diarrhea, respiratory infections and high-risk births. Towards this, the project recommends providing incentives and schemes to train, finance, and integrate professionals in healthcare. Secondly, the project seeks a move towards recovery of 15 to 20% of the cost as user charges for hospital services with a proviso that of this, 50 and 100 per cent is retained at the secondary and tertiary level. Third, to strengthen the capacity of the state to register, certify, regulate, and monitor the private sector.

It can be said that the APFRHSP has sown the seeds of the Bank's proposed structural adjustment based reforms in AP's health sector. According to this project's document "availability of IDA assistance for the project will be subject to the implementation of actions set out in the Reform Programme which include enhancing the overall size of the health budget, redressing the imbalance in public spending between secondary and tertiary levels of health care, charging of user fees for hospital services, contracting out of selected services, enhancing strategic planning capacity and addressing work force issues." This project is a first step towards the creation of a replicable state model that would subsequently be used to reorient the health systems in other states in India.

The health component of APERP carries forward this reform agenda. With the launching of APERP, the reform programme at the district/referral level began to take deeper roots by reaching villages/PHCs. The reform agenda in the health sector is refined through the Bank's report 'Andhra Pradesh: Agenda for Economic Reforms' before taking a concrete shape in the form of health component of APERP. This report states that cost recovery in the health sector in AP has been on average 2.7 per cent while in some developing countries 15-20 percent of the health budget is recovered through user charges. Hence, it recommends raising of user charges, particularly for hospital services at the secondary and tertiary levels, to recover 15-20% of the costs in three years. It recommends allocating 20 percent of all beds at the district and area hospitals as paying beds; selectively increasing charges for certain types of surgery; introducing nominal outpatient charges; and providing additional services such as special clinics and diagnostic services for a fee. According to the Bank the extra revenue raised would provide an incentive to hospitals to more rigorously implement user charges, and at the same time increase the resources available for operations and maintenance.

The reform agenda also recommends encouraging private providers to participate in case finding, diagnostic, and treatment of priority health problems of public significance. The report laments that in spite of large share in total health spending, the role of the private sector in delivering quality health care is relatively underdeveloped. For this, it emphasises the need to rethink the environment in which the private sector can provide cost effective health care services. It also emphasises that private contractual arrangements need to be made wherever administratively feasible and economically viable, especially for support services such as kitchen, laundry, and security services, as well as some diagnostic services.

The agenda document shows that a wide range of qualified and unqualified practitioners provide private sector services of varied quality. It finds that lack of regulation and ineffective legal remedies contribute to inappropriate practices and suggests measures to strengthen the state's capacity to register, certify, regulate and monitor private sector activities and by enacting legislation to protect consumers. While showing the necessity of streamlining and rationalising service norms and technical standards, it points out that alternative means of employing people are necessary.

The Debate

Before the emergence of the 'welfare state', health services for the poor were not seen as a right. It was seen more as input in the production process, an input that facilitates profitable production of goods for the market. During the post second world war period, as a part of the evolution of the welfare state, there evolved a social consciousness that all people are entitled to same basic rights and that society has a responsibility to make sure the basic needs of all people are met, regardless of gender, race, class, and relative ability or disability. In the post independence India also similar ideas surfaced. The health policy proposed by the Bhore Committee mirrors these ideas. The philosophy underlying the proposed policy was that no individual should fail to secure adequate medical care due to inability to pay.

There was an emphasis on preventive aspects of health care, and it envisaged the active involvement of people, rather than alienating them.

The Alma Ata Declaration of 1978, which called for health for all by 2000AD, can be described as crystallisation of such ideas on a global scale. In India too, both the central and state governments, did not lag behind in claiming to endeavour to achieve health for all by 2000AD. It is another thing that during the same period the diseases that were thought to be a thing of past made a reappearance.

However, the resolutions of the Alma Ata conference of 1978 found strong opposition from top ranking health experts in the developed countries on the ground that in view of the global recession and shrinking budgets, such a comprehensive approach would be too costly to implement. An outcome of this was the introduction of selective primary health care at the end of seventies. This process was facilitated by the introduction of SAPs that pushed for user financed health services in 1980s. The primary health care strategy, which involved a shift from basic health care to comprehensive health care, should have meant natural incorporation of welfare issues within the health delivery system. However, this approach was set aside by international lending agencies on the grounds of economy and efficiency and as an alternative selective health care approach was advocated.

In fact the WDR 1993 suggests curative and selective interventions in preventive health care, ignoring the multidimensional nature of public health. This, while distorting the notion of public health, has also opened new areas of health to market forces. Though the recommendations of the WDR appear to be a partial retreat from the Bank's earlier position of complete withdrawal of the state from social sectors, its recommendations are essentially piecemeal solutions to a number of health problems, especially if one considers cost-effectiveness as a basis for the interventions. Furthermore such pronouncements from the Bank helped in the facilitation of the selective health care approach.

The idea that health care is an input in efficient production resurfaced with the increasing, world wide influence of the Bank in health policy formulation. The World Bank's approach is clear when it says, *"Because good health increases the economic productivity of individuals and the economic growth rate of countries, investing in health is one means of accelerating development."* Both the APFHRSP and the health component of APERP specifically mention that one of the important benefits of the projects is the improved health status leading to increasing earning capacity/potential of the poor.

Health, far from being accepted as a basic right of the people, is now being shaped into a saleable commodity, thus excluding those with less purchasing power. Although the Bank claims that health is a "goal in itself", its discussions about resource use efficiency, cost effectiveness and such other aims show otherwise.

The World Bank's recommendations for the health sector reform are not derived from data about the real needs of the people, but from its approach on the way economy functions. The result is that its conservative approach also percolates to the health problems and its diagnosis of the economy is extended to the ill health of the people. According to it, if health sector facilities are privatised and resources are used efficiently, people's health problems will be solved. It is in this context that one should see the Public Expenditure Review (PER) by the World Bank. Under PER, the Bank not only asks for cuts in expenditure in the health sector but also gives detailed instructions for cuts in specified areas such as primary health care.

Attempts to show that the poor suffer from ill health due to factors like misuse of funds, apathetic doctors, inefficient management, evade this basic reality of inequities in socio-economic system. According to the Bank, the objectives of a health system are to improve outcomes, control costs, satisfy users and increase equity. However, it does not address the question whether health services rendered under such circumstances will be within the reach of the poor who can never hope to 'buy' health, even if they are willing.

An example for such misplaced priorities can be seen in the management of diarrhea, a major cause of preventable morbidity and mortality. The Bank propagates the use of oral re-hydration therapy but not public funding of safe drinking water. The approach then is clearly to manage morbidity with a technical fix but not to get to the source of the problem. This shows that technological solutions have serious limitations in addressing health problems whose roots are embedded in socio-economic and political realities. It has become increasingly clear that reducing child mortality through selected technological interventions does not necessarily improve children's health or quality of life, especially if they do little to combat poverty or improve living conditions. For example, during the 1980s, while child mortality rates dropped, under-nutrition and morbidity rates increased.

The history of medicine reveals that the current major causes of disease or death in the third world, are communicable diseases, nutritional disorders, maternal and prenatal diseases. These were conquered in the West long before antibiotics and vaccines became available. The major reduction in infant mortality and increase in life expectancy resulted from increase in food availability due to better wages of the working class and their improved bargaining power. Diseases of poverty cannot be cured with medicines and targeting, they need elimination of poverty through a more equitable distribution of resources.

According to the Bank much of government's failure to achieve better health outcomes derives not from the wrong choice of objectives but from the wrong choice of instruments - in particular, from too much reliance on direct provision of care and central control of health facilities and too little use of the financial, informational and regulatory instruments at the disposal of the government. Again this management approach takes health out of realm of a basic right, into a commodity to be sold. Now that the Andhra Pradesh is following the prescriptions of the WB, one can expect less "direct provision of care", as the government takes a back seat and involves itself into provision of informational and regulatory mechanisms.

The World Bank's policy assumes that there is a large private sector in the health arena, which is utilized by a significant proportion of the population, and that this sector would be more than ready to occupy the space created by the withdrawal of the public sector. What it fails to note that in India, with the exception of two states, it is only the top two deciles of the population, which utilise private hospitals.

User charges for Public Health Services in developing countries have sparked many debates since the WB endorsed the concept in 1987 in a policy study on health financing. In many developing countries where user charges have been introduced, recovery has been low because the system of user charges was not accompanied by increased public expenditure on health, which had a negative impact on the quality of services. It was found that users would be willing to pay fees only if quality of services improves simultaneously, which requires more public spending. The World Bank's document 'Andhra Pradesh: Agenda for Economic Reforms' (1997) has called for increased allocations to the health sector. But this is being done to provide a human face to the structural adjustment programme and more so to prevent political instability that may perhaps disrupt the smooth functioning of markets which, is of course, the major concern of the WB.

In short the Bank's privatisation of health sector policy being prescribed for the third world resembles the healthcare model of the US. This model believes that private health care for individuals gives more choice and satisfaction and is more efficient. But there is little evidence to support this claim. The US health system dominated by a strong profit hungry private sector is by far the most expensive in the world, yet US health statistics are the worst among the northern industrialised nations. Indeed some US health indicators are worse than those of certain third world countries.

There exists a substantial body of economic literature to show that forward-looking policies in health and nutrition have to complement each other to impact the health of poor, positively. But if we pick up any SAP package, governments have been advised to trim expenditure on subsidies, including those incurred on providing food to the poor, and AP has not been an exception. In following similar advisory, the GoAP recently increased the price of subsidised rice to Rs 5.50 from Rs 3.50. The experience in many under developed countries including India show that notwithstanding the inefficiency in implementation and outreach, subsidised food has made significant contributions to improved nutrition. Publicly funded distribution systems increase the purchasing power of recipient households because they can purchase good amounts of food at the same cost. Subsidies have the potential to reduce the prices of food relative to the prices of other goods, there by encouraging households to buy more food. In a country like India, where families already spend more than half their household income on food, cutting food subsidies would increase the already heavy burden on poor families, who would then have to spend even more to remain above the starvation line.

The Bank's health prescriptions for AP have also addressed the population problem, but in a very different way. The enhanced budget for Family Planning is in accordance with the WB belief that population reduction is a necessary condition for structural adjustment programmes to succeed. Hence one finds that expenditure on population control programmes has continued to grow steadily in countries implementing SAP. Women have been the worst sufferers, since the merging of Family welfare and Family Planning has meant that women are viewed primarily as baby producing machines which require control and a consequent neglect of even their basic health problems. One also comes across illustrations where women have been unable to obtain even basic health services unless they agree to get sterilised.

Hence one can see that the health transition visualised by the Bank would bypass the poor leaving them with pre-transition levels of morbidity, mortality and fertility. By emphasising on the diseases of the future, of ageing population and of degenerative diseases, the diseases of the well to do, the diseases from which poor continue to suffer are being neglected. This is also evident from the Bank's recommendations to the AP government to "change the present health care strategy, which is based on population size, to one based on health care needs and burden of disease", "given the current epidemiological transition to an increasing incidence of non-communicable diseases and injuries".

The World Bank prescriptions challenge the basic cannon of equity that should be a basis of any health system. More so it fails to recognise that when it comes to the choice of health services , individuals decision, at least in the rural areas is very much shaped by historical and socioeconomic factors.

CHAPTER - 4

Primary Education

Along with health another social sector that is going to be seriously affected by the SAP based policies is the education sector. As a part of downsizing the government and keeping it as a facilitator rather than provider under the liberalisation policies attempts have been made to see that the government exits the education sector in favour of private provision with cost based user fee/charges. Though as a part of the programme it calls for increased allocation to primary education, its overall impact will be reduced budgetary allocations towards education. These policy changes will have far-reaching impact on education and society, and it would be difficult to undo the damage falling out of this policy change.

Education, primary education in particular, plays a crucial role in poverty alleviation. Experiences world over show that social and economic developments are constrained by low levels of educational achievement. Improving education is the first step in addressing socio-economic development. Improvement in primary education also has a positive influence on health conditions of the people. Health and family welfare surveys for India suggest that primary schooling of mothers is associated with reductions in child mortality to the extent of 40 percent, fertility of 25 percent and severe child malnutrition of 33 percent.

It is in this context that the possible impact of APERP on education needs to be studied.

Present Status

Andhra Pradesh is lagging behind almost all the states in educational achievements. In 1991, AP stood twenty-fifth in literacy among 31 states and union territories. AP's overall literacy rate is the fourth lowest among the fourteen major states. Literacy rate is 44.09%, while at the national level, it is 52.21%. This is lower than any other state in South India – Karnataka stands at 55.98, Tamil Nadu at 63.72, Kerala at 90.53 percent. Thirty three per cent of females and 55 per cent of males in the state were literate in comparison with the national averages of 39 percent and 64 percent respectively. During 1981-1991, the literacy growth rate of 8.34% was lower than the national average of 8.95%.

In AP, school education is in dismal shape. During 1994-95, gross enrolment in primary schools was 73.29% (78.67% in the case of boys and 67.75% in the case of girls; 93.75% in the case of SCs, 102.82% in the case of SC boys, and 84.41% in the case of SC girls. It is 85.43% in the case of STs, 102.77% in the case of ST boys, and 67.62% in the case of ST girls). This was lower than in all other states except Bihar, Uttar Pradesh, Rajasthan, and Haryana. The gross enrolment in upper primary schools is 49 percent, again well below the national average of 59 percent and is lower than the rate in all states but Bihar, Rajasthan and Uttar Pradesh (AP Pradhamika Vidya Parishad, 1997, p.2).

Dropout is a major problem facing schools in AP. Of those entering Grade I only 53 percent are able complete the five-year primary schooling. Among the dropouts, more than 75% are from rural areas. The dropout rates are also very high among female children. Seven-eighths of the girl students who enroll in the primary school drop out before reaching high school. The dropout rate is even more among SC and ST students, with 81% of SC students and 83% of ST students dropping out before they reach 7th class.

Data at the all India level shows that 70% of children dropout of school because of poverty, 15% because of disinterest, 4% because of ill health, 3% because of helping parents in work, 5% because of inaccessibility of schools.

The achievement scenario is even more depressing, with education standards falling down. Pass percentage is only 34 to 40%. A baseline survey to ascertain the existing levels of learning of students of primary stage reveals that academic standards of children are far below satisfactory (see table below).

Educational achievements in AP at Primary Levels

	Total	SC	ST	BC	Others
Language Mean	35.28	30.38	35.82	35.62	36.21
S D	14.00	14.62	10.90	13.62	15.51
Maths Mean	14.36	13.25	10.59	11.30	14.08
S D	06.01	06.01	04.58	03.96	06.23

Source: p.67 of DPEP State Plan, Dept of Education, GoAP

The above table reveals that the performance of pupils is very poor in general and it is poorer in Mathematics. Performance is still poorer among SC and ST communities.

One of the reasons for this dismal performance is increasing student-teacher ratio. The number of students in primary schools increased from 24.45 lakhs in 1956-57 to 71.41 lakhs in 1993-94; a three-fold increase and students in high schools increased from 2.09 lakhs to 14.89 lakhs, a seven-fold increase. However, the rise in number of teachers has not kept pace with the increase in the number of students. The same period saw the number of teachers increasing by only 1.5 times, and the teacher-pupil ratio increased to an average of about 1:52. Educational infrastructure grew at a dismal rate, leading to an acute shortage of schools and classrooms. Added to this are the weak educational management structures that include high levels of teacher absenteeism.

In the allocation of public funds, education does not appear to have been a priority area in AP. Education expenditures have fallen over the past decade, from 15.8 per cent of total expenditure in 1986-87 to 13.6 per cent in 1994-95 and from 3.5 percent of GSDP to 2.9 percent during the same period. In addition, almost all public expenditure on the education is current expenditure; the share of capital expenditure is negligible. About 95 percent of the current expenditure is spent on salaries, leaving a meagre 5 percent for teaching material, equipment, and maintenance.

Primary Education under APERP

The education component of this restructuring programme, called as District Primary Education Project (DPEP), attempts to address these problems discussed above. This will be managed by a specially constituted autonomous body ‘AP Prathmic Vidya Parishattu’ (APPVP). One fifth of the APERP’s funds and one fourth of the World Bank finances under the project are allocated for the primary education component. The proposed project would have a total cost of US$168.5 million, of which GoAP would be responsible for US$ 31.1 million. Further, the project document suggests that by supporting measures to increase revenues and efficiency improvements in the public sector, APERP would allow a re-prioritisation of state expenditure in favour of increased real per student expenditure on primary education.

The project expects to benefit approximately 7.9 million children aged 5 to 9 residing in 14 educationally disadvantaged districts of AP. Socially disadvantaged groups which have low rates of school participation and attainment are to be the main beneficiaries, particularly girls and SC and ST children. The benefits of increased access and retention in APERP are to be concentrated on children of the poorest families.

The project aims to increase enrolment rate to 90 per cent within the 5 to 9 year age group; envisages a reduction of the state-wide student teacher ratio from 52:1 to 45:1 by 2002, looks forward to reduce overall drop-out rate from about 50 to 10 percent; and aims to reduce differences in major education indicators among gender and other social groups to less than 5 percent. This project also aims at improving state and district capacity to manage primary education.

Specifically, the project would:

a) address the issue of poor participation by funding improvements in physical and instructional capacity and through community mobilisation;

b) increase retention and achievement through early childhood education (ECE) centres, back to school enrolment drives, in-service teacher training through among others mandal resource centres (MRC) and teacher centres (TC), provision of instructional materials and other quality improvement measures, and

c) strengthen management by empowering school committees to participate in planning for development of physical sites and for improving the quality of education in their schools.

Achievement of increased participation and retention is particularly sensitive to the issue of teacher availability and deployment as well as to the provision of necessary inputs and better community involvement in school management. Improvements in student achievement depend on the coverage, focus, and quality of the instructional materials, in-service training, and technical support to be provided to schools.

Keeping in view these requirements, the project's 'Expanding Access to Primary Education,' a US$ 54.7 million budget would fund construction of 6,500 new schools, and 3,500 additional classrooms. Incremental salaries for approximately 13,000 teachers (about 4,000 teachers and 9,000 para-teachers) would be funded to meet the requirement of additional enrolment and reduce the pupil teacher ratio. The proposed use of para-teachers, recruited locally on lower pay scales than regular teachers and under the supervision of the communities is expected to address the concern for cost-effectiveness. Schools would be built on existing community land owned by Panchayats.

'Improving Learning Achievement in Primary School' with a US$ 69.6 million budget will target teaching & learning materials and provide school improvement funds. The project would fund materials and books for new schools. To reinforce student learning, children would also be provided workbooks to supplement the revised textbooks. All teachers in schools in project districts would receive Rs. 500 per year to purchase materials to make teaching aids for use in the classroom. In addition, each school committee would be provided with a grant of Rs. 2000 as a school improvement fund. School committees would make their own decisions on investing this amount for school improvement.

Committees formed at school, panchayat, mandal, and district level with students, parents, teachers and people's representatives will help in school development activity, resource mobilisation, appointment of alternative personnel and supervision, to encourage poor and illiterate parents to send their children to school.

GoAP has already taken many measures, which reflect its strong commitment to the World Bank proposed programme in primary education. These include promulgation of the AP Community Participation in School Education Act, 1998 to empower school committees and local bodies for school improvement, initiation of the process of filing vacant teaching posts in project districts, undertaking of studies to guide re-deployment of teaching staff to reduce the present wide variations in teacher pupil ratios, and appointment of core project staff at the state and project levels, and starting a comprehensive "bottom-up", micro-planning project planning exercise in all villages and urban slums in the project district.

The Main Loan Conditions

GoAP shall:

a) carry out the project in accordance with the DPEP guidelines and PIP agreed with the Bank

b) maintain SPO, DPOs and SCERT with responsibilities to co-ordinate and implement the project with adequate staff, resources and facilities

c) establish and maintain DIETs and MRCs in project districts with adequate functions, powers, staff, resources and facilities

d) fill at least 95% of teachers' posts in the project districts beginning with March 31, 2000

e) take steps towards redeployment of teachers (including para-teachers) according to school enrolment data to reduce progressively the pupil to teacher (including para-teachers) ratio to a level of 45:1 by the end of the project (an understanding was reached that the number of teachers would be not less than two thirds of the aggregate of the number of teachers and para-teachers at any time during the project)

f) appoint para-teachers in accordance with the procedures specified in the PIP

g) review and discuss with the Bank (through the Joint Supervision Mission mechanism) the evaluation of the pilots of alternative schools, integrated education for disabled children and bridge courses for working children before taking these programmes to scale

h) review by June 2000 proposals for providing opportunities for further education to alternative school students who have completed class 3

i) provide semi-annual reports to the Association by February 28 and August 31 of each year describing the progress achieved in implementing the project

j) conduct learning achievement studies twice during the project implementation period (from April 30, 2001and April 30, 2003), and carry out class room observations studies at least three times during the same period, and incorporate the results in the semi-annual report after the completion of each study, and

k) make adequate land available for new construction under the project and ensure that no involuntary resettlement arises from any use of land, or change of land use.

As a condition for the project, GoAP has also agreed to fill all existing primary teacher vacancies and sanction the additional posts necessary to reach, by the end of the project, so as to achieve a pupil teacher ratio of 45:1.

Reform Agenda

The education component of the APERP is also based on the recommendations contained in the World Bank's Agenda document. This document has argued for increasing fees for government institutions of higher education. It points out that the recent growth of private unaided schools, even in rural areas, suggests that such schools could expand further and stem some of the financial pressure on the state government. According to it, unit costs of primary schooling could be reduced through the expansion of multigrade teaching with specially designed materials or other alternative approaches to serving small communities. Increased fees in higher education (covering at least 30% of unit costs) and greater efficiency throughout the system would provide some funds necessary to universalise primary schooling. It has also called for significant increase in budgetary allocations to the sector. These recommendations are adequately reflected in APERP's education component as described above.

The Debate

Until now the World Bank's lending for education has been by far lowest of all sectors. Of the total estimated US$ 270 billion of public and private spending on education in low and middle income countries, all external finance together accounts for only 2.2 per cent. The World Bank financing amounts to just 0.6 per cent of this public and private spending. However, in the case of Andhra Pradesh under APERP this trend appears to have been reversed and 20% of the project funds have been allocated to education.

This sudden overwhelming attention on education has its own dangers. It is felt in many circles that of all the reforms and adjustment policies initiated at the behest of the IMF and the World Bank, the ones in the form of the educational reforms are likely to have far reaching debilitating impacts in the end. Moreover, reversing these consequences may not be easy. The Bank's recommendation for restructuring of education sector are attuned to the SAP notion that the state is an inefficient arbiter of resource allocation and that in the context of growing resource constraint, it would be optimal for the state to retreat from all activities other than governance, including education and health. Hence when the WB has tried to carve out a role for the AP government machinery in education, it has restricted it to basic education. The arguments for cost recovery and privatisation in higher education and private participation even in elementary education are made quite explicit in several World Bank reports including the present project Staff Appraisal Report.

The educational reforms prescribed by the Bank for the developing countries instead of strengthening will debilitate their educational system. In the context of globalisation while governments in the developed countries such as the USA and UK have proposed to invest more in higher education to meet the challenge of international competition, countries like India have been advised to reduce investments on higher education. In the absence of sufficient investment in higher education these countries will not have the capacity to face up to global challenge.

The assumption that developing countries like India spend far too much on higher education is also erroneous. In India expenditure on higher education accounted for only 0.35 per cent of GNP in 1992-93. But this figure is as high as 2.7 per cent in the USA, 1.9 per cent in the Netherlands and Canada. Enrolment in higher education in India, in the age 17-24, is still around 7 per cent, where as in many of the OECD countries it is about 30 per cent.

In the case of school education too, the Bank seems to maintain double standards. While in the advanced countries school education is largely funded by the state, in the case of developing countries the Bank suggests private provision of even school education could supplement state provision. What is missing in the policy prescriptions is the basic purpose of education and the need to evolve appropriate institutions that would ensure the values of equality and equity, and promote democratic spirit.

The project gives further impetus to the spreading of privatisation in primary education. This also provides congenial atmosphere for the upper class to invest in educational institutions as it has become a source of huge profits. As funding from the government declines, fees are being raised in the privately managed schools. This trend is also reflected in the rising number of self-financing educational institutes, an euphemism for profit oriented private schools.

Percentage of Institutions and Students in the Private Sector in 1999

Class	% of institutions in the Private sector	% of students in the Private sector
Intermediate	78	66
Degree	81	76
Engineering	89	92
Medical and Other Professional	89	85
Upper Primary School	37	40
High School	30	40

The outcome of this education policy will be very adverse to the disadvantaged people and habitats/regions who cannot pay for education, as incomes at their disposal are meagre. The spread of private sector in the education sector will further accentuate the extensive social segregation that prevails in the country. The dichotomy resulting from an education system polarised between prestigious schools for the children of well-off parents and schools with less impressive credentials for the children of poor will have far reaching consequences. Access to education on the basis of ability to pay rather than their need for it will strike a deathblow to equity and equal opportunities in education.

There are no attempts at making the school accountable to the community. Community involvement and the participatory approach in DPEP is more rhetoric than reality. The community is expected to contribute to meet part of the costs of primary education. As a part of this project Village Education Committees are supposed to mobilise funds for education in these villages. These Committees are supposed to pay for a half salary of the para-teachers. In new constructions the village communities are expected to provide land and material contribution in the form of *shramadan*. Already in many places, the burden of additional teachers is thrown on to the parents by charging fees. In other words, a conspicuous aspect of this project is its stress on the costs of primary education being borne by the communities and the parents. The shift of responsibility of providing education from the state to the community is clear and singular trend of the project. At the same time, Community's powers are illusory, since it cannot appoint or fire the regular teachers. All its powers are limited to the system of para teachers. It also has little say concerning curriculum.

This new system also brought in system of para-teachers who are paid Rs 600 to Rs 1200, half of which is to be contributed by the VEC. In the case of inability of VECs in mobilsing this amount these teachers will get only half of their salary. In many cases these teachers did not receive any amount as government did not release its contribution in the absence of matching contribution from the VEC and this programme has become a non-starter. In some places para-teachers quit in disgust. These teachers full salary is less than half of the regular teachers. Besides, para-teachers are also deprived of the salary for the summer vacations while regular teachers are paid around the year. The para teacher system violates the principles of equal pay for equal work and natural justice.

The communities in school-less habitations besides having been subjected to deprivation of educational facility for so many decades are now expected to bear part of the costs of infrastructure (construction and maintenance of school buildings) and honorarium of teachers. This makes education more expensive compared to the habitations having established schools.

Despite claims of introducing a holistic approach to address the issues, this project does not provide adequate number of teachers to all the schools to reduce the teacher pupil ratio to the desired level. As a part of the project the government is supposed to fill all teacher vacancies. Though it has filled some posts, still more than 26,000 posts are lying vacant. In addition, owing to the expected increase in numbers of children due to enrolment campaigns this becomes all the more serious. In most new schools, at best only two teachers (one para teacher and one regular teacher) are seen to be working. These two teachers are expected to provide multi level training. Thus the plan of reaching out to all habitations through the "innovative" strategy creates and furthers disparities in quality of education between the new and old schools.

The project has limited vision towards accomplishing the goal of universal education because it perceives the problem of education in isolation of the social fabric that has been keeping a large number of children out of and away from school.

Universal primary education is incomplete until and unless the child labourers, those who are working for wages outside and significantly contributing to the family earnings by working at home, are liberated from the drudgery of work. The problem is particularly acute in districts having large numbers of people resorting to seasonal migration in search of labour. Alternative schools are proposed to cater to the needs of the working children are to be run by a single teacher using multilevel kits. Local educated youth are to be recruited for the purpose. The cost of the alternative school is to be borne largely by the community. The success of this plan is also in doubt as the existing teacher-pupil ratio cannot ensure quality of education in these centres. There are also doubts as to whether these centres would be able to wean away the children from child labour and thus contribute to universal enrolment.

The question that looms large regarding the education component of the APERP is the sustainability of the programme once external funds are over. In the present fiscal situation and declining contribution to education the state government's ability to sustain the programme is in doubt. Besides this, Community contributions cannot be expected to support the programme beyond a point.

CHAPTER - 5

Roads Sector

The state government's new thinking on emerging economy and polity encompasses the infrastructure also. In other words, the very process of transformation and or restructuring of the provision of infrastructure facilities like roads reflect the new ideological moorings of the present government. Following this new thinking, which is considerably influenced by the World Bank's conditionalities, the sector is to be restructured to make it feasible for both public and private players to provide infrastructure. It is the needs of the external markets rather than the unfulfilled needs and necessities of the people that become the point of reference. The SAP based reforms are going to replace subsidies to the poor with subsidies to the rich. These changes will lead to adverse welfare consequences.

Status of Roads in AP

In AP, roads carry more than 60 percent of inland freight traffic and 85 percent of passenger traffic. The State has a road network of about 1,64,000 km, classified in to four main categories: national highways (2,950 km — 2 per cent of the total network length), state highways (8,775 km — 6 per cent), major district roads (34,695 km — 22 per cent), and rural roads (70 per cent). In comparison to the all India situation, the road infrastructure in AP is relatively underdeveloped. The density of roads in AP, excluding rural roads, is 542 km per 1000 population and 2.2 km per 1000 sq. km of area, lower than the all India averages of 620 km and 2.4 km respectively. Eleven thousand villages out of the 27,000 in AP are without all-weather roads and are cut off every year for long spells during the monsoon season.

In the past twenty years, the road network in AP has grown at an average annual rate of 3 per cent, while the number of registered vehicles has grown at a substantially higher rate of 16 per cent. This has widened the difference between the road capacity and vehicle density. While the number of vehicles increased from 3.4 per 1000 people in 1975 to 28.7 percent in 1995, the length of roads went up from 1.8 km to 2.2 km. The growth of motorised traffic between 1995 and 2015 on the national and state highways is estimated to be 6-10 percent for different type of vehicles.

AP spends about 0.5 percent of its GSDP on the development and maintenance of its transport network and over 90 percent of it is spent on roads. This is almost half of what other states spend on their transport sectors. It is no wonder that more than 80 per cent of roads in the State are in poor condition, with only 40 per cent of the funds needed for maintenance being provided during the last two decades. The impact of this neglect has been especially severe in rural areas, where poverty is at its most acute.

According to the Strategic Options Study (conducted by the Bank and DFID), rehabilitation, upgrading and modernisation of the existing state highways and main district roads under the Roads and Building Department (capital expenditure) would require an annual budgetary allocation of Rs. 4 billion, 2.5 times the average allocation of Rs 1.6 billion in the past three years. The same study estimated the funds needed for rehabilitation of the national highways in AP at Rs.8 billion.

Interestingly, capital expenditures in the road sector have been dominated by external aid. The World Bank financed AP Cyclone Emergency Reconstruction Project, which closed in 1995, and the Asian Development Bank's First Highway Project, which was completed in mid-1997 are some important examples. Even in 1993-94 out of RBD's capital expenditure of 158 crore, 124 crore was externally aided.

Under the APERP

The road component of the APERP aims to improve rural road network in three Telengana districts of Adilabad, Karimnagar, and Warangal. The project envisages creation of community road associations for development of non-core roads. Under APERP rural road upgrading and maintenance have been allotted US$ 179.5 million. Out of this US$ 75.6 million will go towards state roads maintenance, US$ 76.9 million for rural road upgrading, US$ 23 million for rural road maintenance and US$ 4 million for capacity building. For this entire component the Bank's contribution would be US$ 112.6 million.

This project would have an overall counterpart funding requirement during the five years of implementation for the State to the tune of US$ 66.9 million, of which US$23.0 million (about US$1.9 million per district per year) would be earmarked for the rural road maintenance component in the three districts.

To implement this programme an Interagency Co-ordination Committee, an Implementation and Tender Committee, and a Project Implementation Unit (PIU) have been formed. They would be assisted by a consultant firm Project Management Technical Assistance Consultant (PMTA). Besides this, design and supervision consultants would be employed for the upgrading work.

The main beneficiaries of this project, according to the project document, would be the population of 2,677 villages (estimated at about 1.5 million people) in the three selected districts, which are currently not accessible by motorised transport during the monsoon season. It is expected that the improvement program would yield substantial social and economic benefits to the rural population, particularly in the improvement of access to education, health care, and other social services.

Under the APERP, the major focus of the rural road component would be on road maintenance:

· to clear the maintenance backlog on a core network of arterial roads in three districts;

· to upgrade and maintain an associated rural road network in the districts; and

- to address the weak institutional set-up for sustained management of rural roads by strengthening of Panchayati Raj Engineering Department (PRED) to execute rural road upgrading and maintenance, especially at the district level, through introduction of proper maintenance planning systems and execution of works by contract, by staff training, introduction of modern road management tools and increased use of the private sector for design, supervision and execution of maintenance works.

To achieve the above the project intends to take up the following:

a) introduce systematic road management;
b) strengthen PRED's contract management capacity;
c) improve quality control, including the use of consultants for supervision; and
d) create community road associations for development of non-core roads.

In the past, quality problems have been encountered in road projects in India concerning survey, pavement design, detailed engineering, contractor capability, workmanship, and strict adherence to technical specifications. A major emphasis of the project is therefore, the introduction of international best practice to the AP road sector. The quality of engineering preparation has been addressed by appointing an international standard consulting engineering firm. Bid packages would be sized, and qualification criteria prescribed, to be of interest to well-qualified contractors. Construction supervision would be the responsibility of RBD engineers under the oversight of internationally experienced consultants.

Main Loan Conditions

GoAP shall:

a) by December 31, 1998, adopt a policy framework for Rural roads and establish PIUs at the HQ and in each of the three districts and appoint consultants for designs and contract supervision;

b) by August 31, 1999 appoint consultants to carry out a technical audit of implementation of annual maintenance;

c) for both the Primary Core Network (State highways) and the Secondary Core Network (rural roads):

    - carry out by December 31 of each year a review of the annual maintenance program and an analysis of the maintenance requirement for the following fiscal year;
    - establish a separate budget head, and by March 31 of each year, provide at least 80 per cent of the required maintenance for the Primary Core Network and full funding for the Secondary Core Network;
    - submit a report to the Bank by March 31 of each year on the proportion of the network being good, fair and in poor condition and on the proposed maintenance funding for the following fiscal year; and

- report progress in strengthening maintenance management.

The Reform Agenda

According to the APERP document, “The policy framework for the roads sector is already being addressed through the AP State Highway Project. This would be reinforced under the APERP with the issuance of a new Rural Roads Policy Paper.”.

The new policy calls for strengthening of the RBD’s role as a manager of the State’s road infrastructure responsibilities rather than just being a provider of road infrastructure services. The main thrust of the proposed reforms is to manage roads as a business and provide them largely on a fee for service basis. The new policy seeks to shift the focus of the RBD from provision of road assets towards a management and policy role, and including, among other things, development of improved policy, processes and opportunities for private investment in state roads.

The Agenda prepared by the World Bank also calls for creation on an environment supportive of private involvement in road infrastructure, and the establishments of the incentives for development of a modern and efficient highway engineering and construction industry.

According to the APSHP document, “Implementation capacity of state public works departments… has been limited by their almost monopolistic public provision of engineering, construction supervision and maintenance services. With little exposure to effective international competition, local consultants and contractors have had little incentive or opportunity to develop the technical and managerial skills required to become an efficient alternative to PWDs.”

The major lacuna lies in the way contracts are handled. The Agenda describes this as follows: “RBD contracts out major capital works and periodic maintenance operations to the private sector. However, under political pressure the size of these contracts is kept to a minimum to serve a large number of small local construction companies that use outdated labour-intensive technologies in protected markets. This policy has adversely affected the quality of construction and maintenance work, and hampered the development of a modern high technology local construction industry in the State. The sector has to be exposed to international competition to acquire new technology and skills in order to deliver high-equality engineering and construction services and schedule.”

Therefore, it has recommended the opening of the sector to international competition and increasing the size of individual contracts to attract interest from well-established internationally recognised companies.

It could be said that the World Bank’s 1994 World Development Report, titled ‘Infrastructure for Development’ is the precursor of the reforms unfolding in the infrastructure sector including roads. According to the report, the causes of the past poor performance lie in inadequate and inefficient public sector utilities and the source of improved performance lie in privatisation. Therefore, it called for transformation of roles of the government and the private sector. It recommended management of infrastructure like business not as a bureaucracy. According to it, "private sector involvement in management, financing or ownership will in most cases be needed to ensure a commercial orientation in infrastructure." In the changed circumstances the government will not be the 'provider' of infrastructural services but will be 'facilitator' of private sector involvement and investment in this sector. This policy advice of the World Bank in the case of India surfaced on many previous occasions. Some of these instances are mentioned below.

One of these instances is the Bank's Country Assistance Strategy (CAS) for India. The CAS stresses the need to link investments in infrastructure with reform in public sector policy and management at both central and state levels. In the road sector, emphasis is placed on increased investments in high-return projects, strengthened public sector planing and project management's, and increased use of private sector engineering capacity and modern road design and construction technologies. It also advocates a stronger link between road user charges and road expenditures. The CAS also notes the growing potential for private investments in infrastructure in India.

The Bank in its report on "The Indian Transport Sector Long-term Issues" has highlighted the need for "difficult reforms" in the introduction of (i) private sector engineering services, (ii) international competition for large civil works packages; and (iii) more sustainable road funding linked to road user charges.

The APSHP project financed by the Bank includes actions to strengthen policy environment and prepare specific candidate projects for possible private investments in state roads. The appraisal document on APSHP which preceded the APERP states, "All of these features (that have been discussed in the paragraphs above) have been incorporated in the project, with up-front commitment of GoAP to policy and institutional changes, and substantial use of private consultants and contractors"

Already the State government has taken several steps to attract private capital into the infrastructure sector. The government has been actively promoting private participation in the sector on a build, operate, and transfer (BOT) basis. Under this initiative, the State has identified twenty-one state highways, sixteen major district roads, seven toll expressways, and thirteen bridges for improvement and development by private investors. The total cost of the identified projects, with the exception of the seven toll expressways, is estimated at about Rs.10.7 billions. However, the response of the private sector has not been as strong as expected. To overcome this silence from the private sector, the Bank has advised the State government to modify privatisation policies in the light of policies successfully implemented in other states.

The GoAP has been progressively making increased use of private contractors and consultants. It has also embraced a project preparation and implementation framework designed to enhance the State's absorptive capacity through outsourcing most of the engineering, design and supervision functions of the RBD for the project, and the implementation of project civil works by contractors of proven international experience.

The State government has also set up the AP Road Development Corporation as a part of the reforms.

The Debate on Infrastructure

Mainstream neoliberal economic logic has argued that public sector is inherently inefficient and unresponsive as there is no competition to encourage efficiency. However, it has also come to be accepted that the question of efficiency in economic activity is completely different from that of ownership. In this context Jayati Ghosh et al point out, “In the current Indian context, private owners can (and have) created economic units which are just as unwieldy and inefficient as some of the more glaring examples of public incompetence, and where some public sector units are among the best managed in the country. So changing the ownership structure does nothing to solve the basic problems” (1997, p.807). The market failures are in no way infrequent than non-performance of public sector units. In addition, while the successes of the private units have been traditionally profiting a few, the success of public sector units have conferred benefits to larger sections of people.

Developing countries are being advised to minimise the role of the government in the economic sphere. On the other hand many industrialised countries have privatised few key infrastructure areas, but have done very well in terms of its provision. For example, both France and Germany, both important developed countries, had no private investments in telecom infrastructure even in 1995. While France had no private sector involvement in its power sector till that year, Germany had no private involvement in transport. Another developed country, Japan, also had very little private sector involvement in transport and none in water and sewerage systems. Overall, the weighted average of privatisation in infrastructure investment for France was only 13%, for Japan 14% and for Germany only 9% (Kamal Malhothra, 1998, p.2).

Private Investment in Infrastructure – 1995 (% cumulative share)

Country	Telecom	Power	Transport	Water/Sewerage	Weighted Av.
France	0	0	10	36	13
Germany	0	67	0	20	9
Japan	35	96	3	0	14
UK	100	100	21	100	71
USA	100	81	13	22	47

Source: Kamal Malhothra, 1998.

Share of Government expenditure as percentage of GNP/GDP

Country	Share as % of GNP		Share as % of GDP	
	1980	1992	1980	1997
India	13.2	16.8	10	10
UK	38.2	39.5	22	21
Italy	41.0	51.6	15	16
Netherlands	52.7	52.8	17	14
France	39.3	45.4	18	19
US	21.7	24.3	17	16
Norway	39.2	46.4	19	21
Denmark	40.4	42.2	27	25
Sweden	39.5	47.5	29	26
Japan	18.4	15.8	10	10

*Source: *World Development Report 1994 and World Development Report 1998-99.*

Share of Government Expenditure in Different Countries Income-wise

Region	Share as % of GDP	
	1980	1997
Low Income	11	11
Middle Income	13	13
High Income	16	16

Source: World Development Report 1998-99.

In 1992 while in India the government expenditure accounted for 16.8% of GNP, except Japan all other developed countries accounted for more than this. In Italy and Netherlands government expenditure accounted for more than half of the GNP. In UK and US, the government expenditure accounted for 39.5 and 24.3 respectively of the GNP. A look at the countries income-wise shows that the countries with high incomes the proportion of GDP spent by the governments are more than the lower income countries. If the government spending is inherently inefficient, these developed countries would not have been as developed as they are and the backward countries would not have been as backward as they are.

Even after all the technological changes, the infrastructure sector continues to have a strong monopolistic character. The political economy of the privatisation of utility infrastructure in practice leads to the creation of private monopolies, which cause market failures. This means that the search for solutions must go beyond the market forces.

If left to an unregulated market these services in remote rural areas would either be not provided at all or be provided at a relatively high and unaffordable cost to exclude the poor and other disadvantaged groups. The link between the type of infrastructure projects that the private sector has been generally willing to support and direct poverty reduction is weak at best, non-existent or even negatively correlated at worst.

The other argument of infrastructure privatisation proponents is that the poor are willing to pay for privatised utilities and social services, is not borne out by most empirical evidence. This is simply because even if the poor are willing to pay they do not have the ability to pay in practice. If they are forced to pay in many privatised infrastructure regimes, it is often at an unacceptable social or economic trade-off (Malhothra, 1988).

It is important to consider the market structures that result from privatisation efforts since a regulated private monopoly is not necessarily more efficient than a well run publicly owned utility. Recent experience in India with regulatory mechanism in telecom and electricity sectors have shown that regulators are far from independent, responsive and accountable.

Public subsidy of the private sector

The unfolding reforms in the infrastructure sector show that emerging situation is one “that is nothing more than a situation in which the public sector continues its investments in some sectors where the private sector is not likely even to be interested, and gets out of any sector where the private sector is in a position to make a profit”, and “this is simply a scenario in which the private sector picks up all the profits and the public sector is left bearing all the risks and losses” (Jayati Ghosh et al, 1997, p.807-808).

In the name of making the infrastructure sector attractive to the private sector on the one hand infrastructure services will be ‘profitably priced’ affecting the users and on the other hand government, while retreating as investor to provide space for private participation, will be forced to concede more and more concessions to them affecting its own financial health. Then the question arises, “If resources for direct public investment are supposedly inadequate, what ensures that the resources for continued public subsidisation of private investment will be easily found?” (Jayati Ghosh et al, 1997, p.808)

While in the name of fiscal stringency government’s expenditure are sought to be reduced, in the name of encouraging the private sector it is being made to provide counter guarantees to private investments in fast track projects. The international creditors are seeking government guarantees in order to lend to private borrowers in the developing countries. If the private sector is inherently efficient, the question is that why does it need all these crutches for its survival?

Experience in India and outside shows that the question of efficiency in economic activity is completely different from that of ownership. In the developed countries, the public provision is the dominant pattern in the infrastructure sector and this apparently did not come in the way of realising higher growth rates. Besides this wherever privatisation gained momentum the burden on the people in shape of escalating tariffs increased. The experience in India as well as abroad also shows that the 'independent' regulatory bodies do not hold much promise. The privatisation process instead of reducing the burden on the state exchequer is further increasing it as the government is forced to grant one concession after another to the private sector. Subsidies to the poor are replaced by the subsidies to the rich.

Any reform of the infrastructure sector should be systematically planned, so that it meets the needs of the domestic situation in view. What is likely to happen are *ad hoc* changes in the operation of these sectors, to meet the conditionalities laid down by external funding agencies without any systematic reform either to improve the provision of these services or to increase revenue generation in these sectors. The GoAP has been resorting to borrowings from the World Bank to provide these services. The question is how will the State find the resources to repay such loans as the investments in road sector have poor direct returns.

People's needs must be the basis, not external markets

The reform in infrastructure sector addresses the needs of the external market. The unfulfilled needs and necessities of the people do not form part of its reference matter. In the context of infrastructure reforms, GoAP aims to turn AP in to Singapore or Hong Kong or Netherlands. The very emergence of these centres has a particular context. All countries cannot achieve growth through export strategy. For international market is not that perfect one, even after the emergence of WTO, which only helped to legitimise the hold of developed countries on world trade. A look at the continents of Africa and Latin America will show the trail of destruction wrought by this model of growth. Once self sustained economies were turned in to refugee camps. This is the result of placing profits above the welfare of the people.

BOTS & BOOTS

Most common form of transport infrastructure project provision combines construction by a private firm under a system of competitive tendering, with public ownership and operation of the infrastructure asset. As a part of privatisation of infrastructure existing publicly owned infrastructure assets have been sold over to private buyers. Services required for the operation of assets have been contracted out. Many new infrastructure projects have been at least nominally, privately built, and owned. The most important single class of private infrastructure projects has been that of privately constructed toll road projects.

Build Operate and Transfer (BOT) and Build Own Operate and Transfer (BOOT) schemes are being dangled as new methods of privatisation of infrastructure services. Under BOT the project is publicly owned, but is built and operated by a private firm. BOOT schemes involve private sector ownership and operation, with the proviso that the asset should eventually be handed over to the public sector.

If private sector ownership and operation of a given infrastructure is socially optimal, there is no rationale for eventual transfer to the public after a period determined by the need to negotiate a politically and commercially acceptable financial package.

Because the allocation of ownership is unrelated to efficiency considerations, these schemes are unlikely to be socially optimal. In cases where public ownership and operation is more efficient than private ownership and operation, these projects will be inferior to the Basic system of competitive tendering for construction and ownership and operation by the government. In case where private ownership is superior, these projects will be inferior to purely private projects. Schemes involving privately owned urban toll roads are almost always inferior to the alternative of public ownership of roads, financed by general road user charges.

Much of the risk associated with transport infrastructure projects reflects the fact that they form part of a larger transport network. It would be costly and inefficient for governments to give advance guarantees concerning policy on the future management of transport networks. Other things being equal, the optimal solution is for the risk associated with network management to be internalised through public ownership. That is, if the government is the main source of risk, the most efficient contract is one in which the government bears the risk.

CHAPTER - 6

CANAL IRRIGATION

Reforms in the irrigation sector brings out still another facet of SAP based policies being implemented as a part of APERP. Enormous irrigation infrastructure built to secure food security is being used to sub-serve the interests of the World Bank and the ruling class in the state. As a result of the new policy process while the transformative role of participatory irrigation management in attaining sustainable use of water resources and development is doubtful, its negative impact on surface irrigation sees to be negative with its own implications for food security.

Status of Irrigation in AP

The agriculture sector continues to occupy an important place in the economy of AP. Around 70 per cent of the working population in AP depends on agriculture. Since independence, there has not been much change in this figure. However, its contribution to state income has declined from 60 percent in 1951 to 34.4 percent in 1995.

Irrigation has considerable influence on overall economic growth and poverty alleviation in the state through its impact on agricultural growth. Net area irrigated in the state increased from 23.56 lakh hectares in 1951 to 41.23 lakh hectares in 1995. While tank irrigated area remained stagnant, the area under canals and wells has increased considerably. Net area irrigated under canals increased from 12.82 lakh hectares in 1951 to 15.39 hectares in 1995. In the case of well irrigation, net area increased from 3.05 lakh hectares to 16.56 lakh hectares.

In the Eighth Plan (1993 to 1997) expenditures on irrigation amounted to 24 percent of total Plan expenditure (second only to the power sector). After peaking at 2.4 percent of the State's GDP in 1986/87, total public expenditure in the irrigation sector gradually declined to 1.2 percent in 1995-96. The share of irrigation in total public expenditure has also gradually declined from 11.3 per cent in 1980-81 to 6.9 per cent in 1995-96. A large part of it is spent on public canal irrigation.

Because of the irrigation sector's predominant share in the capital expenditure of the state, any inefficiency in its operation would have adverse impacts on the state's economy. Over the years, experience shows that the benefit from this investment has been far below the potential because of the low and declining efficiency of the public canal irrigation network. Even after all this expenditure on irrigation, area brought under irrigation after 1956 till date is less than what was brought under irrigation during the British rule.

The gap between the potential created and utilised under surface irrigation has been quite significant. By 1995, irrigation potential created stood at more than 50 lakh hectares but the utilised area remained at 41 lakh hectares. Area under surface irrigation declined from 2.6 million hectares in 1981 to 2.3 million hectares in 1994. Gross area under irrigation came down from 5.5 million ha in 1989-90 to 5.0 million ha in 1993-94 and net irrigated area declined from 4.3 m. ha in 1992 to 3.9 m. ha in 1995 due to the decline in the area irrigated by the public surface network. Slowdown in the agricultural as well as overall growth in the state since 1989-90 is partly attributed to this decline in irrigated area. It was estimated that the loss of additional production due to the decline in area irrigated is to the tune of 12000 lakh bags of paddy in 1978-80, 24,400 lakh bags in 1984-85 and 25500 lakh bags in 1989-90. If this trend is not reverted, it will have adverse impact on the food security and poverty alleviation in the state. If this issue of inefficiency is not addressed properly, the capital expenditure made on irrigation will remain a dead investment.

One of the important factors in the deterioration of the irrigation networks is the persistent under-funding of O&M works and large conveyance losses. The Ninth Finance Commission recommended an O&M allocation of Rs 324 per ha for 1990-95. Actual allocation in AP in 1990-92 was only Rs 75 per ha. The resulting deterioration of the network has adversely affected the efficiency of the irrigation system.

Under funding of O&M in turn is attributed to inadequate cost recovery. Total revenues generated from public irrigation schemes over the period have declined from 50 to about 20 per cent of the required O&M provisions. The average rate recovered until recently was Rs. 100 per ha. This is too low to recover interest and depreciation costs. The estimate of realistic cost to be recovered is put at Rs 1094 per ha. In August 1996, the government raised the highest water rate to Rs 350 per acre and indexed it to the value of a bag of paddy (75 kg). However, under strong pressure from the interest groups, the rate was later reduced to Rs 200 and indexation was withdrawn.

Another important factor is the time and cost overruns. Resources are thinly spread over a large number of projects, leading to substantial time and cost overrun. The cost of creating one ha irrigation potential for major and medium projects increased from Rs 1,060 per ha during first plan, to Rs 14,950 during 1980-81, further to Rs 30,766 during 1985-86, Rs 42,700 during seventh plan and to Rs 50,000 on the eve of ninth plan.

Poor water management and the traditional method of overflow of water from one field to the next has hindered the delivery of adequate, reliable and equitable irrigation. Over use of water by the head reach farmers and consequent denial of it to the tail end farmers is part of this problem. If enough water is given to the three-lakh acres of tail-end lands under Nagarjunasagar, it will result in additional production of 50 thousand tonnes of paddy. Pamidipadu major under Nagarjunasagar in Prakasam district has not received water even once ever since the project started.

Inadequate involvement of farmers in the management of public irrigation network by the government, the delays in the extension of the canal systems and the inability of the farmers to invest in land development and field channels, deficiencies in the structures; problems in deciding localisation of crops and its implementation; faulty designs, absence of lining of canals to the required extent and quality, lack of co-ordination between irrigation and agriculture departments are some other factors mentioned as responsible for the poor condition of the irrigation sector.

Mounting subsidies, in the form of lower water and power rates, are also shown important factors in drying up of resources for future investments. that are substantially lower than the cost of delivery. Water subsidies benefit the relatively affluent Coastal Andhra region where about 85 percent of canal schemes are located. The surface water subsidies reached Rs 6.7 billion in 1994-95, about 76 percent of public expenditure on irrigation and flood control that year. It was argued that this kind of highly subsidised charges encourages farmers to draw water much in excess of what is actually required.

Irrigation under APERP

The irrigation rehabilitation and maintenance component of the APERP tries to address these issues discussed above. Its objectives are: to place the sector on a sustainable basis through involvement of farmers in irrigation management and cost recovery; to reverse the decline in the State's irrigated area that has resulted from past poor maintenance and management; and thereby to improve the productivity of irrigated agriculture. Key performance indicators will be: 70 percent of Water Users' Associations (WUAs) functioning by the end of the project period; strengthened cost recovery for O&M; expansion of effectively irrigated areas on existing systems; yield increase in irrigated crops.

As opposed to new construction, the project would prioritise maintenance, rehabilitation, and investment in human capital and technology. The priority would be to restore the productivity of existing irrigation systems, ensuring their sustainable management by putting the sector in the hands of users and on a sound financial footing.

This would be achieved through making the recently created WUAs fully functional and self-sufficient, training and extension support for WUAs would be given, investment through the WUAs to rehabilitate and maintain the systems would be encouraged, improvement in cost-effectiveness of O&M through annual planing and review of O&M adequacy and costs by the WCRC would be carried out, introducing 15 percent beneficiary contribution to rehabilitation works in areas covered by WUAs and introduction of volumetric charges would be made mandatory.

The irrigation component would aim to eliminate dependence on fiscal transfers for O&M by devolving responsibility to the WUAs. Budget neutrality will be achieved by the third year of the project. Over the project period, revenue collection from water charges is expected to be US$ 96 million, about one-third of the component cost. In addition, capital cost sharing will be introduced as a standard requirement for WUAs from project initiation.

Under this project 34 per cent of the funds, amounting to U$ 282.3 million, would be allocated for irrigation rehabilitation and maintenance. Within this the World Bank's contribution would be US$ 142 million. The remaining funds, US$ 140 million, are to be made available by the state government under counter part founding. Under this component minimum rehabilitation accounts for US$ 101.7 million and recurrent maintenance is pegged at US$ 139.1 million. The remaining funds are allocated for SIFT, agriculture intensification, and institutional development.

According to the Project document the Minimum Rehabilitation Program would benefit all major and medium irrigation schemes, with a combined total command area of 2.45 million ha. The Recurrent Maintenance Program would benefit all major, medium, and minor irrigation schemes, with a combined command area of 3.7 million ha. Institutional support under the project would benefit all public irrigation schemes of the State totaling about 4.9 million ha. In all, the project, as per the Project document is expected to benefit several million farming units corresponding to a rural population of about 12 million people, mostly poor. In the longer term, it is expected that, progress towards more generalised modernisation of irrigation infrastructure and technology in the State would result from the pilot operation (Scheme Improvement and Farmer Turnover - SIFT), which would involve more intensive investment, initially on a very restricted area.

According to the Project document the main beneficiaries of the project would be farmers with holdings averaging less than 2 hectares. The project would lead to a substantially more equitable distribution of water, benefiting particularly tail-end farmers who are generally in the poorest group.

Main Loan Conditions:

Some of the Loan Conditions stipulated by the Bank are:

(a) WCRC's to function in accordance with the Government Order establishing it;

(b) take steps to implement annual recommendations of WCRC regarding full funding of maintenance works;

(c) provide annually to I&CADD the full funds required for satisfactory maintenance of all irrigation infrastructure and make the maintenance budget available from the beginning of each fiscal year;

(d) allocate maintenance work funds to a separate and protected maintenance works account exempt from withdrawals for salaries and wages;

(e) cause I&CADD to submit by January 31 of each year its annual expenditure plans for maintenance works to AP, WCRC and the Bank based on agreed reporting procedures;

(f) cause I&CADD and farmers' organisations to carry out satisfactory maintenance activities enabling sustainable maintenance;

(g) cause WUAs contribute 15 percent of minimum rehabilitation and SIFT works within the jurisdiction in cash or in kind;

(h) implement a system for water charge collection on a volumetric basis by WUAs on a pilot basis bu March 31, 2000; and

(i) provide I&CADD and AD the funds as approved in the state's budget in timely manner.

The Reform Agenda

Prior to AP, the World Bank had expensively intervened in AP's irrigation sector through its loan programme. The projects financed by the Bank include: Pochampad Irrigation Project, Godavari Barrages, AP Irrigation and Command area Development Composite (AP I), and Second Andhra Pradesh Irrigation (AP II). The National Water Management Project financed by the Bank included an AP component to demonstrate improved network designs in six medium schemes. To this list AP III Irrigation is to be added with a Bank loan commitment of US$ 325 million and the irrigation component of APERP.

Traditionally the Bank's irrigation sector strategy has identified four priority action areas. These are:

a) strengthening of river basin planning and environmental monitoring capabilities;

b) increase of O&M works expenditure and water charges, and reprioritising of capital expenditure to favour scheme rehabilitation and completion of ongoing works over new projects;

c) improvement of canal management and water distribution performance; and adoption of management and organisational reforms to strengthen state irrigation department management accountability for irrigation services, and

d) fostering of beneficiary participation in scheme management.

In line with the India CAS, the Bank has been engaged in a dialogue with GoAP about fiscal measures to alleviate its irrigation sector financial crisis. As a part of its broader agenda for economic reforms in AP the World Bank recommended the following reforms in the irrigation sector. The irrigation component of APERP is based on these recommendations:

a) First, a sector strategy should be developed to guide policies and investment in the sector for efficient allocation of water resources.

b) Second, water rates should be increased so that they cover 100% of O&M costs. At the same time significant improvement must be made in the quality of service delivery and effective collection. It would be useful to establish a water rates committee to review O&M costs and ensure that water rates are adjusted on a regular basis to cover full costs. It is also important to adjust water rates in conjunction with power rates to ensure regional equity.

c) Third, adequate budgetary provisions should be provided to meet the recommended O&M norms.

d) Fourth, the institutional framework needs to be improved by

    * enhancing planning and management capacity of the I & CAD and streamlining its staffing,

* consolidating the existing Irrigation Acts under a new act that will reflect the new strategy and participatory management, cater for WUAs, create scheme-level committees representing all concerned governmental and private parties and empowering them to take all decisions concerning investment, O&M, and staffing within their own schemes and within the framework of the new Irrigation Act.

e) Fifth, efforts to promote the participatory involvement of farmers and transfer of O&M responsibilities at the distributory and minor canal levels to the beneficiaries should be accelerated.

Subsequent to the dialogue with the Bank over the period on irrigation sector reform the following are the some of the steps taken by the state government:

a) A "White Paper" on AP's irrigation sector was issued in 1996. Subsequent dialogue with the Bank culminated with a policy statement "Reforming the Irrigation Sector for Sustainable Management and Development", which was approved by the GoAP in May 1998. This policy statement is the basis for actions proposed under APERp

b) a three-fold increase in water charges was ratified in April 1997;

c) The AP Farmer's Management of Irrigation Act was enacted in April 1997 providing for the creation and functioning of WUAs as independent legal entities;

d) in June 1997, 10,292 WUAs were constituted, covering the State's entire surface irrigation area of about 4.9 million ha;

e) in November 1997, 197 Distributory Committees (DCs) were constituted;

f) a massive campaign was started to make the WUAs functional — farmers' conventions and district level workshops with WUA presidents and I & CAD, revenue and agriculture departments followed by a state-level convention of all 10,292 WUA presidents were taken up in May 1998 towards building understanding and commitment; and

g) the Water Charges Review Committee (WCRC) was constituted (by Government Order No.225 of December 8, 1997), providing a permanent body for annual review and recommendations on all aspects of water charges and maintenance funding levels.

The Debate

One of the major weakness of the Bank's approach is that the package is to be applied more or less uniformly every where, with little research being done to match the ingredients against the environments into which they are to be introduced.

Until recently, the World Bank's standard package for improving existing irrigation canals in India included lining the main canal, land leveling below the outlet, constructing a field channel network below each outlet, rotational irrigation, and formation of water user's associations at he outlet level, to implement the rotational irrigation schedule. The clear assumption of this package is that irrigation under performance is due to either to technical weakness in the distribution system (especially lack of lining, or drainage channels), or to the ignorance, negligence, and non-co-operation of the people - farmers, not the canal staff.

Recently a shift in emphasis has begun to take place, reflecting greater concern at how main systems are actually being controlled and operated. In other words, see that the whole irrigation system is run with the revenue from user charges and see that O&M of irrigation systems do not depend on budgetary allocations. Related to this is the issue of proper pricing of water. Other important parts of this programme are WUAs and rotational irrigation. Whereas previously, from the early 1970s, much of the World Bank's attention was concentrated below the outlet, now attention has switched to the main system. The new shift includes components of the old one like rotational irrigation and WUAs.

Reliability and adequacy of water supply to the project area are often a necessary condition for the success of both rotational irrigation system and WUAs. Without substantial investments and improvements in the operation of the main system such improvements in water supply could not be generated. If the supply is not improved, farmers may well refuse to co-operate in rotational irrigation. But in the present reform scenario rotational irrigation system and WUAs are made precondition for the improvement of the system.

One of the most essential elements of the rotational system is good communication system in the command area, not rotational water supply *per se*. But the same is missing in planning as well as implementation of the proposed projects. At the implementation level also while rotational system was institutionalised for non-paddy crops, it is being introduced widely in to paddy areas.

The urge to establish rotational irrigation and to form WUAs to police the rotation derives from an assumption — congenial to governments and engineers — that poor water management is caused by the negligence and lack of co-operation from farmers. From this, it follows that farmers should be educated and otherwise encouraged in assuming more responsibilities in water management, both individually and collectively.

The rotational system depends heavily on irrigators confidence that when the day and time of his turn comes there will be adequate water at the outlet. Many farmers feel the irrigation department's announcements on matters such as when the canal will be opened at the start of the first irrigation season, when it is to be closed, and how much water will be available are not to be trusted. The use of rotational delivery rules can provide a pretext for highly discretionary, predatory behaviour by irrigation staff towards farmers. Without effectively and expeditiously addressing the role of irrigation staff, state bureaucracy, contractors and politicians in the running of this department any amount of effort to exhort farmers to behave properly will be fruitless.

The longest running policy proposal in the irrigation business is to increase water rates. This has been done occasionally, though much less than the increase in the average value of the crop. Neither the Irrigation Department nor the mass of MLAs are enthusiastic about increasing water charges. Perhaps this lack of enthusiasm is related to a fear that farmers might be unwilling to pay both the official water charge at the higher rate and the unofficial charge at a rate no lower than before. If so, increasing the water rate would mean encroaching upon the flow of money through the alternative circuits, at cost to officers and politicians alike. There is a vested interest of irrigation bureaucracy and politicians in keeping the water charges low, otherwise they have to forego their share in the spoils.

Another is the plea for the proper pricing of water. Pricing is indeed very important, but the whole question of resource policy and planning cannot be reduced to that of pricing. Other considerations like accessibility of these resources to the farmers at the given price, its impact on viability of agriculture and its repercussion on food security need to be taken into account. Price alone is not the indicator of alternatives. But the whole reform exercise is obsessed with getting prices right.

There is a tendency to exaggerate the importance of what is known as participatory irrigation management (PIM) or irrigation management transfer. This is a movement for the transfer of the responsibility for the distribution of irrigation water and for the operation and maintenance of irrigation systems from the state to the farmers' associations. It is to be recognised that PIM is not an answer to all the ills of the sector.

The way PIM is implemented in the form of WUA in AP raises many issues. It was pointed out that in the legislation and constitution of the WUAs in the state, the basis is hydraulic, not social. The delineation of WUAs or the territorial Committees has been carried out by hydraulic measure, not by socio-economic structure. This is not by accident but by design – a design mutually acceptable to the bank and GoAP. In the entire Bank-driven conception of water management, the objective function is efficiency, not equity. In the ideological framework within which the PIM legislation is made and WUAs are constituted, there is no room for question of representation by small and marginal farmers, weaker sections or women. A survey by Oblitas and Peter show that only 5 percent of the WUA Presidents come from SC and ST communities (Oblitas and Peter, 1999. Pp.26-32)

Contrary to this the World Bank claims that the main beneficiaries of the project would be small and marginal farmers. According to it the project would lead to a substantially more equitable distribution of water, benefiting particularly tail-end farmers who are generally in the poorest group. The World Bank has arrived at this conclusion by tampering with the widely accepted and used classification of farmer classes. This also disproves its claim that majority of the WUA presidents are from the small and marginal farmers. Further, the prevailing socio-economic differentiation is also neglected. The field information shows that most of the WUAs are controlled, directly or indirectly, by influential farming communities. The working of the new WUAs suggests that the flow of funds and along with that the rules and command run the risk of seriously undermining the community orientation through depersonalised bureaucratic procedures (D. Narasimha Reddy,1999, pp.17-22)

Wherever rehabilitation and restoration of canals is taken up, the capital cost of canals which can meet the Bank's criterion is likely to be very high, and there is a danger that scarce resources will be concentrated on a small number of canals, which will be brought to impressively high standards of flexibility while the great majority get no ameliorative attention at all.

The most discriminating aspect of the irrigation sector is the gross neglect of dry land areas and tank irrigation. Owing to preoccupation of the politician and administrator with major and medium projects, tank irrigated cultivation has been ignored.

While WUAs become a farce, rotational irrigation an unachievable one in the background of uncertainty of water availability, and capital investments under the Bank's guidelines become uneconomical, people of the state will be left with huge loans and mounting interest to repay.

CHAPTER - 7

Public Sector Enterprise Reform

An important element of the SAP based reform programme is to help create a flexible labour market untrammeled by workers' welfare. They want create a workforce that is under their thumb and dare not question malafide acts of the management. It is an effort in the direction of hire and fire policy that sacrifices the welfare of the workers at the altar of management's profit. To create such a condition in AP the GoAP is bracing itself to close down and hand over at throw away prices profitably run units like APSRTC and Singareni Collieries, of course after turning them into loss making units. It will not be just the workers employed in these units who will have to pay heavy price but the whole population of the state.

AP has 39 state-level public enterprises (PE) and over 60 co-operatives in which the State government is the dominant shareholder. Nine of them are promotional, ten operate in the services sector, sixteen in manufacturing, and four in marketing. APSEB (now split up into APTRANSCO and APGENCO), Singareni Collieries, AP State Road Transport Corporation (APSRTC), AP Housing Corporation, and Hyderabad Allwyn Limited were the largest five enterprises. Before public sector reforms being initiated these five units accounted for 95% of total net fixed assets and 92% of employment.

PE performances have deteriorated over the years and the large drain on state finances has become a matter of concern. Total budgetary subsidies (both direct and indirect subsidies) have amounted to almost 1% of GSDP in recent years. Radical PEs sector reforms were contemplated to bring about substantial budgetary savings and efficiency gains in the economy.

In the past few years, GoAP has taken important steps to reform the PE sector. Several committees had been set-up in the past to prepare reform programmes for public enterprises. A Committee on restructuring of State -level PEs was appointed in March 1995 to review the earlier reports and recommend a reform programme. The Committee's recommendations, submitted in June 1995, included the following: winding up nine enterprises; partial disinvestment and restructuring of ten undertakings; outright privatisation of two; referral to the Board of Industrial and Financial Reconstruction of two; and cost reduction and restructuring of seven. The recommendations of this Committee were studied by a cabinet sub-committee and later several steps such as approving a strategic options study (been completed by consultants under DFID funding) for Singareni and setting up a state renewable fund to finance severance payments were taken by the State government to reform the public sector. Two companies have already been privatised (Allwyn Nissan and Allwyn Refrigeration) and four closed (AP Steel, Republic Forge, Allwyn Auto, and a division of AP Seeds).

The Reforms Programme

The APERP has components of public sector reform built in. The broad objectives of these components are to:

- reduce the fiscal burden of public enterprises and co-operatives by supporting GoAP in implementing the first phase of reforms which includes privatisation and/or closure of 12 companies in the phase one action plan; and
- strengthening institutional capacity to design and implement further public enterprise reforms.
- putting together a social safety- net programme for the affected workers, e.g. assistance to retrenched workers including job counselling, training and job placement. The social safety net programme and an institutional capacity building programme would be supported with technical assistance under parallel financing from DFID.

A technical assistance program has also been developed for capacity building, which includes establishment of an Implementation Unit (IU) within the Public Enterprise Management Bureau (PEMB). Supported by a core team and consultants, the IU would serve as a technical secretariat for the cabinet sub committee, which is responsible for the design and implementation of the PE reform and privatisation programme.

The project will support activities that result in liquidation and closure of chronic loss making units whose sale to private sector is not feasible.

The privatisation/closure of larger companies such as Singareni Collieries and APSRTC was set aside during the first phase of privatisation because AP had very little experience in public enterprise reform and privatisation. With the experience gained during implementation of the present program and with public support created by demonstrating the benefits of the programme, AP is expected to be in a better position in a few years to take on more complex and larger companies in the privatisation process.

Furthermore, given the relatively large size of APSRTC and Singareni, it would be necessary to agree upon reforms plans for those companies in order to determine the size of total lay off and funds required. One of the World Bank's earlier documents states, "To make a significant impact, larger PEs, particularly APSRTC and Singerani will also be included in the programme to enable private sector participation in bus transport and the coal mining sectors. The mission is fully aware of the political sensitivities regarding Singareni. Given their size and importance, decision on Singareni and APSRTC will be made separately. Because they are large, complex, and reforming them would have broader implications; short-term external assistance and international experience would be valuable in determining an appropriate strategy how to reform them. It therefore agreed that the mission will identify funding to recruit specialists to prepare 'strategic options assessment' for APSRTC and Singareni without prejudging the outcome." Privatisation of APSRTC and Singareni Collieries may become part of the Phase – II of the PE reform programme.

A key constraint in GoAP's PE reform efforts is the lack of financial resources to effectively address the labour issue. While GoAP established a State Renewal Fund in 1995 to finance severance pay under VRS and other retrenchment benefits, it has failed to fund it. It could meet severance payments of just 2000 employees. Funds needed to finance the severance pay to carry forward the planned PE reform programme are expected to be large. Lack of resources to finance severance costs is one of the factors said to hinder progress in implementing the reforms in future. The PE reform component of APERP specifically addresses this issue.

Under the APERP, the severance program covers 7246 surplus employees out of 14,000 employees in 12 enterprises in the initial Action Plan for the PE reform, at a total estimated cost of Rs.1115 million including contingency of 10 percent (US$ 26.2 million).

Of the 7246 employees who would be considered surplus as result of the restructuring, privatisation and closure, about 1450 employees are in the five firms that are to be wound up (APSSIDC, APHDC, APTEX) or downsized through the closure of unviable assets (agro industries, meat and poultry). The remaining employees to be retired (about 5,800) are in the four co-operative spinning mills (Nandyal Spinning mills, Rajahmundry Spinning Mills, Adilabad Spinning Mills, and Nallore Spinning Mills). Public enterprises that are to be restructured and privatised include Nizam Sugars Ltd, Andhra Pradesh Industrial Development Corporation (APIDC), Allwyn Watches (these together account for 60% of the surplus). The total ex-gratia cost of the voluntary retirement scheme for these12 enterprises would amount to US$ 26.2 million

Main Loan Conditions

The main loan conditions are:

a) Maintain the Cabinet Sub-Committee on State Level Public Enterprises and Co-operative Enterprises, and the Implementation Secretariat with powers, functions, organisational structure and resources for the purpose of implementing the First Phase of the Restructuring Program for public enterprises and co-operative enterprises

b) implement the First Phase of the Restructuring Program by December 31, 2001

c) formulate a time-based Action Plan setting out the strategy for privatisation of the enterprises identified in the First Phase of the Restructuring Program by March 31, 1999 and implement it

d) maintain and administer the State Renewal Fund in accordance with the Government Order on guidelines for the Renewal Fund

e) implement the Voluntary Retirement Scheme in a manner satisfactory to the Bank

f) take all the necessary actions to ensure that employees receiving benefits under the Voluntary Retirement Scheme or the Industrial Dispute Act are not re-employed in public undertakings or in civil service of AP

g) implement the social safety-net program in accordance with arrangements and procedures satisfactory to the Bank

h) implement the technical assistance program to strengthen institutional capacity in AP in accordance with arrangements and procedures satisfactory to the Bank and

i) formulate the Second Phase of the Restructuring Program by September 30, 2000.

Phase 1 Action Plan

	By end 1998	By end 1999	By end 2000	By end 2001	Total
Timetable for Implementation					
1. Nandyal Spg Mills		Private			
2. Rajahmundry Spg Mills		Private			
3. Nellore Spg Mills		Private			
4. Adilabad Spg Mills		Private			
5. Nizam Sugars Ltd			Private		
6. Allwyn Watch			Private		
7. Irrigation Dev Corporation				Private	
8. Agro Ind Dev Corp			Rest/Privatise		
9. Meat/Poultry Dev Corp			Rest/Privatise		
10. APSSIDC		Close			
11. APHDC				Close	
12.APTEX			Close		
No. of Surplus Employees and Timetable for VRS					
1. Nandyal Spg Mills		200			
2. Rajahmundry Spg Mills		500			
3. Nellore Spg Mills		300			
4. Adilabad Spg Mills		400			
5. Nizam Sugars Ltd			2,500		
6. Allwyn Watch			400		
7. Irrigation Dev Corporation	400			1,100	
8. Agro Ind Dev Corp	100		200		
9. Meat/Poultry Dev Corp	150		254		
10. APSSIDC	92	283			
11. APHDC				282	
12.APTEX			85		
Total	742	1,683	3,439	1,382	7,246
Cost and Financing					
Ex-gratia Cost (Rs.crores)	10.4	23.6	48.1	19.3	101.4
Contingency	1.0	2.4	4.8	1.9	10.1
Total Cost	11.4	26.0	52.9	21.2	111.5
Bank	8.0	18.2	37.0	14.8	78.1
GOAP	3.4	7.8	15.9	6.4	33.4

In addition to the above PSU reforms, the GoAP has decided to close down the AP Fisheries Development Corporation and the agro-chemical wing of the AP Agro-Industries Development Corporation on the ground that they are 'unviable.' The GoAP also decided to closedown Republic Forge and Allwyn Auto, and the cabinet is expected to take a decision on winding up of at least five corporations, which have become unviable; AP Handicrafts Development Corporation, LIDCAP, APSSIDC, Meat and Poultry Development Corporation, and Irrigation Development Corporation. According to official sources, the World Bank has agreed to provide Rs 200 crores for restructuring of corporations including payment of VRS benefits to employees.

GoAP has also decided to sell three of the sugar factories under the control of the NSF, located at Hindupur, Metpally and Miryalaguda as they have accumulated heavy losses. However, it has found a buyer only in the case of the Hindupur plant, at reduced price.

In the mining sector, the govt has decided to entrust the responsibility of collecting *seignorage* on minor minerals, except sand and granite, to private parties through open auction with a view to plugging leakages in the present system and increasing the revenue.

The Reform Agenda

The argument for PE reforms in general and in AP in particular are stated by the World Bank in the following passages:

"*Experience elsewhere has clearly shown that very important gains can be achieved by shifting productive activities from public sector to the private sector. The drain of PEs both explicit and implicit, on public revenues would be sharply reduced by directing government efforts to regulation, facilitating private investment, and primary education. Consumers will be better served by improved products and services provided by private enterprises. Competition can be enhanced in sectors formerly dominated by the PEs. Resources, talents and financing of the private sector can be more effectively harnessed for the benefit of all consumers and workers*"

and

"*The fundamental objective of the reform effort - shifting productive activities from the government to the private sector needs reinforcement. While some decisions and recommendations would clearly have the effect of removing the government from productive sectors, other imply large term role for government after restructuring and downsizing. This later outcome seems to be related to government's desire to achieve certain social objectives through some PEs. However, experience elsewhere indicates that it is often possible to achieve such public objectives other than through majority public ownership. There is thus a need to keep the program's focus on shifting control and ownership from government to the private sector. Long experience in India and elsewhere has shown that conventional public enterprise reform does not deliver sustained results and wastes a lot of public energy and resources. Half way measures, such as partial disinvestment, deliver neither value to government nor the sought after enterprise efficiency that require private management control.*"

In its agenda vis-à-vis public sector reform for the AP economy, the Bank has made several broad recommendations. These include:

- First, to depoliticise the reform process it would be useful to establish an autonomous Public Enterprise Reform and Privatisation Commission equipped with the professional staff and the legal authority to plan and implement the reforms. This commission would prepare a reform programme and action plan with deadlines to be issued by the State government.
- Second, to ensure success, particularly of privatisation, transparent guidelines and procedures need o be developed by the Commission, including the method of privatisation, selection criteria for evaluating bids, disclosure of purchase price and buyer, terms and conditions of payments and so on.
- Third, the government should consider establishing a state-level Renewal Fund to deal with the labour issues such as voluntary retirement and retraining.
- Fourth, the privatisation proceeds are utilised best if they are used to retire debt, preferably the most expensive debt. The returns from privatisation will be used to repay the loans taken from the bank.

The state government also appointed Subramanyam Committee to advise on reorganisation of the public sector units. In fact it was meant to decide which units can be privatised. The Committee did not meet any company experts or representatives of people/labourers. It met only heads/managing directors of these units and submitted the report in 1995. Not surprisingly, AP leadership was very forthcoming in presenting the White Paper prepared on the basis of the Subramanyam Committee Report.

Debate

The institutional framework for PE reform and privatisation that has been put in place so far, has also several drawbacks which are likely to hinder progress in AP.

Responsibility for the loss suffered by the undertakings is placed on public sector employees despite their pleas that it is not they but politicians who have been responsible for politicisation of PSUs and hence responsible for the losses.

One also cannot forget the social contribution of PSUs in AP. In AP because of public sector units employment opportunities increased in backward areas developed. For example Singareni collieries besides supplying coal to power generation and industries also provided employment to thousands of poor farmers and labourers of Telengana region. Similarly because of IDPL Hyderabad has become centre for pharmaceutical industries. APIDC helped establish new industries. RTC provided transport services to all the villages. APSEB helped electrifying all the villages. Its contribution to irrigated agriculture under wells in the backward regions of Telengana, Rayalaseema and north Coastal Andhra is widely recognised. Every public sector unit served the society in one form or the other.

In fact when the AP Government in 1988 for the first time released a white paper on public sector undertakings noted that there was no requirement to close APSEB, APSRTC, SFC and IDC as their performance was much better in comparison to many others in India. What is required are steps to improve the performance of these units. It is quite hard to believe that perceptions can change diametrically in a span of five years.

In order to support this policy of privatisation an opinion that the public sector units are by nature inefficient and private sector units are efficient and sought to be created. With regard to competitive performance available research does not provide even general evidence that private enterprises per se perform better than public enterprises.

The most important factor, which determines the efficiency of enterprises – either public or private – is the market structure of the industry. There exists, if any negligible gain in efficiency from privatisation. Interestingly, this comes about from a reduction in the workforce and not because of any other improvement. The fact that there are many profit making units in the public sector and that there as many loss making units in the private sector shows that this policy is not made on the basis of facts but on the basis of policy predilections of some vested interests.

The closed Allwyn and Republic Forge companies can be taken as case studies of the state government's policy of privatisation.

Allwyn Ltd started during the period of Nizam's rule, was in the private sector. Later it was nationalised as the private owners were not bale to run it properly. After nationalisation its work was expanded in to furniture, refrigerators, watches, bus bodies and gas cylinders. The company also went into commercial vehicle manufacturing but that unit was soon handed over to a private company.

The Allwyn company was generating profits up to 1990 0- 91. Later it incurred losses for two years. The government appointed a committee to improve its work. The committee suggested its disposal. But no one came forward to buy it. To facilitate this the company was split in to three units: Allwyn refrigeration, Allwyn auto, Allwyn Watch.

Allwyn Refrigeration was sold to Voltas. Along with the refrigeration unit Allwyn Auto's land and its machinery was also given to Voltas. In the same way showrooms common to watch and refrigerator units were also handed over to Voltas. In keeping with the agreement 1400 workers were also removed. 800 of them transferred to Allwyn Auto.

After the disposal of refrigeration unit the government agreed to rehabilitate watch and auto units. If the government really wanted to rehabilitate these units under the public sector it should have kept the profitable refrigeration unit with it and planned rehabilitation of all the three units. In stead of doing this the important parts of the company, the refrigeration unit watch showrooms and auto unit's machinery, were handed over to the Voltas and only inconsequential residual was left with the government.

Government tried to sell the showroom-less watch company. But no one came forward to buy it. As there were no show rooms the company could not sell the watches and it could not come out of losses. Besides this because of corruption in the company its financial health further deteriorated. In the end the unit was closed down.

Government promised to provide alternative site for the auto unit and rehabilitate it. But these promises were not fulfilled. In the mean time because of the rental to be paid to Voltas and the burden of salaries of employees transferred from refrigeration unit auto unit was also steeped in losses. Because of these losses it could not even purchase necessary inputs. Even though there were orders, because of declining internal resources and absence of any help from the government production had declined. Ultimately, Government decided to close the auto unit and score of employees over night became unemployed.

If the Allwyn was resurrected it would have benefited the government, workers and society. But now the only beneficiary of privatisation is the Voltas company.

Republic Forge is another example of the lopsided nature of the state government's privatisation policy and its adverse implications. Republic Forge was located on 50 acres land near Tarnaka, a prime locality in the city of Hyderabad. Initially it was also under private ownership. As they could not run it successfully it was taken over by the government. From then on until 1980s it was running profitably. Later because of political interference a loss making private unit was merged with it. Since then it fell on bad days. It was also alleged that because of corruption of the management it got into losses. Instead of trying to improve its condition it was referred to BIFR.

In the mean time government began to search for buyers. But the buyers were not interested in running it. They were eyeing the land because of its value as it is located in a prime area within the city. Indian Railways was interested in the company. But the people who were eyeing the land saw to it that railways do not clinch the deal. Ultimately decision was taken to close it down. Because of closure workers were thrown out of jobs. Those who were leading dignified lives are now unsure of their future for no fault of theirs. In fact some of the workers, under financial pressure, committed suicide.

From hindsight we can understand that losses were not the reason for the closure of these two units. If it is to get out of loss government could have searched for ways and means to improve the health of these units. As the government's policy is to privatise the public sector at any cost conditions are being created where the public sector cannot but make losses.

Because of the privatisation process enormous assets created with public money are being transferred to the private investors at throwaway prices. The presently quoted value is based on the cost incurred in acquiring the assets. For example the value of Allwyn company was determined according to the cost incurred in setting it up. But in the mean time its value has appreciated. At the time of sale of Allwyn to Voltas the land value was placed at Rs.100 per square yard. It fact it was Rs.5000.

It is the ordinary people who suffer because of privatisation. Public sector units are providing various services to the people at affordable prices. If these are privatised its cost will go beyond the reach of ordinary people. Even then government may be forced to intervene through subsidies. This means that privatisation by itself does not bring down costs of the government.

One of the conditions of the severance programme laid down by the Bank is that the government would ensure that employees who have taken VRS are not re-employed in any other parts of the PE sector, state government, or any other public organisation. By legislating to ban reemployment of the employees of sick public companies the government has already closed the option of retraining and relocation as an option in the safety net. Besides this, the VRS route provides the companies an opportunity to abolish permanent jobs in the organised sector and to bring in contract labour. This has become a trend even in public sector units.

Deregulation as a policy has its own costs towards economic welfare and there is need to focus on regulation as a potential way of limiting the market failures associated with market mechanism. Privatisation should not be taken as an objective in itself but treated as an alternative among available public enterprise reform measures. This is important particularly for developing countries, many of which are forced to follow the privatisation route to improve their performance. The exercise is a complex one with different methods to choose from and different procedures to follow through. The right choice can make all the differences to successful implementation.

While public enterprises need a lot of toning up, privatisation is not a panacea for all ills of a country. Developing countries following a privatisation programme should be cautious and selective in what they attempt to do. Autonomy is to be given to the public sector units so that it is away from the day to day influence and interference of the politicians. Internally duties of all officers are to be defined and corrupt ones need to be dealt with severely. There is need to grant managerial and financial autonomy to public sector managers. There is need for greater professionalism in PSU management and freedom from bureaucratic and political interference.

The above examination of privatisation of once healthy public sector units raises many questions: Whether privatisation is a potential instrument, to be used as a means of attaining efficiency and other public policy goals? Or is it a mere desire on the part of the developing countries to follow developed countries? Or whether privatisation was thrust upon these countries? An analysis of the implementation of the reform package under APERP’s PE reform in AP show that this privatisation process is being thrust on the state. This becomes evident from the Bank’s insistence to privatise APSRTC and Singareni because without privatisation of these bigger and profitable organisations privatisation would not be attractive to the prospective investors.

CHAPTER - 8

FISCAL REFORMS

Fiscal reforms are central to the comprehensive reforms contemplated under the World Bank financed APERP, the first ever structural adjustment programme at state/regional level in Asia. This is expected to lead to creation of growth oriented and sustainable public finance environment in the state. And the resultant economic growth is expected to lead to reduction in poverty. But there is no basis to accept this line of argument. The World Bank and GoAP acknowledge the fact that most adjustment programmes across the world had failed in achieving these objectives. It may not be any way different in AP also if this programme is implemented.

Although the APERP allocates no money for this segment, the agenda for the fiscal reforms sets the tone of changes in all other segments/sectors. According to the project appraisal report, fiscal sustainability lies at the heart of the project concept — putting state finances on a sustainable path is a critical objective of APERP. This sustainability is to be attained via the following objectives:

* *To change the composition of public expenditure, which would involve a fall in the share of untargeted, subsidies, the salary bill, interest payments in total expenditure, increase in the share of expenditure on the social sectors, operation and maintenance (O&M) expenditure, and infrastructure.*
* *To stabilise the ratios of debt to GSDP and interest payments to revenue.*
* *To enhance revenue mobilisation through improvement of the tax system that broadens the revenue base and increases buoyancy and efficiency through simplification.*
* *Other administrative measures including preparation for introduction of a value added tax (VAT), and stronger cost recovery that will encompass base-reduction in staff in the State Government*
* *Better targeting of rice subsidies*
* *Improving expenditure management*
* *Strengthening of cost recovery in irrigation.*

The debt/GSDP and the guarantees/GSDP ratios are to be stabilised at about 24 percent and 9 percent respectively. This would in turn help stabilise the share of interest payments at about 18 percent of the revenue. This would require the fiscal deficit to be reduced to generate primary surplus; This is expected to improve the development impact of public expenditure and ensure that adequate budgetary funds are available to implement the investment APERP supports.

Key performance indicators towards these objectives will be:

- Lower fiscal deficit,
- Significant change in expenditure composition in favor of social sectors and O&M,
- Lower untargeted subsidies,
- Smaller and more efficient public sector, and
- Improved delivery of essential social services.

The **fiscal targets** for the five-year project period are to:

a) reduce the fiscal deficit by 0.5 percentage points in the program period from the estimated 3.0 percent of GSDP in 1997-98 to the following annual targets: 3.0 per cent in 1998-99, 3.4 per cent in 1999-00, 2.9 per cent in 2000-01, 2.7 per cent in 2001-02, and 2.5 per cent in 2002-03;

b) Achieve positive revenue balance of 0.4 percent of GSDP in 2000-01 and keep it at least at that level thereafter;

c) Keep the guarantees/GSDP ratio at or below the present average of 9 per cent;

d) Reduce employment in the State Government (excluding primary education) by 1.9 per cent a year;

e) Reduce the salary/GSDP ratio from the estimated 5.3 percent in 1997-98 to 5.0 percent in 2002-03;

f) Increase total combined expenditure in primary education and primary health from the estimated 0.9 per cent GSDP in 1997-98 to 1.8 per cent in 2002-03 (approximately 0.18 points per year);

g) Increase expenditure on non-salary O&M from the estimated 1.2 per cent of GSDP in 1997-98 to 2.0 per cent by the Mid-Term Review (September 2000) and maintain it at least at that level;

h) Increase expenditure on capital outlays (excluding net loans and advances) from the estimated 1.1 percent of GSDP to 2.0 per cent by Mid-Term Review and maintain it at least at that level thereafter;

i) Improve targeting of the rice subsidy by eliminating illegally held ration cards; and

j) Increase the collection rate of irrigation charges at least to 90 percent of collectable demand by March 31, 2001 and maintain it at least that level thereafter.

These fiscal targets are also listed as the main loan conditions under fiscal reforms component of the APERP.

Sales tax provides about two-thirds of the State's own tax revenue. Despite the efforts made during the past few years to improve the sales tax system, it remains a highly complex and "distortionary" tax. The government aims to replace it with a full-fledged VAT. The preparation period, which will involve preparation of the VAT legislation, training of the staff and taxpayers, computerisation, software development, and the MIS, will be two years, to be supported by technical assistance under parallel grant financing from DFID.

The project would also support institutional strengthening of expenditure management and improving administrative capacity for introduction of VAT, both under technical assistance.

The budgetary impact of the project (i.e., local funds needed for implementation of all components) would amount to 0.2 per cent of GSDP during the project period and 0.3 percent after the project was completed. The main contributors to this budgetary demand would be primary education, which would significantly increase the number of teachers; food costs under the nutrition component, and increased budgetary allocations for O&M in the irrigation and road sectors. According to the Bank, the increased budgetary burden would be manageable in the context of the fiscal reform program and met entirely from the budgetary savings from rationalisation of the rice subsidy and staff in the State government, which would jointly constitute about 0.7 per cent of GSDP at the end of the project period.

The Reform Agenda

This fiscal restructuring programme of the GoAP under the APERP is an extension of the measures already taken in a broader fiscal framework. It aims to broaden and deepen them.

Since mid-1980s AP has been under substantial fiscal stress created by

a) declining revenue of the State as share of GSDP, and

b) sharply rising public expenditure on subsidies, salaries, and poorly targeted welfare programmes,

which according to the Bank have crowded out public expenditure on infrastructure, social sectors, and non wage O&M. The situation was further aggravated in 1993-94 and 1994-95 by introduction of prohibition and increased subsidisation of rice

Until recently, total explicit and implicit subsidies amounted to about 7 per cent of GSDP, with power and food subsidies (two-thirds of the total) being the costliest. Salaries and pensions ate around half of total state revenue (8.3 per cent of GSDP). The State's debt to GSDP ratio increased from 19.5 per cent in 1991-92 to 27 percent in 1995-96, and interest payments rose from 12 to 16 per cent of state revenue.

A worrying development according to the Bank is that the budgetary savings from the reduction in rice subsidy and employment have been absorbed by other unproductive expenditure. In particular, interest payments have risen from 2.0 percent of GSDP in 1994-

95 to 2.4 per cent in 1997-98. Pension payments also have increased from 1.2 per cent of GSDP in 1994-95 to 1.4 percent in 1997-98. In addition, net loans and advances to APSEB have increased from 0.7 per cent of GSDP in 1994-95 to 1.3 percent in 1997-98. An increase in these loans according to the Bank crowds out public investment in infrastructure, because they are part of the capital expenditure of the budget.

These developments indicate that containing power sector subsidies and interest payments is critical in achieving a notable change in expenditure composition, and that state finances cannot be made sustainable unless the power sector is reformed and fiscal deficit is further reduced to a substantial level. The APERP and the power sector reforms, which are being implemented in parallel, are the main instruments with which the Bank supports the GoAP to achieve these objectives.

The TDP Government, which took office in December 1995, has taken several decisions to support the Banks logic, including reductions in the rice subsidy and in public sector employment, partial relaxation of prohibition on the sale of alcoholic beverages, introduction of a public enterprise reform, a threefold increase in irrigation charges and enactment of Electricity Reforms Act.

The rice subsidy has been reduced by 41 percent from Rs. 1125 crores in 1995-96 to Rs. 660 crores in 1997-98 (or from 1.6 percent of GSDP to 0.7 per cent of GSDP). A large increase in the sale price and some reduction in the entitlement per family in July 1996 achieved this. Strong measures have been introduced since 1995, including freeze on hiring, to contain sharp increase in employment in the State government. It is estimated that these measures have reduced employment by 3 per cent in the past three years and changed its composition in favour of social sectors. Therefore, the salary bill has been reduced from 6.2 percent of GSDP in 1994-95 to 5.3 percent in 1997-98.

According to the Bank document a Mid-Term Review would be held in the period following the AP state elections and would allow the Bank and the newly-formed Administration to undertake a fundamental review of the policy framework and of specific measures needed to maintain the thrust of fiscal reform during the remaining period of the project. At that time, GoAP has committed itself to present to the Bank a detailed set of fiscal measures, and continued implementation of the project would be contingent on these proposals being satisfactory to the Bank.

Against this background, the 1998-99 budget aimed to consolidate the earlier gains in fiscal adjustment while maintaining the reform momentum. The fiscal deficit was budgeted to stay at the present level of 3.0 percent of GSDP. The expected revenue increase of 0.7 percent of GSDP (0.4 percent in own tax revenue and 0.3 percent in transfers from the centre which partly reflects the inflow of APERP funds) was expected to finance partly capital outlays and partly interest payments. The salary bill was projected to remain at 5.3 percent of GSDP despite the planned reduction of employment in the State government because the State government intends to fill 27000 vacancies in the primary education sector in 1998-99. Expenditure on O&M is budgeted to increase from 1.2 percent of GSDP to 1.3 percent supported by APERP.

According to the Bank the social impact of fiscal reforms is expected to be positive for the following reasons:

a) expenditure in primary education, primary health, and nutritional services is planned to increase substantially under the project and to remain at a high level thereafter, which would improve social conditions, particularly in the rural areas; and

b) better targeting of the rice subsidy to the poor is a critical objective of the fiscal reforms; measures to achieve this objective include: new multiple criteria to be used in both urban and rural areas to identify the population below the poverty line, and women groups to be involved in monitoring the implementation of the reform program.

According to the Bank's Agenda document under a status quo scenario, the fiscal situation would further deteriorate and growth would slow, widening the gap in the main economic and social indicators between AP and the country as whole. The adjustment scenario, on the other hand, envisages fiscal and sectoral reforms would enable the state to rebuild its infrastructure. This would stimulate private investment, accelerate growth, and create employment and income for larger segment of population. Accelerated growth, in turn, would generate higher revenue for GoAP, facilitating further improvement in infrastructure and social services and leading to sustained economic growth and social development.

The Debate

One of the important targets of pruning under APERP's fiscal programme is that of food subsidy. The food subsidy made it possible to take a good number of poor people above the poverty line and therefore contributed to reduce the percentage of people below the poverty line. Critics of the agenda suggest that any cuts in the present food subsidy will again push large numbers of people below the poverty line and that what is needed is not subsidy cuts but plugging 'leakages' in the pipeline between GoAP and the people.

A major difficulty with the stabilisation programme is its exclusive concern with curtailment of government expenditure for reducing fiscal deficits, while the other option for meeting them, that is augmenting revenue by taxing those who are able to pay, particularly rural rich and the new industrialists and traders is virtually ignored. The adjustment programmes say virtually nothing about tax reform, and with a few exceptions no effort is made to increase tax revenues.

The orthodox structural adjustment programme treats the government's overall deficit (or fiscal deficit) as the main imbalance that must be corrected if stabilisation and adjustment are to occur. The emphasis on fiscal deficit does not allow for any distinction between types of government expenditure, and typically developing countries undertaking such programmes find that capital expenditures are the easiest to squeeze for purposes of immediate adjustment. However, it is often found that such a focus is counterproductive in terms of reducing income growth in the next or future periods, and making *de facto* government deficits actually deteriorate. Also, such compression may have high costs in terms of output and employment, and be unduly contractionary even if it is successful in reducing the internal imbalance.

CHAPTER - 9

POWER SECTOR

The Reform Agenda

The Andhra Pradesh Power Sector Restructuring Programme (APPSRP) is the third (Orissa and Haryana are the first two) in a planned series of Bank financed state power sector restructuring projects supporting states willing to undertake fundamental reforms, *inter alia* involving unbundling of monopoly utilities, corporatisation, establishment of independent regulatory commissions, tariff reforms, and privatisation of distribution.

Reform of the power sector is the single most important element of structural and fiscal reform in AP. The underlying broader development objective of the APPSRP is to bring about a permanent shift in public expenditure in the power sector, from a major drain on the budget to a contributor of funds for social sectors and other priority areas for public investment. This fiscal dimension links the programme to the broader APERP. They are planned to be fundamental to the restructuring of the state's finances and for the acceleration of economic growth and long term human development.

The power sector specific development objective of the APPSRP is to

a) ensure that by FY2007 the energy requirements of the state are met, and also

b) ensure that consumers are provided with reliable, high quality and cost effective electricity supply by credit worthy and commercially operated power utilities, functioning in a competitive and appropriately regulated power market, with significant private ownership and operation.

The development objective of the first of the above is to initiate the reform process by establishing new regulatory, institutional, and industry frameworks (including the establishment of an independent Regulatory Commission, creation of the new power corporations, and initiation of preparatory work for privatisation of the distribution business), and removing some of the critical bottlenecks of the power system.

The development objectives are to be achieved with steady progress over an agreed 10-year programme, which includes following phases:

PHASE 1: Establishment of a new legal, regulatory and institutional framework, functional unbundling of the system, corporatisation of sector entities, and removal of some of the most critical bottlenecks of the power system (1999 - 2001).

PHASE 2: Regulatory Commission and the corporate entities become fully functional, privatisation of part of the distribution business, partial restoration of creditworthiness of the sector, and improvements in system efficiency (2001 – 2003).

PHASE 3: Completion of privatisation of distribution business, consolidation of the functioning and financial performance of the new power utilities (2003 - 2005).

PHASE 4: Achievement of higher customer satisfaction through reduction of power deficit, attainment of higher quality and efficiency in electricity services, and deepening of power sector reforms to increase competition and private participation (2005-2007).

This phased 10 year programme is linked to key performance milestones as in the table below.

Key Performance Milestones	**Completion Dates**
Reform legislation made more effective	January 1999
Regulatory Commission established	April 1999
Restructuring measures effected, and new power and utilities established	
u Transmission and Generation Companies	January 1999
u Distribution Companies	September 2000
u Licenses, where appropriate	September 2000
Financial restructuring plan	
u APSEB's assets and liabilities restructured and transferred to APSEB's successors	January 1999
u Financial support to APSEB's successors provided by the Government as per the Plan	During FY 1999-2003
u Financial restructuring plan negotiated and agreed between Andhra Pradesh and APSEB's creditors	September 1999
u Tariff adjusted, at a minimum to meet the financial targets	Every year before March

The argument for reforms is based on the conclusion that the State's power requirements cannot be met without a massive mobilisation of private financing, restoration of the creditworthiness of the power utilities, and the establishment of a regulatory framework, which would insulate the power sector from external influences, balance interest of various stakeholders and provide appropriate incentives for efficiency. The ultimate objective of the reforms is for GoAP to withdraw from power sector as an operator and regulator of utilities and to have commercially operated, largely privately owned utilities functioning in a competitive and appropriately regulated power market.
The new structure of the industry is expected to facilitate:

a) functional separation;

b) private participation and ownership in various activities of the sector;

c) efficient regulation of the sector;

d) transparency, autonomy and accountability in the governance of the sector; and

e) in the long term, increasing competition in all segments of the power industry.

As a part of the World Bank strategy, APSEB has been split into six companies, Andhra Pradesh Power Generation Corporation (APGENCO) for generation, and Transmission Corporation of Andhra Pradesh (APTRANSCO) for transmission, system operation, and four DISCOMs for distribution I four zones. The distribution companies will initially be state owned, but they will be privatised in the course of implementation of the reform programme.

APTRASCO would enter into long-term power purchase agreements (PPA) with APGENCO and IPPs. For new contracts with APTRANSCO, it shall have to compete with IPPs for the market - and APTRANSCO will have to demonstrate to the Regulatory Commission that its purchases are economic and efficient. Following the establishment of separate distribution companies, APTRANSCO would become their bulk supplier. Overtime, the distribution companies may also enter into direct power purchase agreements with generators and other bulk suppliers, with APTRANSCO increasingly focusing on transmission and system operations.

As a part of the conditionalities the AP Electricity Reforms Act had come into operation from 1998 and AP Electricity Regulatory Commission had come into being with effect from April 1, 1999.

The proposed APLs are expected to support, to the extent of US$ 1 billion, the investment program of US$ 4.5 billion that Andhra Pradesh's utilities would use for the following: (during the Program Implementation period):

a) the rehabilitation and expansion of the transmission system (indicative cost:US$1.4 billion). The objective of this component is to: (i) expand the system to meet the growing load demand; (ii) ensure that the transmission losses and voltage regulation are within permissible limits; (iii) evacuate power from the proposed power plants and bulk supply points to the load centres; and (iv) ensure a high level of reliability of the transmission system.

b) The rehabilitation and expansion of the sub-transmission and distribution system (indicative cost: US$ 3.0 billion). The objective would be to: (i) rehabilitate the system and achieve significant reduction in technical and non-technical losses; (ii) improve the voltage profile, system reliability, and efficiency; (iii) reinforce the system to meet the growing demand; and (iv) improve customer service. IBRD financing would be available essentially during a transition period, until private distribution companies are in a position to finance, on their own, the expansion of the distribution network. If needed, IBRD financing from the APLs could be made available to the private distribution companies during the initial years of their operations.

c) The implementation of demand-side management measures (indicative cost: US$ 50 million, included in the distribution investments in the Annex 3). The objective of this component would be to: (i) improve the end-use efficiency; (ii) minimise the consequences of the power deficit through rational load management and power curtailment and demand side management; and (iii) mitigate the impact of increasing retail tariffs. This component would include: (i) the procurement and installation of load research equipment; (ii) the implementation of specific load management and energy efficiency investments by the utilities and end-users (such as efficient motors and lighting equipment in industries, reactive power compensation improvement in industries, co-generation projects, or efficiency improvements in pumpsets); and (iii) fostering private sector provision of energy efficiency services.

d) Technical assistance and engineering services to assist Andhra Pradesh power sector entities in implementing the reform measures and the investment program (indicative cost: US$32million); and in addition, voluntary separation costs of employees, if needed, would be determined during project implementation and possibly financed through subsequent loans.

In addition to APLs, the World Bank Group's support could also include the provision of guarantees to IPPs and the participation of IFC and/or MIGA in private power generation and/or distribution. Any such financing would be processed as separate operations.

Main Loan Conditions

1. Effectiveness conditions

The government of Andhra Pradesh shall declare the "Reform act and the Transfer Scheme Rules" effective. In addition, the standard Bank requirements, legal opinion on the agreements executed by the Borrower and the executing agencies, shall apply.

2. Covenants

The financial performance covenants agreed with the Government of India, the Government of Andhra Pradesh, APTRANSCO and APGENCO focus on timely flow of funds to the executing agencies for implementation of investments, adequate budget for the Regulatory Commission and improvements in operational and financial efficiencies of the executing agencies. In addition, following assurances have been obtained during negotiations:

- The Government of India shall make the proceeds of the loan available to Andhra Pradesh in accordance with its standard arrangements for developmental assistance to the States of India and release to Andhra Pradesh, proceeds of the loan, including the amounts deposited in the Special Account. In addition, the standard covenants for maintenance of loan account, and its audit have been agreed.
- The Government of Andhra Pradesh shall re-lend the proceeds of the loan to APTRANSCO and other beneficiaries under Subsidiary Loan Agreements to be entered into between Andhra Pradesh and APTRANSCO, under terms and conditions satisfactory to the Bank, which shall include, that APTRANSCO shall pay interest at a rate of not less than 13.5 percent per annum, and repay the principal amount over a period of 15 years including a grace period three years and that Andhra Pradesh shall also establish arrangements for transfer of funds disbursed by the Bank, to the executing agencies.

- APTRANSCO shall establish distribution companies for carrying out electricity distribution business and transfer assets, liabilities, and staff to them no later than September 30, 2000, through a Transfer Scheme in accordance with the provisions of the Reform Act, and satisfactory to the Bank. These companies shall implement the investments related to distribution activities under the project.
- Andhra Pradesh shall (i) after the operationalisation of the Regulatory Commission, cause the state-owned utilities to make suitable tariff submissions to the Commission for earning rates of return permitted under the law; (ii) submit to the Bank, by September 30, 1999, a detailed financial restructuring plan, duly negotiated with its lenders and suppliers, for restructuring APSEB's overdue payables, debt service in default, and debt service falling due in the FY2000 to FY2002; (iii) by December 31 of each year, provide to the Bank a statement of the estimated expenditure of the Regulatory Commission ; and (iv) by March 31 of each year, inform the Bank of the approved budget of the Regulatory Commission for the following Fiscal Year.

Financial covenants

- Standard covenants for maintenance of accounts, audit, and submission of audited accounts within six months of close of financial year.
- APGENCO shall adjust tariffs and take other measures to achieve (i) in FY2000, revenues from all sources related to operations and non-operating income sufficient to cover all expenses related to operations including administration, adequate maintenance, taxes, payments in lieu of taxes, interest and other charges on debt and lease payments; (ii) in FY2001 a return on equity of 10 percent; and (iii) in each subsequent Fiscal Year such rate of return as may be permissible under applicable notifications issued by the Borrower (Government of India)
- APTRANSCO shall adjust tariffs and take other measures so as to produce: (i) in FY 2000, revenues from all sources related to operations and net non-operations income sufficient to cover all expenses related to operations including administration, adequate maintenance, taxes, payments in lieu of taxes, and interest and other charges on debt and lease payments (ii) starting FY 2000 and in each subsequent year a self-financing ratio of 20 percent; (iii) starting FY2001 a return on equity of not less than 10 percent and starting FY 2002 and in each subsequent year, a return on equity of not less than 16 percent or such rate as may permissible under the Electricity Act or prescribed by the Regulator, whichever is higher.
- APTRANSCO and APGENCO shall not incur any debt, unless a reasonable forecast of the revenues and expenditures of APTRANSCO and APGENCO beginning with FY2000 shows that the estimated net revenues, including subsidy paid in cash, of APTRANSCO and APGENCO for each fiscal year during the term of the debt to be incurred shall be at least 1.2 times the estimated debt service requirements of APTRANSCO and APGENCO in such year on all debt of APTRANSCO and APGENCO, including the debt to be incurred.

- APTRANSCO and APGENCO shall take all steps necessary to maintain their accounts receivable net of provisions at a level not exceeding an amount equivalent to ninety days of the proceeds of their sale of electricity, and accounts payable not exceeding two months of their purchases of power in case of APTRANSCO and purchase of fuel and other consumables in case of APGENCO.
- APTRANSCO and APGENCO shall furnish to the Bank by December 31 of each fiscal year (a) their five year financial projections, including their updated Investment Plan and financing plan for review by the Bank and for comments, if any, and (b) a report reviewing the adequacy of their tariffs to meet the requirements set forth above.

APTRANSCO shall:

* Comply with the objectives, policies and procedures set out in the Social Policies and Procedures and the Resettlement Action Plan, Environmental Framework and Environmental Management Plan in carrying out the construction of transmission lines and sub-stations.

Given its complexity, the project will be supervised intensively by the Bank's staff, Bank consultants, and the donors. In addition to quarterly supervision missions, the Bank's New Delhi office will provide additional support to the client. The missions will supervise both the implementation of the reform and the execution of the project.

Co-Financing

Apart from the World Bank the power sector reform project is being financed by several foreign bilateral funding agencies. OECF of Japan is financing about US$ 146 million for investment in the transmission system, primarily for evacuation of power from Srisailam left bank power house and fist phase of Simhadri (NTPC) and Visakhapatnam (IPP) project. UK's DFID has agreed to consider a capital grant of US$ 52 million, subject to APTRANSCO becoming eligible for World Bank financing. CIDA of Canada and DFID are providing grant funds for specific technical assistance activities. Consultants' grant funded by CIDA and DFID have since been fielded and are providing implementation support to AP. Additional funding for technical assistance to the successor entities is under consideration of DFID. Bilateral donors have also provided funds for DSM programme, DFID grant (US$ 15 million) currently under implementation in three districts, OECF (US$ 67 million) currently under implementation in six districts, and recently approved grant (US$ 4.6 million) from government of Norway, under Activities Implemented Jointly (AIJ) programme.

The Debate

According to the government's estimates, the state needs 8800MW of power by the end of the ninth plan, i.e., by 2002. To produce this, a capital of Rs.35000 crores is needed. Along with this Rs.7000 crores are needed for transmission and Rs.14000 crores are needed for distribution. This means that in the coming five years, the power sector needs Rs.56000 crores as capital. Resources worth Rs.11200 crores are need to be mobilised annually.

Based on these inflated additional energy demand the state government and APSEB had entered into Power Purchase Agreements (PPA) with 8 private companies for setting up short gestation power plants to produce 1750 MW of power. Along with these, agreements with other companies for generation of 4000 MW are in the pipeline. These include the

Hindujas' (1000 MW), NTPC (1000 MW), HPCL (1000 MW), BPL (500 MW), GVK Industries (500 MW) and BBI (500 MW). By now additional power generation capacity to be generated by the IPPs crossed 7000 MW. The recent Cabinet sub-Committee on infrastructure had scaled down additional power requirement by the year 2002 to 3500 MW. As a result these PPAs are going to add to the woes of power sector rather than relieve of the fiscal pressures. This is so because these PPAs compel the APTRANSCO to pay the private producers, even if does not buy power from them, to cover fixed charges which run up to hundreds crores of rupees. In Maharastra MSEB has to pay nearly Rs. 1000 crore to Enron power company though it did not buy power from it. Similarly, in Gujarat also the Electricity Board paid to three private power companies Rs. 650 crore during the year 2000 though it did not buy any power from them. Similar burden will have to be borne by AP also if PPAs with IPPs are not scrapped.

That APSEB is an inefficient organisation began to be increasingly heard only from the time proposals to restructure it came up. Until then, APSEB was recognised as one of the most efficient public sector units. Even the World Bank team stated that APSEB's performance technically is good and that various performance indicators - plant load factor (PLF), technical losses and per capita worker productivity - crossed the national average, and that until two, three years back its financial position was also sound.

When compared with other SEBs in the country, APSEB stands out as an efficient one. Take for example the data related to 1994 - 95. While all the SEBs achieved PLFs of around 55 per cent, APSEB achieved 70 per cent. While line losses for all SEBs stood at 19.5 per cent, for APSEB it was 18.9 per cent. In the case of per capita worker productivity, it was 0.25 kW for all SEBs and 0.27 kW for APSEB. All other SEBs had 11.9 employees for 1000 electricity consumers, while APSEB then had were 9 employees for 1000 electricity consumers. While it cost 162 paise to produce one unit of electricity for all SEBs, for APSEB it was 133 paise.

Some Performance Norms of Thermal Plants, 1995 - 96

		APSEB	All SEBs
1.	a)Secondary Oil consumption in coal based stations (ML/KWH of generation	3.30	5.87
	b)Cost of oil per unit of generation (Price/Unit)	2.10	3.60
2.	Plant availability (1994 – 95; per cent)	85.6	76.6
3.	Forced Outages (per cent)	6.0	12.4
4.	Auxiliary consumption (per cent) performance in regard to all types of generation	6.44	7.05
5.	Number of employees per thousand consumers	9.10	11.09
6.	Share of adm/estt in total cost (per cent)	12.74	13.32
7.	a)Over loss, in paise per unit of electricity sold (av sale price minus cost)	5.09	28.73
	b)Average per unit price increase required to give a return of 3 per cent on capital (as laid down under Electricity Act)	10.21	34.62

Source : Arun Ghosh, Economic and Political Weekly July 19-25, 1997.

Andhra Pradesh Power Sector Data

	1985/86	1994/95
Composition of Power Sales (%)		
Agricultural	28.8	47.8
Industry	54.8	29.1
Comparative Data		
Plant Load Factor (Thermal) (%)		
Andhra Pradesh	65.0	70.0
All States	52.0	55.0
Line Losses (%)		
Andhra Pradesh	19.2	18.9
All States	21.7	19.5
Kwh per Employee		
Andhra Pradesh	0.19	0.27
All States	0.15	0.25

Source: Andhra Pradesh State Electricity Board

Not only in comparison with other SEBs, but in comparison with other players in the power sector like the Central Government's NTPC and private companies, APSEB comes out with flying colours.

Plant Load Factor of Thermal Plants 1995 – 96 (Per Cent)

NTPC	70.9
Private Sector	72.3
APSEB	77.4

Source : Arun Ghosh, Economic and Political Weekly, July 19-25, 1997.

On a different note, this data shows that the mainstream neoliberal thinking that private sector is more efficient than public sector and that if public sector is handed over to private sector all the problems will be solved appears dubious.

APSEB's other achievements are noteworthy. More than 27 thousand villages have electric supply. The number of wells energised increased from 13213 in 1960 to 1600000 in 1995. The gains in terms of increased production of agricultural produce, particularly food grains will be obvious. This extensive power supply network is also reflected by the fact that while AP population constitutes 8.12 per cent of all India population, it has 10.36 per cent of electricity consumers. The private sector, which measures its success in terms of profit only, is unlikely to have effected such a service delivery.

The GoAP and APSEB argue that subsidies to the agriculture sector have been the cause of the Board's losses. In 1985-86 while agriculture sector consumed 28.8 per cent of power distributed, industrial sector consumed 54.8 per cent. In 1994-95 while power consumed by the agriculture sector increased to 47.8 per cent, that of the industrial sector declined to 29.1 per cent. Subsidies to the agriculture sector cost Rs. 162.3 crores in 1985 -86. This increased to Rs. 1626.8 crores in 1995-96. However, the question is how far these figures are reliable. Power supplied to the agriculture sector is not metered. All the power supplied, after deducting the power consumed by industrial and household sectors is shown as being consumed by agriculture sector. But this includes losses in transmission and distribution, and power theft. It was estimated that 20 to 30 per cent of power produced is lost because of these losses. If these losses are taken in to account then the proportion of power consumed by the agriculture sector will be lower than 47.8 per cent. Consumption by the agriculture sector may be as low as 20 per cent.

Experts in the power sector feel that power consumption has been under estimated in metered sector and over estimated in non-metered sector, i.e., agriculture sector. According to estimates, 8 per cent of meters do not function, 15 per cent of the meters are not sealed, and another 15 per cent of the meters are not recorded properly. In effect, 38 per cent of the meters cannot be relied upon. Because of these, 10 per cent of the power produced is not reaching the consumers but is shown as consumed by the agriculture sector. Experts have also pointed out that the government overestimated the number of pumpsets by 25 per cent, working hours (1620 hours) in an year by 33 per cent and power consumption by one 5HP motor (4.55 units) by 20 per cent. Because of all these, power consumed by the agriculture sector was shown two times more than its actual consumption. According to the independent experts, losses in transmission and distribution are 25.5 per cent higher than the government estimates. Press reports suggest that even Board officials accepted that power theft in metered sector is 200 per cent more than the estimated figures (The Hindu, September, 5, 1997).

According to the official white paper released in 1999, while cost per unit of power at LT end was about 201.84 paise in 1997-98 the electricity board received only 16.12 paise from agriculture while supplying 9336MU of power; and as a result of it it incurred a loss of Rs. 1,733.88 crore. But if we take 5398 MU as the actual consumption in the agricultural sector per unit income from this sector will be 28 paise and loss incurred will be Rs 938.40 crore. Industrial and commercial consumers are cross subsidising agricultural and domestic consumption. While the average cost of power supply is Rs. 2.29 per unit the industrial consumers are paying about Rs 3.19 per unit and commercial consumers are paying Rs 3.69 per unit. As a result of this additional income accruing to the board is about Rs 907.8 crore (Rs 778.02 crore from industry and Rs 129.79 crore from commercial). This amounts to Rs 31.4 crore effective subsidy provided by the state government/APSEB. Even if we add subsidy of about Rs 163.25 crore provided to domestic consumers the total subsidy will not cross Rs 200 crore. This show that subsidies to agriculture in particular are not the main cause of financial problems because the losses on this account are more than compensated by surplus from the industrial and commercial consumers.

By strengthening of transmission and distribution, it is possible to optimise generation capacity. The Hiten Bhaya Committee had suggested introduction of HT/High Voltage Distribution Systems. N. Tata Rao, former Chairman of APSEB, also made similar suggestions. If this would have been followed it would have been possible to save 6750mu of power during 1997-98, leading to mobilisation of Rs. 2000 crores of additional revenue. Because of losses in transmission and distribution, 30 per cent of the power produced is lost. Rectifying these losses is equivalent to creation of additional capacity. A recent energy audit conducted in Hyderabad City showed that only 50 per cent of the power supplied was billed. In other words, revenues were collected only for half of the power supplied. By improving metering and billing, it would be possible to mobilise additional revenues.

According to GoAP's own submission, it is possible to generate additional revenue of Rs.440 crores through effective energy audits and streamlining revenue collections. Besides this, annual revenues of the Board are also increasing. By checking power pilferage and increasing the tariff by 3 per cent it will be possible to generate Rs. 273 crores of additional revenues. By increasing tariff in agriculture sector to 50 per cent of generation cost, additional income of Rs. 560 crores will be generated. If these measures are undertaken there will be no need to restructure the power sector on the lines of the policy statement.

When the additional generation capacity actually needed is not as high as made out by the government, then, resources needed to put the additional capacity in place will also be proportionately lower. While estimating cost of production, the government took Rs. 4 crores as cost of generating one MW of power. This is based on GVK Industries' unit at Krishnapatnam. However, the cost incurred by APSEB in setting up new unit at Kothagudem was only Rs. 2.7 crores per MW. If we take this in to account, the magnitude of additional capital needed will come down. Additional capital needed is only Rs.11,828.7 crores if we take the additional capacity needed as 4381MW and cost of generation of one MW of power as Rs.2.7 crores – as opposed to GoAP's estimates of Rs.35000 crores. Additional capital to be mobilised annually will be Rs.2,365.7 crores, while according to the government estimates, it is Rs.7,000 crores.

One of the obvious impacts on following the Bank strategy is unnecessary increase in power tariffs. APSEB paid 121.47 paise per unit in 1996-97, which is above the national average. PPAs entered into by the Board with private companies put the average cost of power per unit at 240 paise, i.e., cost of power has already doubled. In the opinion of Bank consultants, the tariffs should be Rs.3 for the agriculture sector and Rs.5-6 for other sectors. This will take average tariffs to Rs.4.50, nearly 4 times the present tariff rate. However, according to Planning Commission estimates for AP in 1995-96, an average rise of tariff by 5 paise was enough to eliminate losses, and an increase of 10 paise was enough to generate 3 per cent profit on capital.

The World Bank as a part of the conditionalities had stipulated that during the first two years of the reform project tariff should be hiked by 15 per cent and during the next two years by 12 per cent. Following these conditionalities the APERC had hiked the tariff for the year

2000-01 by 15 percent. Protracted three months long people's movement against this tariff hike did not make any impact on the government's resolve to carry out the conditionality imposed by the World Bank.

Moreover, GoAP did not make public the contents of the PPAs that it has entered into with various private companies. The contents of a PPA was revealed when the Comptroller and Auditor General (CAG) submitted its report on GVK Industries' Jeegurupadu gas based power plant to the State Assembly of Andhra Pradesh (The Hindu, March 20, 1998). According to it, the original estimate of cost was Rs. 816 crores for a 400MW plant at 1993 rates of exchange. However, this went up to Rs. 816 crores for a downsized plant of 216 MW. Because of this, cost went up to Rs. 3.74 crores per MW of installed capacity from Rs. 2.04 crores. This is to be considered in the background of falling power plant prices in the international market since 1994 due to surplus capacity in the industry. Besides this, power tariffs also increased. Though at the time of PPA, tariff was fixed at Rs. 2.06 per unit at PLF of 68.5 percent, GoAP/APSEB ended up paying Rs. 2.19 per unit even when PLF was 90 percent. In addition, APSEB paid 17.17 percent as return on capital instead of stipulated 16 percent. Similar is the case with the Spectrum power.

The fuel policy that is an integral part of power sector reforms may also lead to unstable conditions. Most of the power projects being set up as part of this reform process plan to use naptha as fuel. India does not have sufficient oil reserves, and a significant part of the petroleum products consumed in the country are being imported. Oil imports constitute 60 per cent of the total imports. When these new energy plants become operative, oil imports will increase further. This will affect the foreign exchange reserves of the country adversely. This in turn will also lead to increased cost of production as value of rupees vis-à-vis other foreign currencies is declining.

Reform in the power sector is also likely to undermine indigenisation and self-sufficiency in science and technology. Until now, achieving self-sufficiency and indigenous development of technology have been corner stones of the government's policy. The same was applied to the power sector also. The result was the emergence of Bharat Heavy Electricals Limited (BHEL), which developed technology in consonance with the needs of the country and supplied technical expertise and machinery to may power plants in the country. This helped to reduce cost of power generation in the country. At international levels too, BHEL acquired a place of its own. But the ensuing reforms are going to render it ineffective as contracts for new power plants under the reform program are being signed with foreign companies. For example, the Krishnapatnam unit is linked up with BBI Power Inc. of USA, Hinduja's unit at Visakhapatnam with Sumitomo of Japan, BPL's Ramagundam unit with Korea Heavy Industry of South Korea and AP Gas Power Corporation has signed up with a Japanese company.

As a part of the restructuring programme APSEB was already unbundled in to different companies: APGENCO, APTRANSCO and four DISCOMs for four zones. These will be privatised gradually. This involves distribution of Board's properties among all the private companies. At present, APSEB properties are worth Rs.6525 crores according to book value and Rs.41533 crores according to replacement value. Efforts are already on selling these companies to private sector at throwaway prices.

At present a particular set of reforms are being carried out in AP as if they are the only solutions for all ills of the power sector. More over the same set of reforms are imposed on several other states. In other words a uniform system is being imposed on all states. There is no attempt to examine specific experiences of different states and tailor the changes needed according to the requirements of the particular states. The problems faced by the electricity establishment in Andhra Pradesh are not the same as that of Orissa. One can see that not only the Act passed in AP is a carbon copy of the Orissa Act, even the regulations formulated by the APERC are only a copy of the OERC.

In AP no other alternatives were explored to solve the problems facing the power sector in the state. Even the recommendations made by the Hiten Bhaya Committee were brushed aside to impose the World Bank recommendations. While taking up these reforms stakeholders were not consulted. Until the recent tariff hike public are not aware of the changes taking place in the power sector. There is neither participation nor transparency, let alone accountability in the whole exercise. Even the proceedings before the Regulatory Commission are not transparent and participatory. There is need to explore alternatives to make electricity accessible to all sections of the society at affordable tariff; and there is also the need to see that the whole exercise of transforming the sector is transparent and participatory.

CHAPTER - 10

EXPERIENCE WITH THE REFORMS

The World Bank's structural adjustment strategy is based on comprehensive fiscal reform which include: (a) a significant change in the composition of expenditure from unproductive to growth-enhancing expenditure; (b) strong cost-recovery efforts, particularly in irrigation and power, to raise adequate revenue to cover the necessary O&M needs and improve efficiency of resource use; (c) an improvement in the tax system that broadens the revenue base and increases buoyancy through simplification and other administrative measures; (d) a new antipoverty strategy based on acceleration of growth and employment creation, with smaller but better targeted subsidy programmes for the very poor; (e) a focus on rebuilding the long long-neglected physical and social infrastructure; and (f) acceleration of private sector participation in infrastructure, particularly in the power, road, and port sectors.

To buttress its arguments in favour of reforms the Bank, as we have already seen, built up two alternative scenarios: one is status quo scenario where no major action is envisaged to address the problems faced by the state and another one is the adjustment scenario. The Bank has impressed on the AP government that if the status quo scenario continues growth rate of the economy would come down and along with it all the indicators of socio-economic development, and if structural adjust programmes are implemented the state's economy will cruise along an accelerated growth path.

As we have already read, the state government also acquiesced to this prescription of the World Bank. The Chief Minister of AP Mr. N. Chandrababu Naidu in his letter dated May 14, 1998 addressed to the President of the World Bank stated, "Our government is deeply conscious of the need to reverse these trends, for failure to do so will pull the state down in a vicious circle of poverty and stagnation. On the other hand, a credible fiscal reform package and sector reform programme, effectively implemented, will push it up in a virtuous circle of growth and development".

Accordingly APERP, a programme of fiscal reform, is designed by the Bank and implemented by the GoAP. This aim at bringing about a permanent shift in public expenditure towards the priority areas, while maintaining tight controls over total public expenditure and debt. In order to see that the state government would not go astray the link between the proposed investments and the fiscal reform programme would be established by means of covenanted fiscal benchmarks to be monitored throughout the project period by the World Bank.

Reforms/restructuring started in September 1998 with the ostensible objective of putting state finances as well as the state economy on a right path.

Deteriorating finances

The basic objective of APERP is to place the finances of the state government on sound and sustainable path. To reach this sound and sustainable position the World Bank set several targets to be achieved by the state government. But an examination of the hitherto experience shows that there is no sign of reaching these targets and the financial position of the state government, instead of improving, is deteriorating further with no sign of recovery.

APERP aimed at keeping fiscal deficit of the state at 3% of GSDP in 1998-99, 3.4% in 1999-2000 and 2.9% in 2000-01. But the outcome of the reform process has been just the reverse. Fiscal deficit instead of declining increased. The Strategy Paper on Fiscal Reforms brought out by the GoAP in February 2001 show that in 1998-99 fiscal deficit was 5% of GSDP. Though it declined to 4.01% during the next year i.e., 1999-2000 it is still higher than the targeted figure. During the year 2000-01 this increased to 6.13%. In absolute terms the magnitude of fiscal deficit between 1995-96 and 2000-01 increased by more than three times, from Rs. 2445 crore to Rs. 8460 crore.

Another target was to achieve positive revenue balance of 0.4% of GSDP by 2000-01. The revenue balance instead of turning positive has accelerated in the southward direction. The revenue deficit increased from 0.96% of GSDP to 2.78% between 1995-96. In absolute terms it increased from Rs. 767 crore to Rs. 3,841 crore, a staggering increase of 500%.

Another target in fiscal reform programme was to keep the guarantee/GSDP ratio at or below 9%. But this also increased to 10% of GSDP at the end of March 2000.

Debt position:

As a proportion of GSDP, the State's outstanding debt increased from 18.95% in 1995-96 to 24.16% in 1999-2000. This is higher than national average of 21.5%. Along with increase in debt, cost of debt is also increasing. The average cost of debt has gone up from 11.8 per cent in 1995-96 to 13.4 per cent in 1999-2000. This because high cost debt is being contracted to retire low cost debt. As the funds acquired through loans is being used for current consumption and for building low yielding assets, the burden of interest is growing much faster than revenue augmentation.

Debt Servicing Costs (Rs in crores)

Year	Gross Loans	Debt Servicing			Debt service as% of gross loans Loans	Interest as % of state's own revenue
		Principal	Interest	Total		
1995-96	2842	682	1527	2209	77.7	30.1
1996-97	2938	1208	1839	3047	103.7	32.2
1997-98	3936	860	2153	3153	80.1	26.8
1998-99	5770	2055	2644	4699	81.4	29.6
1999-00	5595	1267	3101	4368	75.9	31.1
2000-01 BE	8533	1177	3969	5146	60.3	32.3

Source: GoAP. 2001. Strategy Paper on Fiscal reforms, February 2001.

From the above table it is evident that one-third of the state's own revenues are being spent on interest payments only. Further, new loans contracted are not even sufficient to meet debt service commitments during that year. During the year 2000-01 new loans worth Rs. 4205 crore were contracted. During the same year debt service payments amounted to Rs. 5416 crore. Whatever new loans contracted are going to meet the debt service requirements, and as these loans are not even sufficient to meet this need other funds are to be diverted to meet the debt servicing needs. This shows that the state economy is already in a 'debt trap'. From this it is clear that the SAP based reform programme has only ended up pushing the state further deep in to the debt trap rather than extricating it from the trap.

Purchase Procedures and Systems

The practices and procedures stipulated by the Bank tend to favour larger contract firms against smaller ones. Its major criticism of the R&B and PWD is that works are being divided into smaller parcels to serve large number of small local construction companies/ contractors who use out dated labour intensive technologies. This discourages development of a modern high technology construction industry. The solution shown by it is to expose the sector to international competition. And to attract well established internationally recognised companies the size of individual contracts is to be increased. This advisory is not specific to roads only, it encompasses all the sectors. Even when similar technology is available within the country at lower prices in the name of international bidding foreign sources are preferred. SCADA system procured by APTRANSCO is an example. Even when locally CMC is ready to supply the same at lower cost, a British based company was preferred at higher cost. To facilitate such processes, tender documents are designed accordingly. These practices tend to escalate costs of the projects. One wonders how does the AP government and Bank allow such things to happen when they are preaching lessons in the area of economy and efficiency.

Consulting/Technology

We have already seen in the analysis presented in some of the chapters as to how foreign funded projects burden the economy with consultancies of enormous cost. Usually 10% of the project costs go to meet the expenses of the consultants, mostly from outside the country. Apart from this cost, it is doubtful whether advice rendered by them is suitable to the conditions in the country. Consultancies provided by foreign experts often bring with them a cultural bias.

Poverty related issues

The APERP, as we have seen is to implement the SAP with a so called human face. But in the debates that have been raised in various chapters one observes how the human face is missing. The results of implementing this 'human faced' SAP are now more than conspicuous. The following are some examples in this regard

During the last two years a large number of people, particularly children, died because of communicable diseases like malaria, Japanese encephalitis, and gastroenteritis in the backward areas of Telengana, Rayalaseema and North Coastal Andhra. Thanks to the growing sympathy of the government towards creating a favourable ground for the spread of super specialty hospitals run on profit basis at the cost of basic preventive and primary health services. Not to mention, rising health related costs are negatively impacting the savings pattern of rural households. Similar situation prevails in the area of creating safety nets of retrenched PSU employees. Safety nets are meant to help the employees who are losing jobs as a result of closing down of public sector units including the ones in the cooperative sector. The safety-net is supposed to include severance payment that is supposed to compensate loss of income, and retraining and relocation. Even after nearly five years of reform programme there is no clear severance payment package. It all depends on the nearness of the recognised trade union to the government and whims and fancies of the concerned departments. Some times the units were closed down suddenly without giving any scope or opportunity to the employees to think about any other alternative. Even where some agreement is reached about severance payment workers are not sure of receiving it completely. The World Bank itself clearly stated that while GoAP established a State Renewable Fund in 1995 to pay severance pay under VRS and other retrenchment benefits, it has failed to fund it.

Apart from severance payment another important part of safety net programme would be retraining and relocation of the retrenched workers. However, the World Bank nipped the bud even before the launch of the reform programme. In one of the conditionalities imposed on the state government it stipulates that the GoAP shall take all the necessary actions to ensure that employees receiving benefits under the Voluntary Retirement Scheme or the Industrial Disputes Act are not re-employed in public undertakings or in civil service of AP. And at the prodding of the Bank the GoAP issued an order against employing retrenched workers in any state government department or agency. The workers are left to fend for themselves. So much for the human face of the reforms.

Sustainability

We have already witnessed how the AP government is already caught in a debt trap. We have also seen how every project being sponsored by the WB or any bilateral donor agency has a component that seeks parallel investment from the government's kitty to the tune of millions of dollars during the completion of the projects. Even a lay person would understand that it would not be possible for the government to meet expenses to even complete the erection of certain projects, leave aside issues pertaining to their sustainability.

For the projects that would be implemented in full steam till the World Bank feedstock continues, the problems of sustainability would arise in terms of loss of interest from the side of the participants who would not see any logical reason to be party to unsustainable projects.

Transparency

This has been the most neglected part of the entire APERP exercise. People have been kept in dark with respect to the possible negative impact of measures being undertaken under the garb of reforms. Furthermore, they have also been cheated due to presentation of wrong figures on issues such as power tariffs *ex post* reforms to sway their opinion in favour of reforms.

Civil societies in the state along with political parties in the opposition have been raising their voice vis-à-vis lack of transparency in the APERP process at various platforms. But the AP government as well as the Bank has conveniently used these arguments to involve civil society whenever it has suited them. Witness how NGOs working for public interest have been involved only during the implementation stage and not during the planning stages of power sector reform process etc.

The World Bank as well as the present state government led by the TDP continuously harp on the need for people's participation and owning of the reform programme by the people. The way the reform programme is designed and implemented show that people are nowhere near it. In 1996-97 the state government released a series of white papers for public discussion. The outcomes of discussions on these papers are supposed to form the basis on which the reform programme would be moulded. Very few people had access to these 'public' documents. And there is no way of knowing the contributions made by the public.

Hence it would not be an exaggeration to mention that APERP, which is being advertised as a programme that would supposedly benefit the people, is actually one of the most undemocratically implemented package of policies in the history of AP.

Political Autonomy

There are quite often binding project conditionalities that necessitate a change in the existing legal status or related laws. The impact of the changes and the implications from a legal standpoint are far-reaching. Often they alter the laws and hence policies fundamentally. During negotiations on the APDHSP, funded by the World Bank and elements of which later appear in the health component of APERP, GoAP and APVVP were asked to provide an assurance that they would carryout by December 31, 1995 a review of the legal and regulatory framework for private provision of health services in AP under terms of reference acceptable to the World Bank. The Bank thereafter sought to discuss the recommendations arising from such review and asked the GoAP to take measures acceptable to the Bank for strengthening such legal and regulatory frameworks. As a culmination of these pressures, the GoAP furnished to the Bank a Letter of Health Sector Policy Development.

Enactment of AP Electricity Reforms Act 1998 is another instance of the Bank's conditionalities for releasing loans under both APERP and APPSRP. AP Farmer's Management of Irrigation Act 1997 is still another instance where domestic legal system has been subverted to meet the conditionalities imposed by the Bank. For obtaining a loan, which is often a small proportion of the budget (in the case of APERP less than 2 per cent of the annual state budget), often existing structures, practices, and organizations have been restructured seriously eroding political autonomy of the local governments.

CHAPTER - 11

Reform State, Knowledge Institution and Poverty Reduction Strategy

(This article was written by K.S. Gopal after the World Bank decided to set up the Society for the Elimination of Rural Poverty to address and handle its poverty investments).

Background: A World Bank aided flagship effort in rural poverty reduction strategy, Andhra Pradesh District poverty Initiative Project (APDPIP), has just been launched in six backward districts of Andhra Pradesh. It is the product of a “Reform state” with a vision of a “Swarna Andhra Pradesh” of Chief Minister Chandrababu Naidu and “Knowledge Institution” as President Wolfensohn chooses to call the World Bank. APDPIP is an outcome of five years of extensive work by bureaucrats, academics, researchers and World Bank staff. Andhra Pradesh is the first Indian state to undertake a World Bank assisted Economic Re-Structuring Project (APERP) to promote fiscal, economic and institutional reforms for faster economic growth and social development. According to the World Bank “APERP exemplifies the comparative advantage of the Bank. The linkage of major poverty oriented investment with an overarching fiscal reform would not have been conceivable without the intervention of an outside agency such a comprehensive manner is a unique approach”. The India country Assistance Strategy of the World Bank has stressed the role and value of reforms in its lending. The World Development Report – 2000, the prestigious analytical work of the World Bank is on poverty. To what extent is the knowledge or aspirations reflected or applied in the road map to poverty reduction under the project is the focus of this note.

Autonomy : The World Bank and AP officials say that this “innovative” project has a unique implementation arrangement. An autonomous body – Society for Elimination of Rural Poverty (SERP), with members drawn from current and retired govt. officials, academics and civil society representatives with the chief minister as the chairperson, will manage the programme. The comparative advantage of an autonomous body or its value to the proposed activities was not explained. Autonomy supposedly demonstrates the commitment of the project promoters to good governance. But is it the reality? In the recently launched DFID aided AP Urban Services Project, financial resources can be drawn by 32 identified municipalities based on certain guidelines and agreed norms of fiscal and social performance criteria. Even before the chief minister launched the project, the AP Cabinet announced on what money will go to which town! The World Bank needs Data filled formats, field several missions and supervisions etc. The project authorities work with and report to the World Bank Task Managers and staff almost on a daily basis. NGOs complain of the complicated procurement procedure and monitoring methods in World Bank Projects and how it negatively impacts performance and social and community development. Without the AP Govt. and the World Bank addressing them, autonomy is little value. A simpler and valid explanation is that constituting an independent society is increasingly a donor condition to circumvent the bottlenecks of a bankrupt and liquidity starved govt. treasury.

Structure : The poor have to at every level interact and deal with Govt. departments and the bureaucracy. SERP will supposedly overcome bureaucratic intransigence. The management of the project is with IAS officers, even when every Govt. department and institutional head in AP is from this cadre. Paradoxically, AP was a World Bank favourite, primarily as its bureaucracy was considered efficient and effective in the implementation of Bank projects. The Andhra Pradesh Cyclone Emergency Reconstruction Project is widely quoted by the World Bank as an example of successful partnership. So what are the World Bank and AP Govt. re-iterating – the only way to address the poor is through the IAS medium. Instead of re-orienting and challenging govt. departments to improve their performance and accountability, the APDPIP has chosen to ignore and sideline them. The possible accessing of govt. services or accountability through local political institutions is shut in the new arrangement. Amidst all this, the World Bank, the AP govt. and the WDR are eloquent on good governance and the role of institutional reforms in poverty reduction and the project appraisal document declares " The Project is totally dependent for its success on institutional arrangements".

Services : APDPIP proposes to promote convergence of the services of government departments and public bodies. Fear and authority are the widely adopted methods of bureaucracy to ensure compliance. Many officials perceive a threat in the high profile and top cadre officers in the SERP. Also, every World Bank project is through single line department. It has never attempted inter-departmental synergy through shared projects. A small attempt in the World Bank aided AP forestry Project wherein a part of the loan was provided to the department of tribal welfare, as the bulk of the forests are in these areas, failed to take off as the project holder would not allow any challenge to its exclusive domain. But convergence being real and effective is of no worry to DPIP. Its responsibility is for workshops and capacity building exercises for govt. officials and Panchayat Raj Personal coupled with training and motivational exercises to the community. The task of improving govt. services through convergence is laid at the doorstep of the poor by saying that it will be demand driven! The onus is on the poor. DPIP is accountable to number of training programmes conducted, consultants hired and meetings organized. Having entrusted the task of improving govt. delivery services vis-à-vis the poor to SERP the AP govt. and World Bank is relieved of the burden.

Cronyism : While claiming to work on synergies and on democratic lines with govt. departments, Panchayat Raj institutions, civil society formations etc. and foster a shared platform, the task construct in DPIP is ethically just the opposite. It has everything under its unquestionable control – identification of villages/communities, training & capacity building, management & utilization of the community initiative fund, supervision, monitoring, selection of independent consultants etc. APDPIP will have committees and working groups with beneficiaries, bureaucrats and experts but such nominated bodies are low in performing, hierarchical and least valued by bureaucracies. Even widely accepted practices of accountability, transparency or the basic belief of the World Bank and AP growth engines – competition – has no place in DPIP. SERP need not market its potential or demonstrate abilities to raise resources and being only facilitator, it is not even accountable to the outcomes SERP has no grievance window, ombudsman or a citizen's charter. DPIP has lots of money, political backing, powerful officials, buys the best talent and yet its tasks does not extend even up to commonplace NGO or development bureaucracy work. The similarities to the Korean Cheebol, save its non – profit cap, is striking and ' crony capitalism' is the World Bank and AP govt. reform pathway in the privatization of social development and poverty reduction initiatives.

Specific Situation : APDPIP is a product of a geographically targeted poverty reduction approach and dominated by rain fed crop areas. Global experience and World Bank studies bear out the development projects in dry land areas have not been successful. On the other hand it recognizes the potential for success in initiatives involving a mix of select kick-start activities, risk coverage and combining loans and subsidies to improve the livelihood of the people living in rain fed areas. This calls for combining public and the private investment. If subsidies to primary education is pro-poor, as the best of the programs directed at fighting poverty is World Bank scholarship, why cannot resource poor endowments and the special circumstances of dry lands merit a combination of various intervention covering public investment, loan, subsidy, employment and technology? Also the contribution of Employment Assurance scheme and Jawahar Rozgar Yojana to labour opportunities in AP is less that one working day for rural worker per year. But we see no measures to enhance employment opportunities in DPIP. The value and importance of risk and security cover in poverty reduction is well documented in WDR – 2000 but completely ignored even in the community level capital building strategy of DPIP.

Prescriptions : The districts selected for DPIP has been chosen on the basis of high incidence of poverty and agricultural backwardness. The draft report of the Rural Poverty Reduction Task Force in AP stats " International experience shows that it is agricultural growth that can provide the effective demand for creating jobs—. Since agriculture continues to be the most important source of employment and income generation in rural areas, weak performance in the sector is major cause for future poverty reduction in the state. Fostering conditions for growth in the rural areas has to be the central pillar of the overall strategy for poverty reduction". It is unequivocal in say that agricultural growth should be the primary focus in rural poverty reduction. The report further notes "during the 1990's the total investment (Public & Private) in Andhra Pradesh decreased at a rate of 1.9% per annum in real terms". The World Bank has been criticizing international development cooperation for disregarding agriculture and wants this to be reversed. The CGIAR wants agricultural development of dry land area through innovative approaches to enthuse poor farmers in such resource poor areas. The ways to enhance and accelerate agricultural growth in the dry lands has not engaged DPIP in its poverty reduction strategy. On the other hand the listed sample of proposed economic activities for rural poverty reduction in DPIP are – cattle feed plants, cotton beds and cushions making, brass statues for temple visitors, ghee making, para – veterinary and fish ponds.

Addressing Poverty : The Project has incorporated many civil society learning and addressed as a paradigm shift – bottom up approach, demand driven, Community focus, flexible design, group lending, convergence of services etc. These are certainly useful elements in designing a poverty reduction project but are also old, well known and widely adopted processed by development agencies. These elements demonstrate improved community response and better project outcomes it is evidently not the only or sufficient basis for any substantial reduction in rural poverty. Doing the obvious thing does not produce the obvious, desired outcome. Enabling some poor to improve their economic conditions cannot be equated to interventions in reducing poverty. Poverty reduction must be viewed to address the aggregate development of all the poor and the conditions in which they live through a process of self – targeting and not a beneficiary orientation, individual or community. This is the old and failed IRDP model being window dressed with new shibboleths. What is innovative when all DPIP seeks is to make IRDP implementation more efficient and community based?

Surfeit : In 1997 AP had 84510 DWACRA and 75050 SGH groups. Since then it has been growing at rapid rate. A SWOT analysis of these groups by ORG – MARG Ltd did not list capital as a bottleneck or weakness in their poverty reduction efforts. Micro-Capital lending agencies are unable to find poor people coming up with new investment plans. Many self help groups have their savings lying idle in local banks. DPIP has come up with yet another – community initiative fund. The role of the over US $ 300 billion annual subsidy in the industrial countries for decades in building the physical infrastructure and the technology base for agriculture development is known. But this is of no value when people in resource poor areas seek enhance their livelihood to meet their basic needs. Under fiscal reforms and state financial health, we are told that it is for the govt. alone to decide on how tax money is raised or used. And the World Bank claims "…. The Bank is well placed to add value by facilitating transfer of innovative ideas to poverty reduction work" and identifies one specific area of value adding as " the large lending capacity to address the overall policy issues and investments needs in a comprehensive manner". Whose problems are supposedly being addressed is obvious.

Ostrich : The APDPIP has a negative list – activities not entitled to financing in the project. The first item is lease of agriculture land. In an affidavit filed in the high court on the issue of widespread suicides by cotton cultivators, the AP govt. has acknowledged that over 71% of the land under cotton is leased. The estimates of the annual rental paid by sharecroppers to landowners in three costal districts of AP are over Rs 4000 crore. Officials of the department of agriculture in AP acknowledge that over the half the cultivated land is under lease and share crop arrangements and the practice is on the rise. With rising competition among the poor for livelihoods, exploitation is on the rise leading to further pauperization of toiling rural people. The income of toiling cultivator, under an adversarial agriculture scenario, is appropriated by a rent seeking class, leading to the impoverishment of the rural poor. Instead of challenging or persuading the govt. to find a way out of the land relations or implement its tenancy laws, APDPIP is happy by putting it in the negative list.

Ducking : Large business sees the enormous profit potential in forestry and persuading the AP Govt. to find ways to change the forest policy to permit their entry. Gaining economic space through competition and comparative advantage constitutes the crux of the struggle of the poor in improving their livelihood. Instead of addressing these and demonstrating this through its action of being an instrument of the poor, the DPIP has chosen to run away from it. For instance, some JFM communities want to harvest bamboo to suit local basket makers requirements, but the forest department, the sole deciding authority will go by the harvesting specifications of the paper industry. How all control of the enterprise of the poor rests outside them, especially in the bureaucracy, is not seen as an issue to be addressed. DPIP is happy with providing community initiative funds. Experience shows that community initiatives when adopted by govt. agencies may have negative impacts on the programme and on the community. Sometimes the out come is diametrically opposite to what is intended. That is why govt. watershed projects cannot provide even a small part of the benefits seen in Ralegoan Siddhi. But addressing the ways to improve inputs and outputs while up – scaling and reduce negative impact has not merited any attention of the World Bank or the AP Govt.

Commitment : A comparison will bare it – the attitude of World Bank and AP Govt. in the power sector and community forestry. In the power sector the first step was to dismantle the APSEB to suit emerging conditions and promote private sector participation. The institutional reform of the forest department, a World Bank condition in forestry, ended with a consultant report. The AP Govt. enters in to long – term power purchase agreement along with price and escalation clauses. When the originally agreed Naptha prices are up, the govt. offers natural gas. In JFM, the MoU neither exists nor has any value. Bamboo cannot be harvested even while the people are entitled to it, as the permission of highest forest authority in the state is needed for its harvest. There is stringent law to punish illegal tapping of power but none to ensure entitlements of the forest communities as provided in JFM. A regulatory Commission oversees the power sector while even a grievance handling mechanism does not exist in any World Bank aided social sector projects.

Business as Usual : The task of a state govt. is to make laws, policies, frame works, linkages, infrastructure, incentives, opportunities and resources to improve the lives of its citizens. The World Bank is an international development agency that prides on its intellectual capabilities to address poverty. How ever, the enormous institutional skills, capacities, instruments, potential and commitment of the AP govt. and the World Bank, working together to accelerate social and economic development have neither a place nor a value in poverty reduction. Enhancing development services with a mix of clout, good personnel and money is not sufficient chemistry to address poverty reduction. It must address the role and tasks of a partnership of a reform state and a knowledge institution. It should not unwittingly carry the burden and responsibility of its promoters or succeed with some poor or window dress the outcome. The issue is the potential to represent the aspirations and entitlements of the poor as a change agent and negotiating to being a high profile delivery boy is no poverty reduction roadmap.

ABBREVIATIONS

AD	Agricultural Department
ADB	Asian Development Bank
AP	Andhra Pradesh
APDHSP	AP District Health Systems Project
APERC	Andhra Pradesh Electricity Regulatory Commission
APERP	Andhra Pradesh Economic Restructuring Programme
APFHRSP	Andhra Pradesh First Health Referral Health Systems Project
APFP	AP Forestry Project
APGENCO	Andhra Pradesh Generation Corporation
APHDC	AP Handicrafts Development Corporation
APIDC	Andhra Pradesh Industrial Development Corporation
APL	Adoptable Programme Loan
APPTDP	AP Participatory Tribal Development Project
APPVP	Andhra Pradesh Pradhamika Vidya Parishattu
APSEB	Andhra Pradesh State Electricity Board
APSHP	Andhra Pradesh State Highways Project
APTRANSCO	Andhra Pradesh Transmission Corporation
BC	Backward Caste
BD	Roads and Buildings department
CAS	Country Assistance Strategy
CERP	Cyclone Emergency Reconstruction Project
CRISIL	Credit Rating Information Services Of India Limited
DFID	Department for International Development, UK
DFW	Department of Family Welfare
DFW	Department of Family Welfare
DHS	Directorate of health Services
DHS	Directorate of Health Services
DIET	District Institute for Educational training
DPEP	District primary Education programme
DPIP	District Poverty Initiative Programme
EAP	Externally Aided Projects
EAP	Externally Assisted Project
ECOSOC	Economic and Social Council of the UN
EEC	European Economic Community
FAO	Food and Agricultural Organisation of the UN

FPP	Family Planning Programme
GDP	Grass Domestic Product
GNP	Gross National product
GoAP	Government of Andhra Pradesh
GSDP	Gross State Domestic Product
HMIS	Health Management Information System
HWSSB	Hyderabad Water Supply and Sewerage Board
HWSSP	Hyderabad Water Supply and Sanitation Project
I&CADD	Irrigation & Command Area Development Department
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDPL	Indian Drugs and Pharmaceuticals Limited
IFAD	International Fund for Agriculture and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IPP	India Population Project
IPP	Independent Power Producer
ITDA	Integrated tribal Development Agency
MDBs	Multilateral Development Banks
MIGA	Multilateral Investment Guarantor Agency
MRC	Mandal Resource Centres
NGOs	Non Governmental Organisation
NNMB	National Nutrition Monitoring Board
NTPC	National Thermal Power Corporation
O&M	Operation and Maintenance
ODA	Used here in its generic sense – Official Development Assistance. Not to be confused with the British ODA, now called DFID
OECF	Overseas Economic Co-operation Fund, Japan
OERC	Orissa Electricity Regulatory Commission
PAD	Project Appraisal Document
PDS	Public Distribution System
PE	Public Enterprise
PER	Public Expenditure Reivew
PF	Provident Fund
PHC	Primary Health Centre
PIM	Participatory Irrigation Management
PIU	Project Implementation Unit

PRED	Panchayat Raj Engineering Department
PSU	Public Sector Unit
PWD	Public Works Department
RDA	Required Dietary Allowance
RTC	Road Transport Corporation
SAP	Structural Adjustment Programme
SC	Scheduled Caste
SCERT	State Council for Educational Research and Training
SDP	State Domestic Product
SFC	State Finance Corporation
SIDA	Swedish International Development Agency
SIFT	Scheme Improvement and Farmer Turnover
SNDP	State Net Domestic Product
ST	Scheduled Tribe
TC	Teacher Centre
TDP	Telugu Desam Party
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Education Fund
US	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax
VEC	Village Education Committee
WCRC	Water Charges Review Committee
WDR	World Development Report, an annual World Bank Publication.
WDR	World Development Report
WTO	World trade Organisation
WUA	Water Users' Association

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