Chapter 5

MAJOR FINDINGS, POLICY ISSUES AND SUGGESTIONS
5.1. INTRODUCTION

Andhra Pradesh is one of India’s resource rich states. Major rivers such as Krishna and Godavari and many minor rivers are providing plentiful of water for irrigation, power generation and industrial use. The state also has vast reserves of mineral deposits, which are under exploited and also has a vast fertile land particularly along the coastal line, enabling it to be a major producer of grains and commercial crops.

Despite this, the growth performance of Andhra Pradesh has been poor and the average growth rates of Gross State Domestic Product have been far below its potential and significantly lower than the national average. Insufficient resources for infrastructure and human resource development and severe under funding of operation and maintenance expenditure are key factors responsible for a tardy growth of the state. Andhra Pradesh has developed a public expenditure strategy based on large allocation to numerous broad-based subsidy and welfare programmes. Among the states, Andhra Pradesh has the highest proportion of non-interest and non-salary current expenditure allocated to such programmes and services. Misguided sectoral policies, particularly weak cost recovery, and, a policy and regulatory framework, which has been not conducive to private sector participation, has contributed to poor provision of infrastructure and fiscal imbalances. The subsidies - both implicit and
explicit - have been important sources of pressure on budget that has lead to inefficient use of critical inputs and inefficiency in the public sector.

Andhra Pradesh government has undertaken many reforms to correct these imbalances from time-to-time. But the impact of reforms is tardy, may be it is too short a period to study the impact of reforms as the reform process started effectively only since 1995-96. The reforms are also concentrated in a few sectors like power, irrigation and Information technology. They have indeed helped in streamlining the administration and bringing back the financial position compared to that of 1990-91.

Andhra Pradesh is better, when compared to many of the major states and six fastest growing states in terms of management of finances. But the expenditure allocation strategy is directed more towards welfare schemes and committed expenditure (both Interest payments and salaries) than operation and maintenance expenditures. This has resulted in Andhra Pradesh being behind many other fastest growing states in terms of the growth of income and certain socio-economic indicators. The salary component of operation and maintenance cost is too high, resulting into maintenance expenditure without providing a proper service.

The contribution of non-tax revenues in own revenues of state are continuously declining and becoming negligible. Certain decisions by the State government resulted into huge loss in revenue particularly in tax revenue due to
imposition of ban on sale and consumption of liquor. Revenue shortages from time-to-time have resulted in cut down of expenditure on socio-economic infrastructure.

There are many hidden subsidies in addition to the explicit subsidies and assistance to Public Sector undertakings, in the provision of various services. Even the explicit subsidies like rice etc. do not cover the cost of administration and other costs involved in implementing these schemes. Hugh investments made by the government in public sector undertakings also are not fetching any returns compared to high opportunity cost of borrowing. Therefore the explicit subsidies given the state budget documents are underestimated and the main issue before any reform process is to uncover these hidden subsidies and rationalize them towards the sectors, which, result in growth of the economy.

The present study, therefore estimated over all subsidies, in addition to classifying the subsidies in to various categories as per nature and characteristics.

The present chapter, concluding in nature, summarises major findings in this exercise, raises certain issues in administration of subsidies and suggests certain policy issues. The present chapter is organized into six sections. The first, which is introductory in nature, is followed by the second section, which summarises the findings of the study and throws light on limitations of the study. The third section raises certain issues in the policy of subsidies and the
fourth section, comes out with certain policy suggestions. The fifth section explores the areas for further research and the last one concludes with the investigator's remarks.

5.2. FINDINGS

Reforms initiated are not yielding any better results in the absence of sound finances. As already stated in the second chapter and in the introductory remarks of this chapter, the fluctuating imbalances in the finances are mainly due to certain decisions taken by the Government from time-to-time. To cite a few, prohibition on sale and consumption of liquor resulting into loss of revenue, and a popular rupees two a kilo rice scheme and certain welfare schemes resulted in less investment in socio-economic infrastructure. Increased allocations to subsidies and welfare programmes should not lead to tax evasion and misuse of subsidies by affordable sections of the society. The direct subsidies shown in the budget documents are underestimated, and there are many hidden subsidies in provision of various services.

The gap between the cost of provision of various services and the recoveries made from the identifiable beneficiaries is increasing. These unrecovered costs are mentioned as implicit subsidies in the present study, and include all the subsidies, excluding all the transfer payments to individuals, assistance given public sector undertakings and grants in aid given to autonomous bodies and local bodies. Transfer payments which add to the
incomes of the people and assistance given to public sector undertakings are not the part of the cost of provision and are therefore, deducted from the estimation of costs. The grants-in-aid are treated as part of devolution to the lower level of governments.

Transfer payments to individuals and assistance to Public Sector Undertakings have increased from Rs. 340 crore and Rs. 86 crore in 1990-91 to Rs. 539 crore and Rs. 178 crore in 2001-02 respectively in nominal terms. But these implicit subsidies have declined in comparative terms as per cent to GSDP along with declining expenditures as a result of strain in finances of the State. Implicit subsidies and explicit transfers together remained at around 10 per cent of GSDP, which is twice as that of Fiscal deficit in 2001-02.

Major chunk of implicit budgetary subsidies in social services goes to welfare programmes followed by Education and medical and public health in descending order. Implicit budgetary subsidies in social services have increased sharply from 3.9 per cent of GSDP in 1990-91 to 4.7 per cent of GSDP, in 1998-99 and fell marginally to 4.1 per cent of GSDP in 2001-02. This increase is mainly in three sectors, i.e., Social Welfare, Water Supply and Housing. The subsidies in education and health have declined in comparative terms. Falling recovery rates in social services are mainly due to increase in costs as result of hike in salary bill as per the recommendations of Pay Revision Commission.
Implicit subsidies in Economic services, though declined sharply from 5.2 per cent of GSDP in 1990-91 to four per cent in 1998-99, registered a sharp increase back to the level of 1990-91, i.e., 5.2 per cent of GSDP in the year 2001-02. The sharp increase in 2001-02 is due to increased allocations to power sector as part of structural adjustment assistance received from the World Bank and incidental allocations under the ongoing reform process in the power sector. Implicit budgetary subsidies in irrigation and flood control sector constitute half of the subsidies in economic services in all the five years of the present study.

Higher subsidies for welfare programmes in social services are leaving very little resources for the social infrastructure sectors like education, health, water supply and sanitation.

Higher subsidies in Irrigation and power sector in economic services are resulting into neglecting of employment generating agriculture and transport sector.

The present study makes it clear that there is an overestimation of implicit budgetary subsidies by the earlier studies. Overestimation of subsidies by the earlier studies is due to overestimation of costs by not converting the capital stock into real terms and inclusion of grants-in-aid to local bodies in the costs of provision of services.
Increasing burden of subsidies both implicit and explicit need to be revised in the view of the State facing disturbing and fluctuating finances. As said earlier, the Andhra Pradesh State is falling behind seven other states in the growth of state income and many other development indicators. The State should reorient itself in directing its policies and expenditure pattern towards growth injecting sectors. Identifying the right sectors itself is a challenging task in the face of weak finances. In this direction the fourth chapter categorises the goods and services provided by the government into broad categories and classifies the implicit budgetary subsidies as per the characteristics of these goods and services. Categorisation of these governmental services, if not commonly agreeable, at least forms the basis for a debate on prioritisation of the services. Goods and services here are classified as impure public goods, merit one and two, merit goods with distributive justice, and finally private goods. Commercial irrigation and Power, which are major contributors to increasing subsidies, are categorized as private goods in this classification.

In social services only merit services with distributive justice (consisting mainly of welfare programmes) have shown a substantial increase. The shares of impure public goods, merit one, and merit two goods (which result into building Social Capital or Infrastructure) in total implicit subsidies have sharply declined.
In economic services, the share of private goods, particularly that of commercial irrigation and power have increased and other categories with comparatively high externalities have declined. These private goods are mainly input based services like power, irrigation and input based industrial incentives.

The estimation and classification of implicit budgetary subsidies have the following limitations:

1. The study assumes a life span of 50 years on capital stock, but not all the assets have the same life, some depreciate faster.

2. Land as an asset may actually appreciate.

3. In reality accumulated equity investment appreciates, but in the present study, the investment which is mainly from loss making public sector undertakings and there can only be little appreciation of equity and mostly it is depreciation. The estimation of costs does not cover such appreciation in the equity.

4. Capital stock, which is an accumulation of investment in previous years, includes investments in ongoing projects, which might not have started the delivery of service, but the costs are estimated in such services also.

5. The costs also include various cost of inefficiencies, the present study could not separate out the inefficiency cost in provision of services by the government.

6. The classification of services made in the fourth chapter is purely discretionary and closer to the characteristics of these services. But one can move any of these services from one category to the other on relative degrees of externality or otherwise. However, this classification forms for such debate.
The services are classified into broad categories as per the relative degrees of externality, the exact externalities involved in provision of these services is not measured.

There should be a debate among the intelligentsia, policy makers and stakeholders on what to subsidise and what not. The present classification of goods and services at least forms the basis for such debate. To give more bases for such debate some broad issues with examples are given in the next section.

5.3. BROAD ISSUES IN SUBSIDIES

Subsidies are justified for all those goods and services, which have positive and high degrees of externalities, as the benefit to the society is more than the sum of individual benefits and welfare is improved by inducing a higher level of demand through subsidies, which lower the relative prices\(^1\).

Subsides are justifiable on the argument of infant industry and distributional objective. The example of distributional objective is the public distribution system. Infant industry argument is given for small-scale industries. But these subsidies could only be valid for temporary periods and should be well administered\(^2\).

There are some subsidies like incentives given to employees in addition to usual pay and inflationary adjustment in pay without any valid reason. Some

\(^1\) Srivastava and Amarnath (2001)
examples of such subsidies are free travel concession given to employees in the transport sector like railways and road transport.

There are many subsidies, which, cannot be justified on the grounds of insignificant externalities.

"Subsidies can detrimental to environment, efficiency, and growth. Excessive subsidization harms growth prospects in both micro and macro terms, by affecting relative prices as well as by putting pressure on interest rates," says Srivastava and Rao (2001)

Subsidy interventions by the government distort market prices and often lead to sub optimal use of inputs in the economy, thereby rising over all costs in the system. Government’s involvement often leads to inefficiencies and increase in costs. The inefficiencies arise due to overstaffing, poor maintenance of assets, procedural delays and delays in taking critical decisions due to hierarchical bureaucracy.

In some service minded sectors like Health and Education, the degree of subsidisation (rate of recovery) may be high but the volume of subsidisation is low. This situation arises due to low priority given for these sectors in spending priorities of the Government. If the service in these sectors is bad, the recovery also may fall. Therefore, there is a need for increasing allocations on operation

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and maintenance of the services in such sectors in addition to investment as per changing technologies.

Subsidies should be more transparent and explicitly stated. The best example of non-transparent subsidies in Andhra Pradesh is Public Transport. The Government from time-to-time announces many subsidies in this sector. But the State run Road Transport Corporation hardly maintains any accounting of the costs of these subsidies. For example, free travel pass is given to journalists, travel warrants to police personnel, half concession to senior citizens, etc., in which the State Road Transport Corporation does not estimate the revenue loss due to these concessions. It can only say number of persons availing such concessions.

Proper administration of any subsidies is necessary to control misuse by the affordable class or same set of beneficiaries availing these subsidies again and again. The best example of badly administered services is higher education in Andhra Pradesh. A student enters a university providing general education by getting admission to one course at any given level (M.A. in Economics) and lives in the university hostels by taking admission to one or other course at same level (M.A. in History or Sociology) by paying same concessional fee for years together. In the absence of enough employment opportunities, and high cost and private sector dominated technical and vocational education, the youth have no other alternative. Private sector domination in technical education is
visible with number of colleges operated by the private sector. The government also can make use of intellectuals in the universities by suggesting areas of importance to the government in which, both the students and faculties are encouraged to pursue their research and make best use of the same in decision making. The local universities have better knowledge about the local problems than foreign consultants.

Some specific sectors should be identified, where without an additional burden to the State exchequer, subsidies can be financed through cross subsidisation. As mentioned earlier, cross-subsidization arises when some categories of consumers have to pay a tariff, which is more than the average tariff, and some categories, pay, less than the average tariff. It is often possible to distinguish between different classes of consumers for a good or a range of goods, such as domestic and commercial or agricultural user of electricity. Similarly, within the broad group of petroleum products distinction can be made between kerosene and diesel vis-à-vis petrol and turbine fuel. If a particular sector with one or more products is subjected to an administered price regime, it is possible to charge some consumers (product-wise or use-wise) a price, which is more than cost so as to finance a subsidy given to other consumers, by charging them a lower price, which is less than cost. Such intra-sectoral financing of a subsidy involves cross-subsidization. In such cases, if a net subsidy is still left after cross-subsidisation, it will be a charge on the general budget. Some instances of important cross-subsidization in Andhra
Pradesh relate to power. But over a period time, cross subsidization results in to captive generation by the high price paying consumers and entire subsidy burden falling on the exchequer of the government.

Two major sources of inefficiency in the power sector are excessive transmission and distribution (T&D) losses and excess staffing in the State Electricity Boards (SEBs). Transmission and distribution losses in general have increased over 1999-00. In spite of reorganisation of State Electricity Board in to corporations and major reforms in Andhra Pradesh.

Better targeting is the key to lowering the volume of subsidy, while, continuing to satisfy the objectives of subsidisation. Examination of alternative delivery mechanisms is therefore very important. The delivery mechanism should be cost-efficient, and should maximise the quality of delivery to the intended beneficiaries. An alternative delivery mechanism in the case of both food and power could be a coupon system. An experiment with the coupon system in Andhra Pradesh with respect to the food subsidy indicates that delivery has improved.

The discussion in this chapter points to the need for greater transparency in the subsidy regime. This requires making subsidies as explicit as possible and minimising subsidies that are generated through administered price regimes and those that are kept off the budget. Targeting assumes utmost
importance, while subsidies are made explicit, and their budgetary burden is kept under control.

One more aspect, which requires consideration, is that subsidies should be treated as short-term measures. They cannot be considered as an all-time phenomenon. Their operation as well as utility should be frequently reviewed and those outlived or misused should be weeded out. An important principle to be kept in mind is that consumers do not hesitate to pay for the service provided the quality of service is good, supply is regular and dependable.

5.4. POLICY ISSUES

Budgetary subsidies provide the interface between the two sides of the budget, viz., expenditures and non-tax revenues. Policy reforms affecting subsidies will have to address both these budgetary dimensions. The main objective that should guide the formulation of a subsidy reform strategy may be listed as: lower volume, higher recoveries, better service focus, improved targeting, removal of inefficiencies, and promoting budgetary transparency.

The case of justified subsidisation through budgetary support is limited to merit goods and services. These services are characterized by positive externalities where social benefits are more than private benefits. Among these, the impure public goods and merit one services like Urban Health, Family welfare, water supply, soil and water conservation etc. (given in the fourth chapter) deserves a high degree of subsidization because of large
positive externalities. Merit two services like higher education, other services would also require budgetary subsidization albeit of a lower order. The extent of subsidization relative to costs may differ in each of these services.

In the long run, a properly decentralized two-tier intervention for food subsidisation should be developed and should be de-linked from policies to support agricultural incomes.

A significant portion of irrigation subsidies goes to finance excess staff in the irrigation departments. There is a need to prune the existing staff, reduce costs, and augment recoveries to cover at least the operation and maintenance costs. Operation and maintenance costs are high at present due to high salary component\(^3\). A significant portion of this subsidy actually subsidizes only the excess staffing in the irrigation departments. The rest is due to extremely low user charges. Apart from excess staffing, there is also considerable wastage of water and water logging in many areas causing long-run damage to the soil. It is important to induce discipline in water usage through better pricing, while bringing the costs down by eliminating inefficiencies in addition to existing participatory management system.

Strategies for reducing irrigation subsidies would include: (i) re-deployment of staff to other sectors, (ii) introduction of Voluntary Retirement Schemes (VRS), and ensuring that when staff retires, vacant posts are not filled.

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\(^3\) Raju K.V. (2001)
up and no new posts are created in this sector even on the plan side, (iii) fresh investment aimed at increasing irrigation coverage so that the ultimate irrigation potentials realized, while, average and marginal cost are reduced, and (iv) increase in user charges so as to recover at least the operation and maintenance costs (O&M). The O&M costs would be reduced after the excessive staffing costs are eliminated.

Power subsidies are largely inefficiencies. There is a need to reduce Transmission and Distribution (T&D) losses, make subsidies more explicit, overhaul the Electricity Act and drastically prune staff strength the State Electricity Board.

Power is subsidised for agricultural and domestic consumers through two sources: (i) state support to state Electricity Boards (SEBs) in the form of subventions or write off of loans or interest, etc., and (ii) cross-subsidization by charging higher prices from industrial and commercial consumers. Subsidies that remain un-recovered after these are carried forward as losses by the SEBs or remain as unpaid dues of the SEBs to central undertakings or state governments. Two main sources of inefficiency are: (i) transmission and distribution losses which include, apart from technical losses, a large portion of theft, and (ii) over-employment of personnel whose contribution at the margin in the provision of service may be zero. The power sector is characterized by shortages, poor quality and frequent breakdowns. Both industry and
agriculture suffer on this account. Cross-subsidization makes power costlier for industry and commerce rendering them uncompetitive. The reforms of power subsidies should be viewed in both a short-run and long run perspective. The following measures are suggested in the short-term:

(i) T&D losses should be reduced by meterisation of electricity supply up to bulk level consumers in rural areas and individual meterisation for farmers with large holdings. Energy audit should help to identify areawise pockets of losses in urban as well as rural areas.

(ii) Subsidy to farmers also is limited to certain level of consumption with which the small and marginal farmer can sustain.

(iii) The power subsidy should be administered explicitly by making the farmers pay the regular tariff and claim the subsidy from State's Department of Agriculture.

(iv) The Electricity Act has to be overhauled as soon as possible so as to allow open access to distribution and transmission companied from any source and ending the implicit monopoly and features of the present Act. Entry of private enterprises should be permitted in all the segments.

(v) Staff strength of the Electricity Boards should be drastically pruned by introducing Voluntary Retirement Scheme (VRS) and Compulsory Retirement Scheme (CRS) after the SEB has identified its efficient workers.
The correct method for supporting agriculture is to identify the justifiable objectives of subsidization of agriculture and subsidise the potential beneficiary as directly as possible. The main objective of supporting agriculture should be to protect the farmers against excessive volatility in incomes, and to support the poorer farmers in terms of ensuring a minimum income, and credit support enabling the purchase of inputs at the right time. But subsidies should not be designed to support just a few selected crops, especially in terms of sustained excess supply and availability of the global market to overcome any temporary shortages. The farmers should be allowed to respond to the market signals reflecting demand and supply imbalances, formulate short and medium term expectations, and accordingly select their cropping pattern. The best strategy is to achieve the policy targets by using no more than two or three policy instruments. This is best tackled by developing insurance and credit policies with support for selected crops. The selection of crops for support may be different for different periods and different regions, depending on surplus/deficit profiles of outputs of different crops in different regions.

Subsidies for only Impure Public goods, merit one and merit two categories are justified. Even in the case of merit one category and impure public good category subsidies should be administered to the intended beneficiary as far as possible.
Primary and preventive health care have been categorised as merit one services, deserving of 90 to 100 per cent subsidization, and curative health services as merit two where entire variable cost can be recovered. But in this case also a partial subsidisation could be provided to the BPL families. The entire sector can be served by extending insurance services so that unanticipated healthcare needs even for the better off can be taken care of.

Public sector enterprises with few exceptions are involved in providing a variety of goods and services, in which, it is easy to classify all non-merit or private goods. The public sector gets implicitly subsidised by the budgetary resources of the state governments, because it does not give adequate return on the investments of these governments in the form of equity and loans. The difference between the opportunity cost of capital, i.e., the interest at which government borrows and the return that it gets on its investments from the public sector accounts for the implicit subsidization of the public sector. Government will be better off by supporting VRS/CRS programmes, which may otherwise be funded by the sale of assets of the enterprise including land. In many cases land may have sufficient value to fund the entire requisite VRS programme of a unit. Necessary changes in land related laws should be brought out by the state government if it becomes a constraint in the disposal of land owned by public sector enterprises.
User charges can be better linked to costs and more easily managed when inefficiency costs are minimized, quality of services is improved, automatic cost-linked revision mechanisms are put in place, and new institution is brought forth to look after the interests of the consumers as well as the service providers.

Users cannot be persuaded to pay higher costs unless they are assured of reasonable quality of services provided by the public authorities. The term quality can be used in a broad sense covering multiple attributes of services i.e., accessibility, reasonable waiting period, regularity, and adequacy. For example, quality provision of power means regular supply of electricity without frequent breakdowns or stoppages, and without undue voltage fluctuations. In health services, quality means access of service with minimum waiting time, availability of medicines, cleanliness of hospitals, etc. Cost recovery is closely linked to the quality of services. On the other hand, quality deteriorates without adequate finances. This creates a vicious circle. Unless adequate quality is assured, people would not be willing to pay and unless they pay, quality cannot be maintained.

A large component of costs in the public provision of private goods can be attributed to various inefficiencies. An important source of these inefficiencies is surplus employment in the concerned sectors. Surplus employment in the government sector can be judged according as whether the
withdrawal of some people would actually lead to a fall in the level of service. Users may be willing to pay efficient costs, but it is difficult to persuade them to also pay for governmental inefficiencies. Several types of inefficiencies attend government's participation in providing services. Apart from direct costs like those due to overstaffing, poor maintenance of assets, procedural delays, delays in taking critical decisions, there are other systemic inefficiencies. Subsidy interventions by the government distort market prices and have tended to sub-optimal use of inputs in the economy, thereby raising overall costs in the system. Since inefficiency is neither a public good nor a merit good, tax payers cannot be asked to pay for cost-escalation due to inefficiencies in the public provision of private goods. Nor is there a case for passing it on to the user. The user is entitled to the supply of a service/good at the lowest possible cost. Since the taxpayers cannot be burdened with inefficiency costs incidental to the public provision of private goods, the only acceptable alternative is to minimise these inefficiencies. For this, this, the sources of inefficiencies need to be identified and their costs need to be worked out in micro level studies.

Many of the input costs continuously increase, driven by market forces. Salaries of government employees are also periodically revised, apart from its DA component begin linked with in flat in. However, tariffs and user charges tend to be rigid in nominal terms. Most fees have lost any semblance of connection with the input costs. Once the desirable extent of subsidization has
been worked out, the relevant proportion between unit cost and cost recovery should be maintained. The extent of subsidization should not be allowed to increase by default because of non-revision of the normal levels of fees, tariffs, and user charges.

The rigidity leading to non-revision of user charges comes from the absence of suitable institutional mechanisms which could deal with the related issue of quality, inefficiency, increase in costs, and extent of subsidization according to service categories. And increase in user charges requires explicit public decision by legislative/executive authorities, who are very reluctant to increase user change. Necessary institutional mechanism would involve setting up of autonomous bodies who can undertake objective and independent deliberations and make recommendations to the government with regular periodicity with a view to protecting both the consumers' interest and the need to cover costs. These bodies should also evaluate the quality of service, and quantify the inefficiencies in the public provision of private goods.

The link between quality of service, unit costs, both capital and current, and provision of user charge cannot be handled by the existing arrangements where it is the responsibility of the concerned departments to monitor costs or introduce revisions in tariffs or user charges. It is required that the nexus between these three aspects of publicly provided services should be examined on a continuing as is by one or more autonomous organisation which can take
care of the user as well as the service providers. For power and irrigation, it is useful to set up separate Regulatory Authorities, while all other services could be brought in the purview of a User Charges Commission in each state. In the power sector most states have set up autonomous Electricity Regulatory Authorities, who are required to make recommendations periodically about tariff revisions embracing different categories of consumers.

In the irrigation sector, water Users' associations have been constituted in Andhra Pradesh. A Water Rates Commission may examine issues about irrigation water rates, surplus staff in the irrigation sector, structure of costs, especially operation and maintenance costs. Such a body can draw on informational inputs provided by the water users' associations.

Apart from separate bodies for power and irrigation, there can be one body to deal with all other user charges. Such a body should determine the structure of fees in schools, and in higher technical education institutions. It should also look into the quality of education, structure of costs, targeting of educational subsidies and related issues before it comes up with any recommendations. The health sector also requires specialized attention. The monitoring of quality and accessibility of health services, and the structure of costs and cost-recovered should be undertaken by an independent authority on a periodic basis.
To sum up the basic issues before the State Government are:

✓ To enable a debate on categorisation of services as per the externalities involved in consumption of such goods and services.

✓ To reduce the cost of provision of services by reducing the excess staff.

✓ To revise the user charges regularly on the basis of inflation.

✓ To specify the duration for which any subsidy is given

✓ Subsidies to be limited to the intended beneficiaries and targeted groups.

✓ Independent authorities to be set up to periodically review the quality of service and the user charges in various services.

✓ More transparency in stating the burden of subsidies to the exchequer of the State.

✓ To improve the administrative efficiency in identifying the intended beneficiaries.

✓ If not reducing the subsidies, at least reorient them towards creating socio-economic infrastructure and proper maintenance than high salary component in the cost of provision of service

✓ A mere concentration in two or three sectors like social welfare, power and irrigation can help the government in generating and directing surpluses towards income and employment generating sectors.

✓ Higher allocations for non-salary maintenance expenditure.
5.5. SCOPE FOR FURTHER RESEARCH

The subsidy estimates done here are as per the methodology stated in the first chapter and the classificatory adjustments made in arriving at the costs and receipts in provision of services. The present study gives a macro picture of hidden subsidies in provision of services by the Government of Andhra Pradesh. The responsibility of increasing expenditures does not lie exclusively with the State government. State government incurs lot of expenditure as part of devolution process. In this sense, there are certain expenditures, which are completely, or partially borne by the Union government in the form of Central and Centrally sponsored schemes. One can separate out these costs in to two a) borne by the state government and b) by the Union government and see to what extent, the State government is responsible for increasing burden of subsidies.

One can also separate out the salary component in estimation of the current costs and analyze the maintenance cost for each of these services separately so as to estimate the composition of costs and suggesting for the ideal composition of salaries and maintenance in the total costs.

5.6. CONCLUSION

Budget Subsidies in Andhra Pradesh are too large compared to the resources of the State. These subsidies hide and promote inefficiencies. In spite of many experts cautioning for reduction of subsidies both implicit and explicit,
are increasing and the burden of subsidies on State exchequer continues to be high.

The hypotheses formulated in the first chapter are: 1) the reform measures undertaken by the Government of Andhra Pradesh have not resulted in containing budgetary subsidies, and 2) the Government of Andhra Pradesh has not given priority in directing subsidies towards social sectors during the post-reform period.

The subsidies in relative terms as per cent of GSDP have gone down marginally, but have increased in nominal terms. As it is too short a period, attributing marginal decline in relative terms to the reform process cannot be justified. The reforms undertaken in some sectors, particularly in power sector, has resulted in increase of hidden subsidies between 1998-99 and 2001-02, due to structural adjustment assistance given to power sector as an intermediary arrangement.

Attributing any reduction in subsidies in various sectors to the reform process alone is trivial as the total expenditures are also declining due to strain in finances and limited power of State in borrowing from external resources. The reduction of subsidies in the sectors, where major reforms have been undertaken, also is a debatable issue as it is too short a period.

The share of social services in total implicit subsidies has increased from around 42 per cent in 1990-91 to 54 per cent 1998-99 but declined marginally.
to 44 per cent in 2001-02 as ongoing structural adjustment process in power sector increased subsidies in economic services. One needs to wait for some more time to see the effect of reforms in reduction and rationalization of implicit budgetary subsidies in Andhra Pradesh.