CHAPTER 6

SUMMARY OF RESEARCH FINDINGS AND SUGGESTIONS
Economic development of a Country or State depends on the financing of its development plans. A development plan can be framed and implemented only when sufficient financial resources are readily available as and when required for financing the development outlays. Availability of financial resources depends on the measures undertaken by the Government to mobilise financial resources for the plan. Financial requirements of development planning in the developing economies being enormous, the burden of financing the development plans has mainly to be shouldered by the Government. Mobilisation of financial resources by the Government to meet the expenditure of a development plan, therefore, is called as “Financing Economic Development by the Government”.

The study takes the following as its objectives:

1. to review the financing pattern of Five Year Plans of Andhra Pradesh;

2. to examine the importance of taxation and the charges in the tax structure of Andhra Pradesh;

3. to compare the tax effort of the State Governments in India;

4. to assess the efforts made by the State Government for additional resource mobilisation; and

5. to discuss the trends in the Central Assistance to the Government of Andhra Pradesh.
The study tested the following hypotheses:

1. The targets fixed by the Government for different sources of the plan finances have not been achieved;

2. The changes in the tax structure did not yield sufficient revenue to finance the plan;

3. The tax effort index of Andhra Pradesh did not change its relative rank among the major States in India;

4. The targets fixed for Additional Resource Mobilisation have not been achieved; and

5. The Central Assistance has not been growing sufficiently to finance the plan expenditure.

State Budgetary Resources, Additional Resource Mobilisation by the Government, the Central Assistance for the State plans, Negotiated Loans raised by the State Government and the State Enterprises' Market Borrowings have been identified as the important sources of financing the development plans of Andhra Pradesh during the period of study.

The actual contribution of State Budgetary Resources for financing the State plans of Andhra Pradesh was Rs. 1023 crores against the estimate of Rs. 1474 crores in the Sixth plan; Rs. 1809 crores against the estimate of Rs. 2837 crores in the Seventh plan, Rs. 1118 crores against the estimate of Rs. 618 crores in that two Annual plans; and Rs. (-) 2067 crores against the estimate of Rs. 1249 crores in the Eighth plan. These figures indicate that the actual contribution of State Budgetary Resources was less than the estimate in the Sixth and the Seventh plans; it exceeded the estimate in the two Annual plans (1990-92); but its actual contribution
became negative in the Eighth plan of Andhra Pradesh. The actual contribution of State Budgetary Resources to the Aggregate resources of the State plan was 30 per cent in the Sixth plan, 29 per cent in the Seventh plan, 35 per cent in the two Annual plans period and it became negative at 16 per cent in the Eighth plan of Andhra Pradesh. It is therefore, obvious that the contribution of State Budgetary Resources have been deteriorating over the successive Five Year Plans and became negative in the Eighth plan of Andhra Pradesh.

An examination of the contribution made by the different components of the State Budgetary Resources has revealed the factors responsible for the deterioration in the contribution of the State Budgetary Resources. The Balance from current revenue (at pre-plan rates of taxation), the contribution of Public Enterprises of the State (at pre-plan rates of the prices of Public Services), Loans raised by the Government from the market, share of Small Savings from the Central Government, and State Provident Fund have been identified as the important components of the State Budgetary Resources in Andhra Pradesh.

The actual contribution of the Balance from Current Revenue for financing the State plans of Andhra Pradesh was Rs. 691 crores against the estimate of Rs. 997 crores in the Sixth plan; Rs. 427 crores against the estimate of Rs. 1119 crores in the Seventh plan; Rs. 243 crores against the negative estimate of Rs. (-) 245 crores in the two Annual plans period; and it became negative at Rs. (-) 2568 crores against the negative estimate of Rs. (-) 721 crores in the Eighth plan of Andhra Pradesh. These figures indicate that the actual contribution of the Balance from Current Revenue was less than the estimate in the Sixth and the Seventh plans; it contributed
positively against the negative estimate in the two Annual plans period; but its negative contribution exceeded the negative estimate in the Eighth plan of Andhra Pradesh. The actual contribution of the Balance from Current Revenue to the State Budgetary Resources was 67 per cent in the Sixth plan, 24 per cent in the Seventh plan, 22 per cent in the two Annual plans period; and it became negative at (-) 124 per cent in the Eighth plan of Andhra Pradesh.

Andhra Pradesh State Road Transport Corporation (APSRTC) and Andhra Pradesh State Electricity Board (APSEB) are the two autonomous Public Enterprises of the State, which contribute financial resources to the State plans of Andhra Pradesh. The actual contribution of APSRTC was negative at Rs. (-) 152 crores against the negative estimate of Rs. (-) 17 crores in the Sixth plan; was negative at Rs. (-) 93 crores against the positive estimate of Rs. 65 crores in the Seventh plan; was positive at Rs. 131 crores against the negative estimate at Rs. (-) 33 crores in the two Annual plans period and was negative at Rs. (-) 811 crores against the negative estimate of Rs. (-) 677 crores in the Eighth plan of Andhra Pradesh. Similarly, the actual contribution of APSEB was Rs. 67 crores against the estimate of Rs. 220 crores in the Sixth plan; was negative at Rs. (-) 445 crores against the positive estimate of Rs. 380 crores in the Seventh plan; was negative at Rs. (-) 277 crores against the negative estimate of Rs. (-) 205 crores in the two Annual Plans period; and was negative at Rs. (-) 3580 crores against the negative estimate of Rs. (-) 595 crores in the Eighth plan of Andhra Pradesh. The actual contribution of these two Public Enterprises of the State, put together, was negative at Rs. (-) 85 crores in the Sixth plan, Rs. (-) 538 crores in the Seventh plan, Rs. (-) 146 crores in the two Annual plans period
and Rs. (-) 4391 crores in the Eighth plan of Andhra Pradesh. The above figures indicates that the contribution of State Public Enterprises for financing of the State plans was not only negative but also deteriorating over the successive Five Year Plans of Andhra Pradesh. In other words, the Public Enterprises of the State have been incurring huge losses and depended more on the State Government to make good these losses.

The loans raised by the State Government from the market have contributed Rs. 333 crores against the estimate of Rs. 322 crores in the Sixth plan; Rs. 863 crores against the estimate of Rs. 749 crores in the Seventh plan, Rs. 578 crores against estimate of Rs. 534 crores in the two Annual plans period and Rs. 2223 crores against the estimate of Rs. 1705 crores in the Eighth plan of Andhra Pradesh.

The share of Small Savings from the Central Government has contributed Rs. 342 crores against the estimate of Rs. 137 crores in the Sixth plan; Rs. 865 crores against the estimate of Rs. 672 crores in the Seventh plan; Rs. 736 crores against the estimate of Rs. 610 crores in the two Annual plans period and Rs. 2273 crores against the estimate of Rs. 2171 crores in the Eighth plan of Andhra Pradesh.

The net contribution of State Provident Fund was Rs. 115 crores against the estimate of Rs. 83 crores in the sixth plan, Rs. 393 crores against the estimate of Rs. 290 crores in the Seventh plan Rs. 225 crores against the estimate of Rs. 217 crores in the two Annual plans period and Rs. 1031 crores against the estimate of Rs. 733 crores in the Eighth plan of Andhra Pradesh.

It is, therefore, clear that the actual contributions made by the Loans raised by the State Government from the Market, the share of Small
Savings from the Central Government and the State Provident Fund have not only exceeded the estimates in all the plan periods but also increased continuously over the successive Five Year Plans of Andhra Pradesh.

However, the growth in the contributions of Loans raised by the State from the market, the share of Small Savings from the Central Government and the State Provident Fund has not been able to compensate the deterioration in the contribution of the Balance from Current Revenue and in the contribution of State Public Enterprises (at pre-plan rates) in the Eighth plan of Andhra Pradesh. It is, therefore, obvious that the growth in the losses of Public Sector Enterprises of the State and the deterioration in the Balance from Current Revenue have been the major factors responsible for the deterioration in the State Budgetary Resources during the Five Year plans of Andhra Pradesh under consideration.

An examination of the contribution made by the different components of the Current Revenue (at pre-plan rate of taxes) and the growth of different components of non-plan revenue expenditure of the State over the Five Year plans of Andhra Pradesh have revealed the factors responsible for the deterioration in the contribution of Balance from Current Revenue for financing the successive Five Year plans of Andhra Pradesh.

Revenue from State's own taxes (at pre-plan rates) share in the Central taxes, Non-tax revenue of the State and Non-plan Grants from the Central Government are the major components of the Current Revenue of the State.

The contribution of State's own taxes to the current revenue was 55 per cent in the Sixth and Seventh plans, 56 per cent in the Annual plans period and 49 per cent in the Eighth plan.
The contribution of share in the Central taxes was 25 per cent in the Sixth and the Seventh plans, 24 per cent in the two Annual plans period and 28 per cent in the Eighth plan.

The contribution of Non-tax revenue of the State was 10 per cent in the Sixth and the Seventh plans, seven per cent in the Two annual plans period and 11 per cent in the Eighth plan.

The contribution of Non-plan Grants to the Current Revenue of the State was 10 per cent in the Sixth and Seventh plans and 12 per cent in the Annual plans period and the Eighth plan of Andhra Pradesh.

These figures indicate that the revenue from the State's own taxes (at pre-plan rates) has been the major source of the Current Revenue of the State, but its contribution declined in the Eighth plan of Andhra Pradesh.

Interest payments, other non-developmental expenditure, developmental expenditure and expenditure on Central and Centrally sponsored schemes are the important components of the Non-plan revenue expenditure of the State.

The contribution of interest payments to the Non-plan revenue expenditure was nine per cent in the Sixth plan, 12 per cent in the Seventh plan, 13 per cent in the Annual plans period and 16 per cent in the Eighth plan. The contribution of other non-developmental expenditure was 27 per cent in the Sixth plan, 24 per cent in the Seventh plan, 23 per cent in the two Annual plans period and 25 per cent in the Eighth plan.

The contribution of developmental expenditure was 56 per cent in the Sixth and the Seventh plans, 55 per cent in the Annual plans period and 52 per cent in the Eighth plan.
The contribution of expenditure on the Central and Centrally sponsored schemes was eight per cent in the Sixth and the Seventh plans, 10 per cent in the Annual plans period and seven per cent in the Eighth plan of Andhra Pradesh.

These figures indicates that the contribution of interest payments and other non-development expenditures have been increased over the successive Five Year plans, while the contribution of the development expenditure and the expenditure on Central and Centrally sponsored schemes have been declined over the successive Five Year plans of Andhra Pradesh during the period of study.

It is, therefore, obvious that the increasing share of interest payments and other non-developmental expenditure in the Non-plan revenue expenditure on the one hand, the declining contribution of State's own taxes to the current revenue on the other have been identified as the major responsible factors for the deterioration in the Balance from Current Revenue during the plan period.

An examination of the performance of different taxes in the tax structure of Andhra Pradesh has revealed the factors responsible for the declining contribution of State's own tax revenue to the current revenue during the period of study in Andhra Pradesh.

The principal taxes imposed, collected and appropriated by the Government of Andhra Pradesh have been the Sales Tax, State Excise Duties, Taxes on Vehicles, Entertainment Tax, Stamps and Registration Fee, Land Revenue, Taxes and Duties on Electricity and Profession Tax. Among these, Stamps and Registration Fee, Land Revenue and Profession Tax are
direct taxes and the remaining taxes are indirect taxes. The contribution of direct taxes to the State's own tax revenue has increased marginally from eight per cent in the Sixth plan to ten per cent in the Eighth plan, while the contribution of indirect taxes declined marginally from 92 per cent in the sixth plan to 90 per cent in the Eighth plan of Andhra Pradesh. These trends indicate that there was a marginal shift from the share of indirect taxes to the share of direct taxes in the tax structure of Andhra Pradesh during the period of study. The main reasons for this shift in favour of direct taxes are the introduction of Profession Tax (Direct Tax) and the introduction on Prohibition on the sale of Arrack, which affected the revenue from the State Excise Duties (Indirect Tax) during the period of study.

Among the individual taxes, Sales Tax is the most important indirect tax and it has the lion's share in the State's own tax revenue of Andhra Pradesh. The contribution of revenue from Sales tax to the State's own tax revenue has been continuously increased from 48 per cent in 1980-81 to 71 per cent in 1996-97. The plan wise analysis also shows that the contribution of revenue from Sales tax to the State's own tax revenue has continuously increased from 51 per cent in the Sixth plan to 52, 54 and 66 per cent respectively during Seventh plan, Annual plans period and the Eighth plan of Andhra Pradesh.

State Excise Duties is the second largest contributor to the State's own tax revenue of Andhra Pradesh up to the introduction of prohibition on the sale of Arrack in 1993-94. The percentage contribution of State Excise Duties to the State's own tax revenue was fluctuated between 26 and 30 during the period from 1980-81 to 1992-93, while it has been declined continuously and reached the lowest ebb of one per cent in 1996-97. The plan wise analysis indicates that the contribution of State Excise
Duties to the State's own tax revenue has been declined continuously from 29 per cent in the Sixth plan to 28, 27 and 11 per cent respectively in the Seventh plan, two Annual plans period and the Eighth plan of Andhra Pradesh.

The contribution of taxes on Vehicles to the State's own tax revenue has been fluctuating between six and 11 per cent during the period of study.

The contribution of Stamps and Registration Fee to the State's own tax revenue has been fluctuating between four and nine per cent during the period of study.

The contribution of Land revenue to the State's own taxes has declined from three per cent in the Sixth plan to one per cent in the remaining plans of the study period.

The contribution of Entertainment tax to the State's own tax revenue also declined from four per cent in the Sixth plan to three per cent in the Seventh plan and further to one per cent in the Eighth plan of Andhra Pradesh.

The contribution of Taxes and Duties on Electricity to the State's own tax revenue was less than one per cent in the Sixth plan and it fluctuated between one and two per cent in the remaining plans of the study period.

Profession tax was introduced in 1987-88 and its contribution to State's own tax revenue was less than one per cent in the Seventh plan and around one per cent in the Annual plans and the Eighth plan of Andhra Pradesh.
These trends in the individual taxes indicate that the higher growth in the contribution of the Sales Tax was unable to improve the contribution of State's own tax revenue to the State Budgetary resources for financing of the State plans mainly due to the higher short fall in the contribution of State Excise Duties after the introduction of prohibition on the sale of arrack.

The Buoyancy and Elasticity coefficients of different taxes indicates the responsiveness of tax revenue to the State income of Andhra Pradesh. Taxes and Duties on Electricity, Stamps and Registration Fee, Sales Tax and Profession Tax have the Buoyancy coefficients of more than one and the remaining taxes have the Buoyancy coefficients of less than one during the period of study. However, in the case of Elasticity, Taxes and duties on Electricity and Profession Tax are the only taxes whose Elasticity coefficients more than one and the remaining taxes have elasticity coefficients less than one. Further, the difference between the buoyancy coefficient and the Elasticity coefficient is positive in the case of all individual taxes except State Excise Duties, which has the negative difference. This indicates that all the taxes yielded additional revenue during period of study, but State Excise duties have unable to yield any additional revenue during the period of study. It is, therefore, clear that the majority of taxes imposed by the Government are not responsive to the State income and hence they are called inelastic sources of tax revenue to the Government of Andhra Pradesh.

The tax effort analysis shows that the Tax Effort Index of Andhra Pradesh was 1.12 during 1980-83, but it came down to 0.90 during 1990-93. The relative rank of Tax effort of Andhra Pradesh among the major 15 States of India, was Fifth during 1980-83, but it came down to Eleventh during
1990-93. This indicates that the Government of Andhra Pradesh could not tap the tax potentialities to raise the needed revenue.

An examination of the efforts of the Government of Andhra Pradesh to mobilise additional resources through taxation revealed the reasons for decline in the Tax Effort Index of Andhra Pradesh.

Mobilisation of Additional Resources indicate the magnitude of the conscious efforts made by the Government to finance its development plans. The Government of Andhra Pradesh revised the rates of different taxes and changed the system of tax administration many times during the period of study. The Government of Andhra Pradesh also revised the rates of Bus Fares and Electricity Tariff respectively through APSRTC and APSEB for Mobilisation of Additional Resources during the period of study.

The Government of Andhra Pradesh mobilised additional resources to the extent of Rs. 731 crores against the estimate of Rs. 532 crores; Rs. 2311 crores against the estimate of Rs. 700 crores; Rs. 789 crores against the estimate of Rs. 649 crores and Rs. 6126 crores against the estimate of Rs. 4061 crores respectively during the Sixth plan, Seventh plan, Annual plans period and the Eighth plan of Andhra Pradesh. These figures indicate that the actuals of Additional Resource Mobilisation exceeded the estimates in all the plan periods of the present study. Therefore, it can be said that the Government has made sufficient efforts for the mobilisation of additional resources and exceeded the set targets fixed by the Planning Commission of India during all plan periods of the present study.

The Mobilisation of Additional Resources has four components; Additional revenue from taxation, Additional non-tax revenue, Additional
contribution of APSRTC and Additional contribution of APSEB. The contribution of Additional revenue from taxation to the total additional resource mobilisation was 28 per cent in the Sixth plan, 53 per cent in the Seventh plan, Four per cent in the two Annual plans period and 36 per cent in the Eighth plan of Andhra Pradesh.

The contribution of Additional non-tax revenue to the total additional resource mobilisation was four per cent in the Sixth plan and there was no Additional non-tax revenue during the remaining plan periods of the study.

The additional contribution made by the APSRTC through the revision of Bus Fares (and Fuel surcharge in the Sixth plan) to the total additional resource mobilisation was 41 per cent (of which 11 per cent due to revision of fuel surcharge) in the Sixth plan, 15 per cent in the Seventh plan, 42 per cent in the two Annual plans period and 23 per cent in the Eighth plan of Andhra Pradesh.

Similarly, the additional contribution made by the APSEB through revision of Electricity tariff to the total additional resource mobilisation was 27 per cent in the Sixth plan, 32 per cent in the Seventh plan, 54 per cent in the Annual plans period and 41 per cent in the Eighth plan of Andhra Pradesh.

These figures show that the contribution of additional revenue from taxation was less than the additional contribution of the Public Enterprises of the State in all the plan periods of the study except in the Seventh plan period. It is, therefore, necessary to observe the proceeds of the additional taxation measures to know the factors responsible for lower contribution of additional taxation in Andhra Pradesh.
Sales tax is the major contributor to the revenue from additional taxation in Andhra Pradesh during all plan periods of the present study. The Government of Andhra Pradesh changed the system of Sales tax from Multipoint levy to single point levy in a phased manner and reduced the number of tax rates from 16 in 1980 to 12 in 1997. The lowest rate of tax was increased from 0.5 per cent in 1980 to one per cent in 1997, but the highest rate of tax was brought down to 25 per cent from 50 per cent during the same period. The Government of Andhra Pradesh made efforts for additional resource mobilisation through Sales tax in 11 years during the period of study. All these efforts have resulted in additional contribution in the total Additional taxation to the extent of 88 per cent in the Sixth plan, 52 per cent in the Seventh plan and 55 per cent in the Eighth plan of Andhra Pradesh. Therefore, it is clear that the Government of Andhra Pradesh depended heavily on Sales tax for additional resource mobilisation during the period of study.

Taxes on Vehicles is the other important source of additional taxation in Andhra Pradesh. The Government of Andhra Pradesh revised the rates of Tax on Vehicles, introduced the system of "Life Tax" on personalised vehicles and revised the licence fee on vehicles in seven years during the period of study. These additional resource mobilisation measures in Taxes on Vehicles have resulted in additional revenue in the total additional taxation to the extent of eight per cent in the Sixth plan, nine per cent in the Seventh plan and 26 per cent in the Eighth plan of Andhra Pradesh.

The Government of Andhra Pradesh has revised the market values of lands and buildings which enhance the amount of Stamps and Registration Fee in four years during the period of study. The additional contribution from this item to the total additional taxation was seven per cent
in the Seventh plan, 100 per cent in the two Annual plans period and nine per cent in the Eighth plan of Andhra Pradesh.

The Government of Andhra Pradesh revised the rates of State Excise duties in 1985-86 and 1988-89 during the Seventh plan period and these measures contributed 21 per cent of the total additional tax revenue in the Seventh plan. However, the Government of Andhra Pradesh introduced prohibition on the sale of arrack in 1993, which resulted in a loss of revenue to the extent of Rs. 353 crores in 1993-94 and to the extent of Rs. 800 crores for each year thereafter and became the major source for negative Balance from Current Revenue during the Eighth plan of Andhra Pradesh.

The Additional Resource Mobilisation efforts made by the Government through Land revenue, Entertainment tax, Taxes and Duties on Electricity and Profession tax have not yielded sufficient additional revenue to the Government.

The contribution of Land revenue to the additional taxation was only two per cent, in the Seventh and Eighth plans of Andhra Pradesh.

The contribution of Entertainment tax was only four per cent in the Sixth plan of Andhra Pradesh.

The contribution of Taxes and Duties on Electricity was only three per cent in the Seventh and Eighth plans of Andhra Pradesh.

The contribution of Profession tax was only five per cent in the Seventh plan and only two per cent in the Eighth plan of Andhra Pradesh.

The above trends in the State Budgetary Resources and Additional Resource Mobilisation by the State Government and State Public Enterprises have revealed the following results:
1. The Balance from Current Revenue including additional taxation contributed (to the Aggregate resources of the plan) 26 per cent in the Sixth plan, 27 per cent in the Seventh plan, eight per cent in the Annual plans period and its contribution became negative at three per cent in the Eighth plan;

2. The contribution of APSRTC including additional contribution to the Aggregate resources of the plan was only four per cent in the sixth and seventh plans, six per cent in the Annual plans period and five per cent in the Eighth plan; and

3. The contribution of APSEB including additional contribution to the Aggregate resources of the plan was eight per cent in the Sixth plan, five per cent in the Seventh plan and also in the Annual plans period and its contribution became negative at eight per cent in the Eighth plan of Andhra Pradesh.

Therefore, it can be concluded that the Government of Andhra Pradesh has been depending more on the Central Assistance for financing its Five Year plans, owing to the negative contributions made by the balance from Current Revenue and the contribution of State Public Enterprises even including the Additional Resource Mobilisation.

The Central Assistance for State plan schemes increased from Rs. 288 crores in 1980-81 to Rs. 1366 crores in 1996-97. Among the two components, the loans from the Centre increased from Rs.156 crores in 1980-81 to Rs. 956 crores in 1996-97 and the Grants from the Centre increased from Rs. 72 crores in 1980-81 to Rs. 410 crores in 1996-97. The contribution of the Central Assistance to the financing of the plan expenditure has increased from 44 per cent in 1980-81 to 85 per cent in 1996-97. Of this, the contribution of Grants from the Centre to the Plan expenditure increased from 14 per cent in 1980-81 to 25 per cent in 1996-97 and the contribution of loans from the Centre to the Plan expenditure increased from 30 per cent in 1980-81 to 60 per cent in 1996-97.
The plan wise analysis shows that the contribution of the Central Assistance to Plan expenditure was 35 per cent in the Sixth plan, 31 per cent in the Seventh plan, 40 per cent in the Annual plans period and 52 per cent in the Eighth plan of Andhra Pradesh. Of this, the contribution of Grants from the Centre was 11, 9, 12 and 16 per cent respectively in the Sixth plan, Seventh plan, Annual plans period and the Eighth plan and the contribution of loans from the Centre was 24, 22, 28 and 36 per cent respectively in the Sixth plan, Seventh plan, Annual plans period and the Eighth plan of Andhra Pradesh.

These figures indicate that the contribution of the Central Assistance for State plans, both in the form of Grants and loans, has been higher during 1990's than during 1980's.

External Assistance in the form of the Additional Central Assistance for externally aided projects has been playing an important role in financing the State plans of Andhra Pradesh. The Central Assistance, thus, has two components; Assistance for Normal plan projects and Assistance for externally aided projects. The Assistance for Normal plan projects increased from Rs. 200 crores in 1980-81 to Rs. 780 crores in 1996-97 and the Assistance for Externally aided projects increased from Rs. 28 crores in 1980-81 to Rs. 586 crores in 1996-97. The annual compound growth rate of Assistance for externally aided projects (32 per cent) was higher than that of Assistance for Normal plan projects (10 per cent) during the period of study. The contribution of the Assistance for Normal plan projects to the total Central Assistance has declined from 88 per cent in 1980-81 to 57 per cent in 1996-97 and that of the Assistance for Externally aided projects has increased from 12 per cent in 1980-81 to 43 per cent in
1996-97. It is, therefore, obvious that there is a clear shift from the Assistance for Normal plan projects to the Assistance for Externally aided projects during the period of study.

The plan wise analysis shows that the contribution of the Assistance for normal plan projects to the total Central Assistance was 91 per cent in the Sixth plan, 94 per cent in the Seventh plan, 72 per cent in the annual plans period and 53 per cent in the Eighth plan of Andhra Pradesh. On the other hand, the contribution of the Assistance for Externally aided projects to the total Central Assistance was nine per cent in the Sixth plan, six per cent in the Seventh plan, 28 per cent in the Annual plans period and 47 per cent in the Eighth plan of Andhra Pradesh. These trends indicate that the importance of the Assistance for Externally aided projects has been increased during 1990s and this is due to the liberalisation policy of Additional Central Assistance.

Since 70 per cent of the Central Assistance was provided by the Central Government to the State in the form of loans, it is better called as the Central loans to the State. The loans from the Central Government are also of two types; the Loans for Normal plan projects and the loans for Externally aided projects. The loans from the Central Government for Normal plan projects increased from Rs. 136 crores in 1980-81 to Rs. 546 crores in 1996-97 and the loans from the Central Government for Externally aided projects increased from Rs. 20 crores in 1980-81 to Rs. 410 crores in 1996-97. The growth rate of the Loans for Externally aided projects (32 per cent) was higher than that of loans for Normal plan projects (10 per cent). This indicates that there is a clear shift in the importance from loans for normal plan projects to the loans for Externally aided projects.
Since the Central Assistance for Externally aided projects is linked to the pre-identified and mutually agreed investments in plan projects, it is nothing but State Government's borrowing from the External Agencies outside the Country. The Central Government played the role of a middleman in between the Foreign Funding Agencies and the Government of Andhra Pradesh for facilitating the transfer of funds from the External Agencies to Andhra Pradesh. Therefore, this trend of alarming growth in the External borrowings is dangerous for the State Government, because the State has yet to reap the fruits of investments in plan projects. If, for any reason, the loans are not forthcoming, the State's capacity to plan for development will be nil. As this tendency of loan seeking grows, the clout of the External Funding Agencies in the State increases and starts dictating the policies for development.

An examination of the financial burden of the Central loans on the State also indicates that the debt servicing of the Central loans has increased at a faster rate than that of the fresh loans from the Central Government. The proportion of debt servicing of the Central loans to the fresh loans from the Central Government increased from 58 per cent in 1980-81 to 119 per cent in 1996-97. This indicates that the fresh loans from the Central Government are not sufficient to meet even the debt servicing obligation of the State Government. In other words, it can be said in the context of loans from the Central Government, the Government of Andhra Pradesh fell into the “Debt Trap”.

Therefore, the following suggestions have been made to the Government of Andhra Pradesh to improve its resource mobilisation capacity from its own sources of revenue and to reduce its dependence on the Central Government and External Agencies for obtaining finance.
1. The correction of deficiencies in the tax system and improvement in its resource mobilisation capacity, calls for the basic reform in the structure of tax rates and in the system of tax administration. The following are some of the suggestions for tax reform of Andhra Pradesh.

   a. Different forms of levies relating to Sales tax should be consolidated into one single form of Sales tax and the number of basic rates should be reduced to four or five from the present 12 basic rates for different categories of goods;

   b. In the case of commodities relating to inter-State trade, the tax rates should be kept on par with the rates in the neighbouring States so that revenue loss from Sales tax can be prevented;

   c. Evasion of Sales tax is normally attributed to the corrupt practices adopted by the dealers as well as the administrators. Therefore, both dealers and administrative staff, who involved in corrupt practices should be dealt with heavy penalty and punishments to control tax evasion;

   d. Introduction of Value Added Tax (VAT) system offers the advantages of simplicity, minimisation of evasion, revenue productivity and incentives for capital investment and exports;

   e. State Excise duty on Toddy seems to hold a substantial tax potential, which the State Government could have profitably exploited, if the Government had effectively eliminated the bogus toddy tapper Cooperative Societies and raise the rates of Excise duty on different types of trees, at least twice that of the present rates;
f. The Government may improve the revenue from taxes on vehicles by gearing up the administrative machinery through suitable incentives and awards to the honest and efficient field level officials who risked themselves to effectively arrest the tax evasion;

The Government may improve the revenue from Stamps and Registration Fee by raising the rates of Stamp duty to the extent of 50 to 100 per cent on the instruments such as acknowledgement, affidavit, agreement, power of attorney, articles of Association, advocate entry, notarial act, trust etc. and by reducing the role of Document writers and Stamp vendors, who act as intermediaries between the public and Registration Officers, and work to reduce the payment of proper Stamp duty, through the publication of the Standardised format of different documents and the Market values of the lands and buildings;

h. The Government may further improve the Land Revenue by levying Surcharge of 10 per cent on the land used for the production of commercial crops and doubling or trebling of the water rates in view of the higher increase in the prices of commercial crops;

The Government should take all the owners of Cable TV operators into the fold of exhibitors of Entertainment programmes and levy a lumpsum amount of Rs. 10 to 25 per month on each Cable TV connection provided to the
households in order to improve the revenue potentially of the Entertainment tax;

j. The Government may increase the number of licences to firms for the production and supply of Electricity and enhance the Electricity Duty on the sale of energy to mobilise more revenue from Taxes and Duties on Electricity; and

k. The Government may revise the rates of Profession tax on par with the revision of pay scales of the employees of the Government to improve its revenue potentially.

2. In order to control the growth of non-plan non-developmental expenditure the following economy measures have been suggested:

a. The Government should fix a ceiling on the Telephone bills of the Ministers and the Secretaries and collect the excess amount of telephone bill from the concerned Ministers and Secretaries without fail. STD facility to telephones of the officers other than those of Ministers and Secretaries should not be made available;

b. The Government may observe economy in expenditure in holding conferences, seminars, meeting and ceremonial functions organized by the Government Departments;

c. All the Government departments were asked to identify the surplus staff and such surplus staff have to be adjusted against the existing vacancies in the Departments. The recruitment of fresh staff should be proposed only after exhausting all such possibilities;
d. The expenditure on tours of the officials in the jurisdiction or outside the jurisdiction should be limited to the barest minimum and under no circumstances the additional provision is allowed towards the Travelling allowance; and

e. The Government may fix the maximum ceiling on the consumption of petrol or diesel per Government vehicle per month in order to reduce the maintenance expenditure on Government vehicles.

3. In order to contain the ever increasing losses from the Public Sector enterprises the following suggestions have been made.

a. The APSEB should take suitable measures to control the distribution losses through unauthorised connections and theft of Electricity;

b. The field level officials of APSEB should work honestly and efficiently in order to control the theft of Electricity and for this the APSEB should provide suitable incentives and awards to the honest and efficient field level officials;

c. The distribution of electricity should be made effectively and unauthorised connections should be converted into authorised connections with immediate effect;

d. The APSRTC may minimise the probable losses that may occur to it by way of not plying buses as and when the agitations takes a violent turn as the buses are the immediate targets of the agitators. Many buses were burnt in the recent communal riots in the State capital of Hyderabad. This entailed a huge
loss to the Corporation. Care may be exercised by the Depot Managers concerned to check the recurrence of such events; and

e. The authorities of APSRTC with the assistance of the Road Transport officers concerned in each district, may try to restrict the private bus owners not to run their private vehicles for carrying the passengers in the routes not allotted to them, as this would rob away the revenue due to the Corporation.

It is felt that if the Government considers and incorporates the above mentioned suggestions in its policy implementation, there would be a substantial improvement in its Balance from the Current Revenue, which considerably reduces the debt burden on the State of Andhra Pradesh.