



# **INDUSTRY, INFRASTRUCTURE AND EMPLOYMENT**

## **WHITE PAPER**

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HYDERABAD**

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# I. Industry

## 1. Introduction

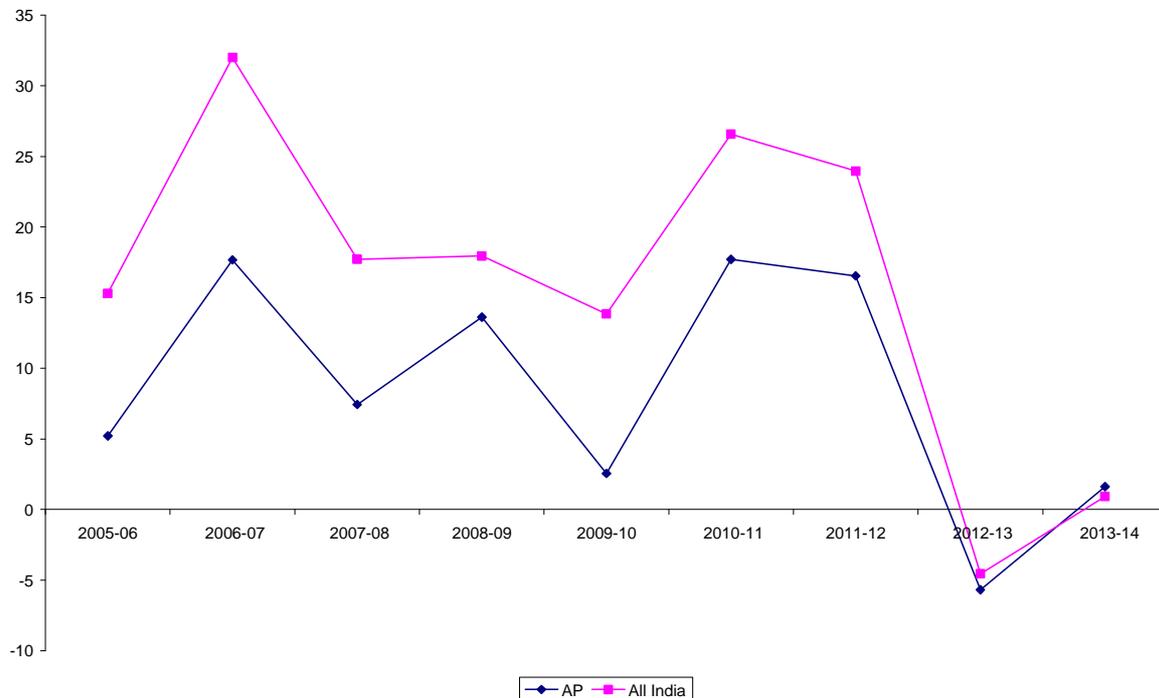
Andhra Pradesh was predominantly an agrarian economy till the early 90s. Over a period of time, the State moved gradually to become a service oriented economy with small incremental growth in the industry sector. About 15 years ago, the Vision-2020 document envisioned *Industry* as an important engine to propel growth and provide employment. The State achieved significant improvement in the service sector during the late nineties and the early years of the current century.

### Andhra Pradesh

Sector	% contribution to GSDP					
	1963-64	1973-74	1983-84	1993-94	2003-04	2013-14
<b>Agriculture</b>						
India	43.24	39.54	34.97	28.24	20.33	13.94
AP	61.21	54.23	45.22	33.20	25.96	19.04
<b>Industry</b>						
India	22.74	23.99	25.86	26.73	27.22	26.13
AP	11.61	15.28	17.32	22.37	24.11	23.61
<b>Services</b>						
India	34.01	36.48	39.18	45.03	52.44	59.93
AP	25.34	29.00	36.44	44.01	49.92	57.34

The manufacturing sector is crucial for employment generation and for development of any nation. Historically, the development process witnessed a trend of people shifting from farm to non-farm sector such as manufacturing or services. From the above tables it is clear that since independence agriculture contribution has continued to decline both at the state and national level. During the period 1993-94 to 2003-04 industrial contribution rose marginally at national level by 0.87% while it rose more substantially in AP by 1.74 % despite the lack of industrial culture in the state prior to 1995. However, subsequently from 2003-04 to 2013-14 the state could not consolidate the gains made earlier and in fact lost momentum despite the golden opportunity presented by a vibrant economy and buoyant revenues. As a result the industry sector in the state decelerated and its share fell from 24.11% to 23.61%. In

Andhra Pradesh the growth of manufacturing sector was consistently below the national average from 2005-2013 as indicated below:



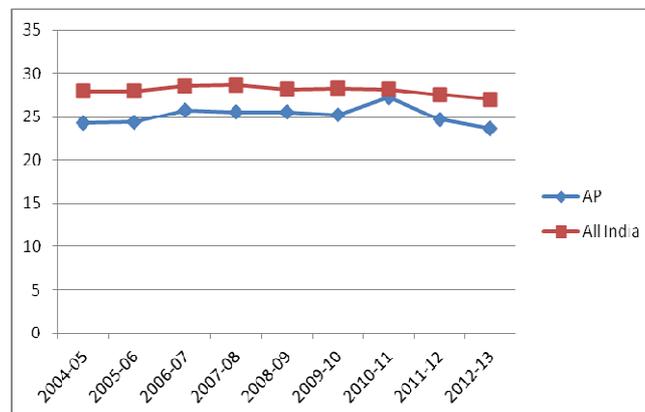
The objective of this white paper is to understand and assess correctly, the impact of misgovernance, corruption and inefficiency in the implementation of policies and programs in the state for promoting industrialization in the past one decade. The impact of prolonged separatist agitations, delay in decision making and the unscientific method of bifurcation of the State has also been examined. This paper also briefly discusses the proposed measures which can remedy the situation and quickly put Andhra Pradesh on the growth path towards industrialization.

The year 1991 was a significant year in modern India’s economic history as it ushered in economic reforms. Similarly the year 1995 was the beginning of a new era for transforming Andhra Pradesh into a modern economy. The state focussed on key growth engines identified by reputed experts with global knowledge and understanding. These growth engines included industry, infrastructure, horticulture, tourism, IT, services to name a few. A dynamic ecosystem that has certain key features like good policy which is transparent, good governance systems, supportive technological institutions and above all a committed and visionary leadership were crucial ingredients in this process. As a result, the State was able to make rapid

strides in various sectors despite certain adversities like a series of droughts during this period. This is evident from the tremendous buoyancy of the state tax revenues which enabled the subsequent Government to reap these benefits. Logically, had the State taken the right steps to carry forward the development process, it would have been better placed than some of the leading states in the country today.

Andhra Pradesh came up with two five year industrial policies during the decade 2005-15 to provide impetus to industrial growth. However, despite the fact that industrial policies are put in place, a study of the growth pattern of the Industry sector, especially the manufacturing sector, reveals that the necessary enabling environment that propels growth and thereby generates employment was missing during the last decade vis-à-vis the envisaged objectives. The present paper attempts to critically examine all the related issues.

The state witnessed lower level industrial development with a lower share of Industry in the GDP as compared with all India average. The following graph illustrates that fact and, more significantly it indicates a stagnant share of industry contribution to GDP with a decline from 2011-12 onwards.



Rapid industrial growth generates considerable employment opportunities. Employment generation in the state stagnated due to less growth in manufacturing sector. As on 31-3-2005, Andhra Pradesh had created employment to 9,72,634 persons while Gujarat was able to create employment for only 8,87,511 persons. The scenario in 2011-12 indicates a change of fortunes and Gujarat had clearly overtaken AP in employment generation. AP created employment for 13,62,788 persons while Gujarat created jobs for 13,83,770 people despite being a much

smaller state ( both in population and area) than undivided AP. (Source ASI data). This is a clear proof that the state had lost the competitive edge it had earlier.

## **2. Sickness and closure of MSMEs**

While the Industrial Policy intended to lay special focus on Micro, Small and Medium Enterprises (MSMEs), inadequate government support coupled with poorly managed power situation led to closure of a number of MSMEs, leaving many jobless.

Unscheduled and excessive power cuts in the state during the years 2010-12 resulted in an estimated production loss of about Rs 257 crores per day, besides driving some of the companies sick, thereby leading to job losses. The Industrial Associations in the state expressed serious concern about the power crisis which meant power cuts of 50% with 15-day power holiday in a month. 28 industrial estates in and around the capital and several small-scale industries across the state were worst hit as they had no option but to shut down. The Bulk Drug Manufacturing Industry which employs about half a million people and contributes Rs 40,000 crore turn over annually faced the most serious problems due to the power cuts. According to the 4<sup>th</sup> All India Census (latest) of MSME sector conducted by Government of India, 30.64% of the MSMEs in the State got closed permanently. AP has about 1.94 lakh MSMEs of which about 64,000 units have closed in the 5 years period. The value of non-performing assets was Rs 12000 crores, production loss was Rs 6500 crores and about 2,30,000 persons lost employment.

## **3. Failure in grant of incentives**

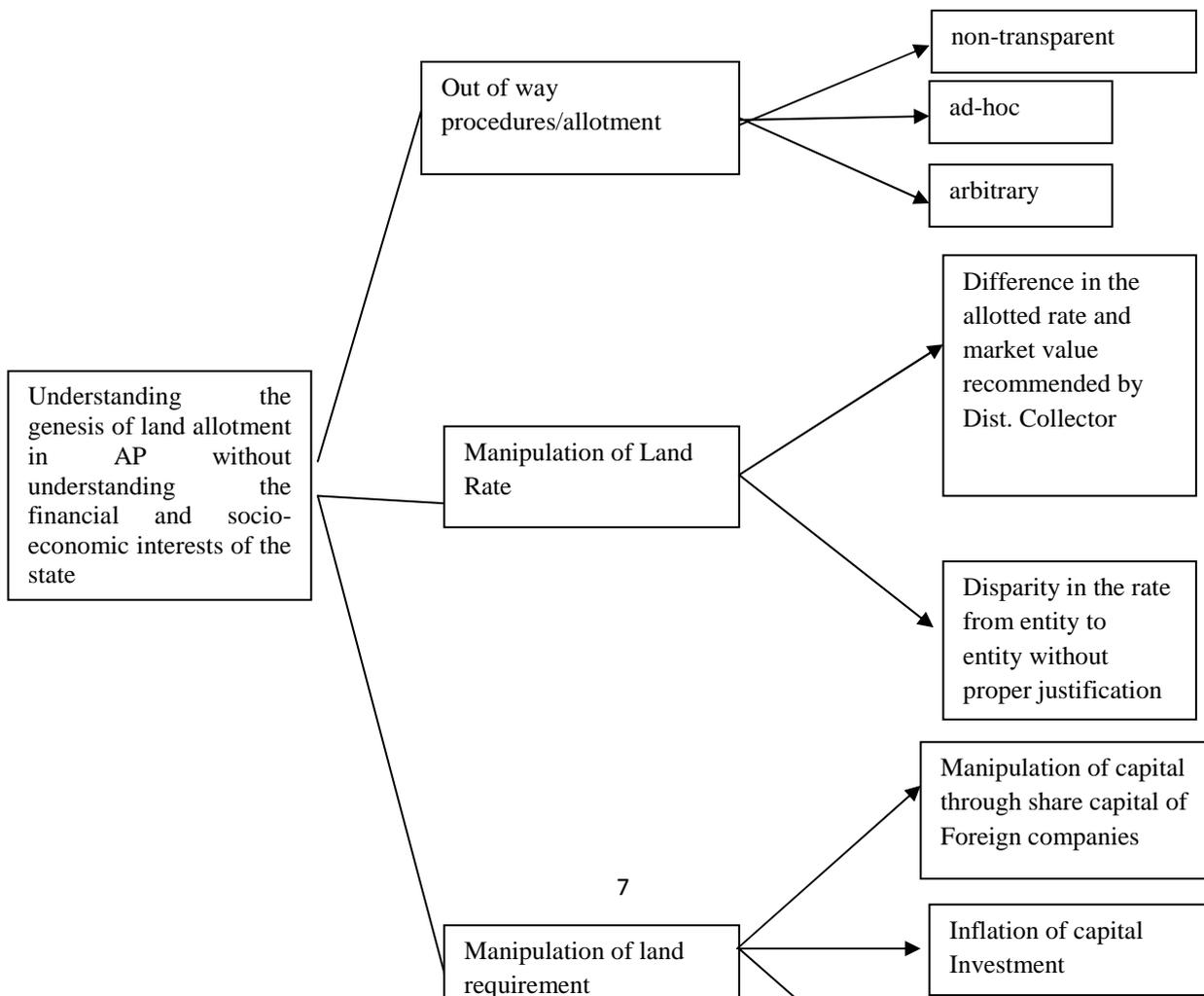
While the policy envisaged payment of Rs 0.75 to Rs 1.00 subsidy per unit of power to newly set up industries, inadequate budgetary releases led to loss of credibility of AP as an attractive investment destination. Several entrepreneurs could not utilise various incentives announced such as investment subsidy, reimbursement of VAT, reimbursement of Power charges etc. Inordinate delay of 2-3 years on an average was noticed in releasing incentives. This has impacted several projects which did their financial calculations based on the incentives expected from the Government. The industrial incentives budget allocated during the decade 2004-14 was Rs 1,849.50 crores as against which the actual releases were only Rs 1,202.45 crores.

The fact that, as of now a total outstanding amount of Rs 1,200 crores is due to various investors who completed their projects is a testimony to the failure in creating an enabling business environment. There were a number of prestigious projects which were established like RAK Ceramics, Brandix, MAS and Apache Footwear which have not been able to expand their business and are still awaiting a better and enabling environment.

#### 4. Lack of a rational Land Allotment Policy

Instead of using land as an important resource for promoting industrialization, the Government during this period, especially, 2004-09, indulged in irrational and arbitrary allotment with a motive to benefit certain persons on a quid-pro-quo basis. This irregular allotment was on an unprecedented scale involving more than 2.00 lakh acres of land. The Comptroller and Auditor General of India in their Audit Report has pointed out, several irregularities relating to allotment of land by the state Government during 2006-11. The CAG report, which examined certain important cases revealed that the Government alienated/ allotted 88,492 acres of land to 1,027 beneficiaries, which was characterized by several irregularities. These are summarized below.

#### Varied Nature of Irregularities in land allotment



Some of the major irregularities noticed in land allotments included the following:

1. 10,760 acres of land was allotted in Jammalamadugu Mandal to Brahmani Industries Limited for establishing a green field Integrated Steel Plant. This involved illegal alienation of 675 acres of water bodies and allocation of 2 TMC of water from Gandikota Reservoir, without environmental clearance or independent examination of the Project Report.
2. APIIC irregularly executed a sale deed for 8,844 acres in Anantapur district in favour of Lepakshi Knowledge Hub Ltd. (LKH). This was even before creation of infrastructure by the developer. LKH did not establish any industry nor create any employment, but mortgaged 4,397 acres of allotted land for obtaining loans of Rs 790 crore from the banks.
3. The process of agreement with VANPIC and alienation of land lacked legitimacy and transparency. As the terms of agreement were loaded heavily in favour of VANPIC without leaving any elbow room to the Government to amend the provisions of the agreement, it had serious financial and legal implications for the government.
4. APIIC entered into an arrangement with K Raheja IT Park Pvt Ltd. (KRITPL), the terms of which, enabled the latter to sell/ mortgage Government land of 110 acres, apart from exposing Government to financial risk.
5. Government allotted 535 acres of land in Ranga Reddy district to Emaar Properties PJSC, Dubai through APIIC for establishing an 'Integrated project with international standard Convention Centre, a Star hotel, Golf course and Multi-use developmental Township'. However, the SPV set up in terms of the MOU with Emaar re-assigned the rights of development of the project to its sister concerns. This process diluted the financial stake of APIIC/ Government without its consent and diluted its control over a developmental initiative in which it had invested substantial equity.

**Source : CAG 2006-11 Report**

In fact, the land allotment policy remained arbitrary till September, 2012. This eventually resulted in major scams and damaged the investment climate in the state. This also led to a number of complications like court cases, CBI enquiries etc.

Similarly, the Government made no efforts to engage the land losers in a healthy dialogue while doing land acquisition which would have created confidence in them and enabled a more positive environment for setting up industries. Most of the public hearings of major projects become a law and order problem. Some such cases include: Nuclear power plant at Srikakulam, Chemical Plant in Kakinada, Leather Project in Nellore, Nuclear Power Plant equipment project in Visakhapatnam, PCPIR at Visakhapatnam etc.

Issue of a new land allotment policy in G.O. Ms. No. 571 Revenue Department dated 14.09.2012, itself marked an indirect acknowledgement of the lapses very late. The Government could have studied the land allotment policies of other progressive states, especially Gujarat. Government did not review the difficulties in acquiring private lands for a long time.

#### **5. Failure of projects under Public Private Partnership**

Several PPP projects remained non-starters such as VANPIC, IT Raheja, at Uppal etc. as they came under the scan of CBI and several irregularities.

#### **6. Failure in attracting Public Sector Investments**

The state could not even attract significant Public Sector investments. No efforts were made to lobby with Central Government to secure projects. Some of the PSU projects which failed to take off include Nuclear Fuel Complex in Kurnool, Uranium Project in Kadapa, BDL, HAL, ECIL in Ananthapuram & Chittoor, HPCL refinery expansion in Visakhapatnam etc.

#### **7. Shifting of Major Investments of the State to other states**

The unfavorable industrial environment also made a number of major investments that came or were to come to the state shift to other states or were dropped outright. These include: Royal Enfield project (Rs 250 crs) in Chittoor, TM tyres (Rs. 510 crs) in Nellore, Seaman's project (Rs. 300 crs) in Visakhapatnam, Brighten Energy (Rs. 2880 crs) in Vizag, Volkswagen AG (Rs 4,500 crs) in Visakhapatnam, Tata Nano car project (Rs 1,400 crs) in Ranga Reddy, a few among others.

## 8. Non-availment of Central Government Funds under various schemes

While the state budgetary allocations/releases were poorly managed, the then Governments were equally ineffective in tapping funds under Government of India schemes such as Assistance to States for Developing Export Infrastructure and other Allied Activities (ASIDE), Industrial Infrastructure Upgradation Scheme (IIUS), Cluster Development Scheme, Food Processing Schemes and other MSME schemes. On the contrary, other states like Gujarat, Maharashtra, Tamil Nadu, Karnataka have drawn more Central Government funds for these schemes during this period as indicated below

Funds released under ASIDE scheme to various States from 2004-05 to 2012-13 are as below

State	Rs crores
Maharashtra	651
Gujarat	483
Tamilnadu	444
Karnataka	387
Andhra Pradesh	215

Source: Department of Commerce, Gol.

Funds released under IIUS scheme to various States since 2003-13 are as below

State	No. of Projects	Funds released Rs crores
Tamil nadu	6	221.95
Gujarat	5	187.74
Maharashtra	5	161.26
Madhya Pradesh	4	89.04
Andhra Pradesh	2	70.44

Source: Department of Industrial Policy & Promotion, GOI.

## **9. Mineral Resources Management**

Andhra Pradesh, especially Coastal region and Rayalaseema are rich in mineral resources. To create large scale benefit for the people the state has to develop a transparent and fair mechanism to enable the private sector to bring the latest technology and huge investments required for their utilization. Unfortunately, lack of transparent procedures and serious irregularities have adversely affected the State.

The CAG scrutinised 409 cases of land allotment in the state for the period 2006-11. His report revealed that the state, in a large number of cases, involving alienation of land, substantial in area or market value or both, had overruled the suggestions/recommendations of established levels of official hierarchy in deciding on the cost at which land was to be alienated. CAG also stated that there was no evidence to elucidate factors that had prompted reduction of value to be charged for the allotted lands despite clear and, mostly consistent, recommendations based on established principles of valuation from administrative echelons below. The use of discretion on a scale, as was evidenced in these cases, was striking as these allotments were made without meeting the standards of transparency and accountability. There was no justification given in specific cases of deviation.

The CAG scrutiny, especially in Anantapur, Ranga Reddy and Kadapa districts, revealed that land was allotted to several private entities in an arbitrary manner through the medium of APIIC, and huge concessions were provided to the detriment of financial interests of the State while the envisaged benefits in terms of industrialization and employment had not accrued. There was only windfall for the investors in land and no gains to the state. There was no value addition to the mineral wealth of the state which could have generated employment to youth and revenue to the state. Many of these entities did not fulfil the conditions of the MOUs/MOAs within the specified period. The government did not keep a vigil on the activities of these entities closely and despite their non-adherence to the stipulated conditions of allotment, Government did not initiate any action to cancel the allotments and resume the land for a land time.

For instance, a CBI enquiry was ordered into the illegal mining activities of Obulapuram Mining Corporation (OMC) in Anantapuram district. The OMC was allotted land lease in preference to the than existing lease applicants on the premise that the lease was meant for captive mining purpose. Accordingly, the State through GOs 151 and 152 dated 18-6-2007 granted mining leases for iron ore over an extent of 108 Ha to this company for establishing Brahmani Steel plants. However, while issuing orders, there was a deliberate omission in mentioning that the mining lease is meant for captive purpose. As a result, the OMC had exported 5.50 million tons of iron ore taking advantage of this omission in the GO. Further, the OMC has violated the Revenue and Forest laws and even disturbed the boundaries fixed by the Survey of India.

Similarly, several irregularities in allotment of mining leases took place during 2004-2009 which had an adverse impact as a result of which the state administration was paralyzed during the next five years from taking any major initiatives in industrialization.

### **Sand Mining**

In Andhra Pradesh, reckless sand mining was allowed in many stretches of the major rivers like Krishna, Godavari, Penna, Tungabhadra and Vamsadhara. The most affected districts were Krishna, Guntur, East Godavari and West Godavari. In 2002, the Government enacted the Water, Land and Tree Act which aimed to protect surface and groundwater resources. But the rules were openly flouted by the sand mafia. The exchequer suffered a huge loss due to illegal sand mining. Random raids by the vigilance and enforcement department on quarries across the state during the last two years revealed evasion of seignorage amount to the tune of nearly Rs 100 crores.

Similarly, limestone deposits were also given in a most brazen manner to Private Companies. For instance a company by name M/s Jaya Minerals was granted Prospecting Licence vide GO No 183 dated 14-7-2006. Later the Government transferred the prospecting license to another company called M/s. Eswar Cements within a few months vide GO No 346 dated 27-12-2006 and even gave mining lease

in January 2008. Subsequently the Government transferred this mining lease once again in less than a year's time to another company called M/s. Dalmia Cement Ltd vide GO no 321 dated 8-12-2008. Thus the Government itself facilitated change of prospecting licenses and mining leases in a brazen manner. CBI enquiries have clearly established all these illegalities.

M/s. APMDC invited expression of interest on 17-3-2005 for establishment of value added industries based on the availability of Heavy Mineral Beach Sands. APMDC Limited entered into MoU with M/s. Bothli Trade AG on 24-8-2006. In April 2014, the Department of Justice, Federal Government of USA unravelled a conspiracy to bribe Government officials in India to mine Titanium minerals and named 6 defendants which includes a Member of Parliament of the then ruling party from the state. On 25-1-2012, APMDC pointed out the violations in this venture and requested Government to initiate the process of cancellation which was not done for a long time.

Be it leases for mining Iron ore for export or mining of limestone for cement plants, most of the mining leases were sanctioned in flagrant violation of norms resulting in scandals, court cases and CBI enquiries which not only led to several political representatives but also industrialists and bureaucrats going to jail seriously vitiating the industrial climate in the state.

## **10. Tourism Sector**

Tourism is one of the growth engines for economic development of a nation. Andhra Pradesh with its rich natural and historic heritage always had the potential to be an important tourist destination. Till 1994, the State never accorded priority to Tourism. VISION 2020 document envisaged Tourism as a Growth Engine with great potential for creating employment for the youth and generating revenue for the State. While an investment of Rs 10 lakhs creates 18 jobs in manufacturing sector, 45 jobs in agriculture sector whereas the tourism and Hospitality sector creates 78 jobs. Hence the Government, very rightly gave emphasis to tourism with a view to harness its multiplier effect on employment, economic growth and poverty alleviation in an environmentally sustainable manner. For first time in the state, incentives such as investment subsidy, sales tax, road tax concession etc. were given to

entrepreneurs. The state also enhanced the budget for tourism and proactively initiated several tourism projects. As a result several important tourism projects like Beach Resorts in Visakhapatnam and Machilipatnam, tourism resorts in Araku, Talakona, Horsely hills, development of Belum Caves, and several other projects were completed. The State was able to develop several religious destinations, conduct several cultural festivals besides improving infrastructure through the Tourism Development Corporation. The key to tourism success in Andhra Pradesh was its sustained marketing efforts and creation of new tourism products.

However, during the next 10 years, the sector got neglected in spite of being a good tourism destination. The important projects like Urban Entertainment Centre at Basheerbagh (Rs 137.52 crores) in Hyderabad, Temples of India Project (Rs 355 crs) at Tirupati have landed up in legal disputes. The average growth of domestic tourists arrival in the state for the period 1999-2003 was 17.78% which declined during the subsequent decade 2004-2014 to 8.75%. Similarly, the average growth of foreign tourists' arrival in the state for the period 1999-2003 is 89.07% whereas the same during 2004-2014 is -3.68%. The tourism sector suffered, recording a CAGR of -8.77% (2005-10) in attracting international tourists.

## **11. IT & ITES INDUSTRY**

The Vision 2020 Document of the Government prepared in 2000 identified IT sector as a prime growth engine to leap-frog socio-economic development of the State. It was envisaged that "Andhra Pradesh will leverage information technology to attain a position of leadership and excellence in the information age and to transform itself into a knowledge society. The State will have a well-endowed information technology industry spanning the areas of hardware, software and human resources"

In the mid-1990s, when the IT boom was just starting, the state capital which had a laid back approach was slowly transformed and the creation of cyberabad made it one of India's premiere information technology and IT-enabled service hubs. The state capital region acquired a reputation as the Silicon Valley of India as a large number of IT firms had set up their operations there. Starting in the 1990s, during this phase, many of the IT MNCs Like Microsoft, Oracle, Dell, Deloitte, HSBC, Computer Associates, Covergy's, Bank of America, CSC, TCS, Infosys, Infotech Enterprises, Satyam, Verizon have initiated their operations in Hyderabad. By 2004,

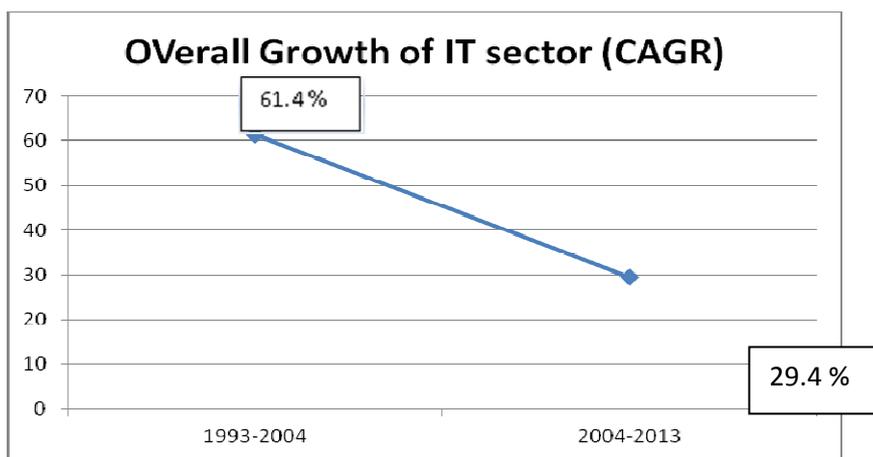
most IT MNCs had their prime offices in the state capital. The overall growth rate from 1997 to 2004 has been a whopping 61.4% CAGR but it fell to 29.4% during 2004-14.

The Government rightly noted the importance of IT sector as it had great potential for creating more indirect employment and in generating tax revenues. The Government, as early as in the year 2000 started the development of IT sector in various parts of the state with the setting up of HSBC center in Visakhapatnam and STPI centers at Vijayawada, Tirupati and Visakhapatnam. Unfortunately these centers were not nurtured further despite their having a huge potential for growth.

The foundation laid in mid 1990s lead to growth of many companies and enabled the companies to start full-fledged operations, generating huge revenues to the state. The IT turnover of the combined State stood at Rs.64,354 crores in 2012-2013, The other important, fruit of this development is creation of 3.30 Lakh jobs directly and nearly one million jobs indirectly.

The 2004 – 2014 phase when globally the IT sector was registering high growth rates, no major company came to the state to set up their units. The growth in revenues was mainly due to the fact that the Pre-2004 companies which had matured by then and had full-fledged operations in place. During 2008-2013 period, barring very few companies like Google, Facebook, the state did not witness major investments in the IT sector.

During 2004 – 2008, when, globally, the IT sector was having high growth rates, Andhra Pradesh witnessed no major IT companies setting up their units. In fact several IT SEZs became real estate ventures particularly in Ranga Reddy district. Contrary to the popular perception that Andhra Pradesh is a major software destination, the IT sector is today lagging behind the power and manufacturing sectors in terms attracting investments to the state, according to a recent study undertaken by Associated Chambers of Commerce and Industry (ASSOCHAM).



## 12. Leather Sector

Andhra Pradesh generates huge quantities of raw material resource which can promote leather sector. AP provides 10% of India's raw material. However, it could tan only 5% of the raw materials due to lack of tanning facilities. The balance 95% of raw material is being transported to other States for value addition. Realising this situation, the government in 2001 had launched 'Malupu' program for promotion of leather sector in the state. Under this scheme, 94 leather parks consisting of 72 Mini, 16 Medium and 6 mega leather parks were proposed covering all the districts. In Phase-I, buildings were constructed for the parks with an amount of Rs. 2.81 crores and footwear machinery was provided to 10 Mini Leather Parks. The objective of the Action Plan was to train leather artisans who were mainly from the Scheduled Castes community to form into Self Help Groups (SHGs) and run the parks. However the Government in subsequent years neglected the leather sector. Even the International Leather Park at Krishnapatnam has not made any progress since 2006. The state could not even provide adequate budget to promote welfare leather artisans.

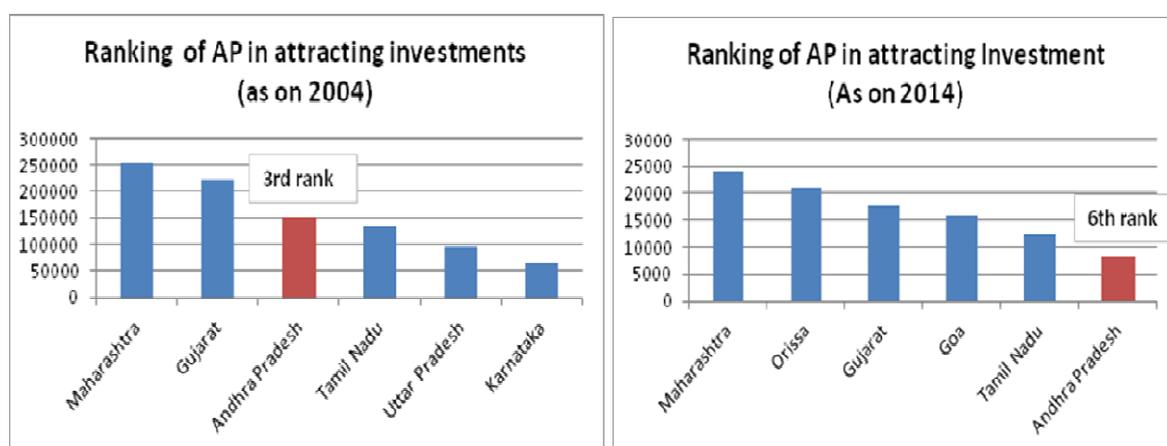
## 13. Cooperative Sugar Factories

In the last one decade, the cooperative sugar factories in the state have incurred heavy losses and cane arrears to the farmers amounting to Rs 150 crore are yet to be paid to the farmers due to inefficiency, lack of concern about the farmers and misgovernance. No efforts have been made despite the tall talk for reviving the cooperative sugar factories in the state by the earlier Governments.

## 14. Marketing of brand Andhra Pradesh

During the period 2004-14, serious efforts have been made by states like Gujarat, Karnataka, Punjab and Haryana to showcase their strengths, highlight the business opportunities to effectively promote the industrialization of their State. These efforts have provided a platform to those states to interact with industry leaders from all over the world. However, the efforts made by AP during this period were negligible. This can be gauged from the fact that the state could organize only one partnership summit in 2012, after a gap of 8 years, whereas Gujarat and Karnataka have organized events regularly besides conducting several road shows within the country and abroad.

In the result, Andhra Pradesh which was in 22<sup>nd</sup> position during 1995 it rose to 3<sup>rd</sup> rank in 2004 among all Indian states in attracting industrial investments. However, during the next 10 years period, AP slipped to 6<sup>th</sup> position. The graphs below depict the position of industrial in Andhra Pradesh. (source: Department of Industrial Promotion & Policy, GOI)



## II. Infrastructure Development

In the face of a global financial crisis and economic downturn, infrastructure sector plays an important role to counterbalance the slowing economic activity and lower consumption. In India, the infrastructure sector currently accounts for 26.7% of India's industrial output and thus remains a useful tool to balance the economy. Moreover infrastructure is the lifeline of any business activity and proper infrastructure increases business activity manifold. According to ASSOCHAM-Ernst

& Young Report - Infrastructure, including roads, power, highways, airports, ports and railways, have emerged as an asset class with long-term growth. The Report concludes that if government can overcome regulatory procedures, delays in project implementation and several unplanned cost escalations then Infrastructure industry as a whole has a great potential in India. It was precisely these hurdles that the State Government could not overcome during the last decade.

**1. Sea Ports:** AP has 14 notified non major ports. At present cargo is being handled in only four ports viz., Kakinada, Gangavaram, Krishnapatnam and Ravva. The capacity of these ports is 90 Million Tons per annum against which, ports handled only 58.66 Million Tons per annum at present. During the 1994-2004, the State developed the ports at Gangavaram and Kakinada and initiated work on Krishnapatnam. In contrast, no new sea port has come up in the last 10 years. Development of Machilipatnam port has been a nonstarter. Similarly, there was no effort to bring investment for developing a series of minor ports as was done in Gujarat. Even the expansion plans of Visakhapatnam and Kakinada ports were not taken up in the last 10 years. During this period, Gujarat progressed extremely well, established a Maritime Board and encouraged development of a series of private ports. Today, Gujarat has 40 ports which handle nearly 310 million MTs. With a coastline of 972 kms, Andhra Pradesh is an important maritime state on the east coast. A Maritime Board is very much required for the state. Recognizing this necessity a draft AP Maritime Board bill was submitted by M/s. CRISIL Limited in 2005 which was approved by the state cabinet in 2010. But the Bill did not get the approval of the Assembly till date due to the inefficiency of the Government.

Similarly, the LNG terminal at Vizag has not materialized for want of initiative. Establishment of Floating Storage Re-gasification Unit (FSRU) proposed by M/s AP Gas Distribution Company in Kakinada Deepwater Port has also not materialised. As a result, 6000 MW of gas based power plants worth Rs 30,000 crores investment have been lying idle. Had the above projects been completed, there would not have been power shortages, and industrial growth would have received considerable impetus. Similarly, the state had a good opportunity to develop Vodarevu and Nizampatnam ports. The VANPIC project which envisaged this development was ill-conceived and there were several irregularities relating to the allotment of land in

favour of the company leading to an investigation by CBI due to the huge corruption involved in the land deals.

## **2. Airports**

The Government of India prepared a Strategic Plan for Civil Aviation (2010-2015) which envisaged a greater role for the states in the development of airports. The State Government however, could not make use of this opportunity to strengthen airport infrastructure in Coastal and Rayalaseema regions. There was no initiative to modernize Vijayawada airport which is in a primitive condition. Despite Airports Authority of India's (AAI) repeated pleas for allotment of land for modernization of Vijayawada Airport, it was not done by the State.

Tirupati is the most important pilgrimage centre in India. Majority of the tourists who visit Andhra Pradesh invariably proceed to Tirupati. Yet, Tirupati airport has not undergone modernization despite promises. The State could not even enter into a MoU with AAI so far. There has been no effort to set up minor airports at Kakinada, Nellore etc though there is a need and feasibility for these airports. Even though, bifurcation of the state was looming large on the horizon ever since 2009, there was no effort to put in place a strategy to boost airport infrastructure and air connectivity from coastal AP to other parts of the country.

## **3. Roads**

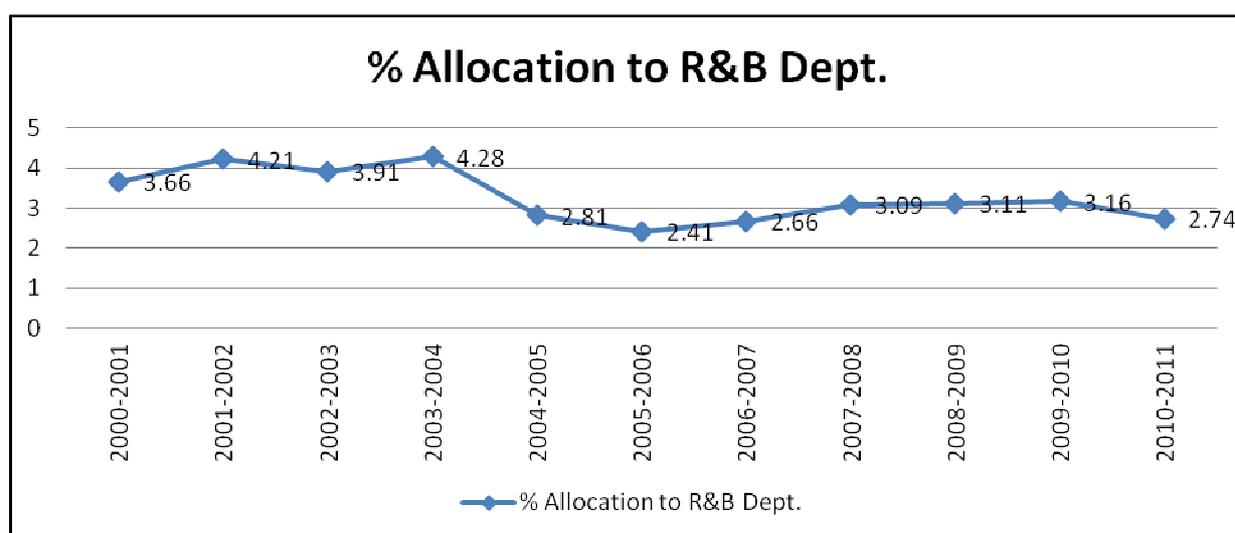
Even in the roads sector there has been no investments in the previous decade at the state level. Whatever improvements were seen, they were due to the efforts of central government in improvement of National Highways, completion of golden quadrilateral project, PMGSY etc. The State did not plan and invest in roads in the industrial corridors. Out of the total 47,202 habitations in the state, 5,528 habitations of different population structures remain unconnected even today. R&B Budget has not been commensurate with proposed connectivity in the last decade. Funds provided to the department were not even sufficient for normal maintenance of the roads.

The following data reflects the status of AP in road infrastructure vis-à-vis the national data.

- Road length per 100 sq Km in AP is 86.52Km (rank 22<sup>nd</sup>). The national average is 115.31 Km
- Road length per lakh population is 281.11 Km in AP (rank 22<sup>nd</sup>). The national average is 313.2 Km
- Registered vehicles per lakh population in AP is 12,035 and (rank 17th). The national average is 11,723.

Source: Ministry of Road Transport and Highways, GOI

The following graph clearly indicates that the percentage of budget for Roads and Buildings Department had gradually reduced 2004-05 onwards. During 2003-04 the percentage of budget was 4.28% and it has been reduced to 2.74% in 2010-11. The gap between the state budget and the budget for R&B department as considerably widened. This situation clearly indicates that the State neglected the road infrastructure.



#### 4. Other Infrastructure Projects

**PCPIR project:** Petroleum Chemical and Petrochemical Investment Region is showcased as one of the prestigious projects that the state secured from GOI as long back as 2008. The PCPIR region was expected to promote huge investments in the petro chemical sector and create huge employment. However, in the past 6 years no investments have come and setting up of a refinery-cum-cracker project which is the main anchor industry for PCPIR region, an LNG terminal at Gangavaram port, a FRSU at Kakinada port have all remained on paper.

**Industrial Water Supply Scheme:** No initiative has been taken up for promotion of industrial water supply schemes during the last 10 years. Despite the potential for growth of industry in water deficit areas like Nellore and Hindupur no industrial water supply schemes were taken up.

## **5. SEZ Projects:**

**Though the** state showed eagerness to get a record 78 SEZs notified in the combined state, the land acquisition / alienation process for SEZs got mired in controversies. Of the 32 SEZs notified in residuary Andhra Pradesh only 16 SEZs have become operational till date. SEZs like IFFCO SEZ, Nellore, Parry SEZ, Kakinada, GMR SEZ, Kakinada, Lepakshi Knowledge Hub SEZ, Anantapuram, White Field Paper SEZ, West Godavari, have all remained non-starters till date. These non operational SEZs alone were expected to bring Rs 15000 crores of investment generating 3.50 lakh jobs directly. What is worse, these SEZs have locked up precious land resource which could have been put to better use by more resourceful and enterprising companies. Even the SEZs which have become operational have not been able to fully utilize the land given to them as evident in cases like Bharatiya leather SEZ and MAS Fabric Park in Nellore district.

Lepakshi Knowledge hub was allotted 8,844 acres of land in Anantapuram district for establishment of a Knowledge based SEZ. Land was handed over and sale deed was also executed. However, they have not started the project till date and on the contrary the company mortgaged the land and obtained a loan of Rs 790 crores which has been diverted for some other projects. This amounts to misuse of public trust and brazen diversion of funds raised from banks for other purposes. The issue was also investigated by CBI.

## **6. Railway Projects:**

Similarly, the State failed to get any big projects during the last decade. No new lines were added nor doubling of existing lines taken up. Even electrification of the existing lines was not taken up. The allocation of funds by the railway ministry is so poor that at the current rate of investment, it would take nearly 40 years to complete the pending projects. The continued neglect of AP by the earlier railway ministries had crippled industrial growth in Andhra Pradesh.

The railway authorities ignored the long pending demands of Seemandhra passengers for doubling of the Guntur-Bibinagar Railway line and merger of

Visakhapatnam Division with the South Central Railway. The State was also not able to lobby effectively for creation of a new zone for Seemandhra region with Vijayawada or Visakhapatnam as a Zonal Head Quarters.

### III. Skill Development and Employment Generation

In a fast changing world, the challenge before any Government is to impart a set of skills to its working population that are constantly relevant to the market. Only a comprehensive strategy to provide employment to all can make this happen. Undivided Andhra Pradesh was the 5<sup>th</sup> most populous State in India with a population of 310 lakhs in the age group of 15-34 years. During the period 1994-2004, the Government took initiative to unleash the potential of the private sector and allowed a good number of engineering colleges to be set up. The State was able to establish a IIIT of international standards and also got an IIT and BITS Pilani. The state also got World Bank funding and under took upgradation of polytechnics and ITIs in all parts of the state and even forged linkages with the industry for greater effectiveness in vocational training.

Subsequently during the period 2004-14, a large number of private engineering colleges were established disregarding the availability of infrastructure in those colleges and especially qualified teaching personnel. As a result though the combined state had more than 700 engineering colleges, many of them are on the verge of closure due to lack of patronage from students. Campus placements also declined gradually in the established colleges while new ones were hardly able to get companies to visit their campuses. Most of the students who are passing out of the private engineering colleges are unable to get employment due to lack of adequate skills and knowledge as NASSCOM studies have shown.

Moreover, due to lack of industry-academia linkage has resulted in poor placements for students. The Government failed to address the mismatch in the ecosystem between opportunities and aspirations where 75% of candidates are from rural areas and more than 75% jobs are located in urban areas.

The state government has conceived Rajiv Yuva Kiranalu (RYK) to develop job specific skills among the unemployed youth and facilitate necessary employment linkages. The mission proposed to facilitate employment of 15 lakh youth in the

private sector by 2014. An exclusive State Level Society called Rajiv Education and Employment Mission in Andhra Pradesh (REEMAP) was registered to coordinate various existing schemes of GOI like SGSY/SJSRYs etc.

Though the Government planned several schemes like REEMAP, MEPMA, EGMM and more prominently the Rajiv Yuva Kiranalu, they could not achieve the desired results for want of effective planning and coordination between various programs and departments. The scheme Rajiv Yuva Kiranalu which was meant for skill development failed to create any impact on employment in the state. While the scheme had set a target of helping 15 lakh youth get employment by 2014 at a cost of Rs 1,700 crores. The actual achievement was only 2.26 lakhs, an achievement of just 14%.

As a result, large amount of funds was wasted. Moreover, there was no strategy or focus to create an ecosystem for innovation and entrepreneurship which alone can generate large scale employment for the youth. The candidates were not mentored and counselled which severely restricted movement of the trained youth to industrial clusters. Simultaneously, as employment opportunities started shrinking in the State, the youth were compelled to migrate to other states in search of jobs.

#### IV. The Way Forward

The bifurcation of Andhra Pradesh has compounded the problems of the residuary State as it is now not only a revenue deficit State but also without adequate industrial base as well as physical, social and educational infrastructure. Hence, the plan of the new Government is to generate large scale employment and wealth for the people, add revenues to the State exchequer by enhancing tax base, create a stable industrial ecosystem for sustainable development and catalyze the agriculture sector by bringing synergy with industry for inclusive growth. For this purpose the state would accord high priority to food processing sector by establishing mega food parks, improving the cold chain, strengthening the agricultural marketing system and the like. The State would adopt a corridor concept for development with emphasis on industrial growth. The Government will implement suitable plans which will significantly impact industrial development like a progressive skill development

strategy, power reforms with emphasis on renewable energy, focus on infrastructure development like setting up of maritime board, developing new seaports, improve national highways further, provide excellent connectivity to Rayalaseema districts to the state capital, development of Vijayawada, Tirupati and Visakhapatnam as international airport as well as setting up of minor airports in places like Nellore, Kakinada, Kurnool, provision of industrial water supply etc. would be given priority.

The Government will also come up with new policies for the industry and infrastructure sector besides several sectoral policies like policy for Textiles, Food Processing, Renewable Energy, Tourism, IT etc. Beyond all this, it is necessary to put a robust mechanism in place which will create a conducive business environment for industry to thrive and promote brand Andhra Pradesh. For all this to happen, the Government will provide good leadership, show vision and commitment, and energize the system to achieve the goals.

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