GOVERNMENT OF ANDHRA PRADESH

WHITE PAPER

ON

THE IMPACT OF STATE REORGANISATION

STATE REORGANISATION DEPARTMENT

17 AUGUST 2014
Introduction

1. The Gazette of India No 6 dated 01 March 2014 notified the Andhra Pradesh Reorganisation Act 2014 (Act 6 of 2014), upon receiving the President of India's assent. The Gazette of India No 560 dated 04 March 2014, notified 02 June 2014, as the Appointed Day, the day on which the State of Andhra Pradesh was bifurcated into the State of Telangana and the residuary State of Andhra Pradesh.

2. Lack of adequate and serious consultations with the key stakeholders, absence of consensus amongst key political parties, lack of transparency and cloak and dagger mode of drafting the Bill, the insane pace with which the Bill was pushed through the State Legislature and the Parliament, woefully inadequate discussion and debate that characterized the passage of the Bill, albeit with notable exceptions, are well known to the world.

3. However, what is not well known to the public include a number of contradictions, omissions, commissions and inadequacies embedded across the Andhra Pradesh Reorganisation Act 2014 that have adverse impact on the health and well being of both successor States. The Act, by its conception and content, has created disequilibrium, with negative consequences to the residuary Andhra Pradesh. In a tearing hurry to please and placate certain sections of the State, the UPA government had inflicted a serious blow to the fiscal health, developmental integrity of Telugu community.

4. For a decade preceding the reorganisation of the State, the Andhra Pradesh citizens were subjected to an endless saga of misgovernance, corruption, lack of development, which were further compounded by endless procession of agitations, strikes, and civil strife, all of which caused a major setback to the growth momentum and poverty alleviation efforts. The overall slowdown in the economy, contraction of job opportunities, high levels of inflation had created a sense of gloom and doom in the minds of Telugu people.
5. The alienation and despondency of the Andhra Pradesh public was reinforced by the manner in which the State was reorganised without consideration for the disastrous economic and financial consequences on the residuary Andhra Pradesh. The UPA II government had failed to foresee the difficulties and deliberately ignored the complications that would befall both the States in the aftermath of reorganisation. No action was taken to prepare and equip the government machinery, let alone the citizens at large, to effectively manage the reorganisation process or mitigate its adverse consequences. Lack of transparency surrounding the reorganisation process and the frenetic pace with which the process was carried out by the then central government had caused serious disenchantment amongst citizens.

6. In this context, this paper seeks to catalogue the defects intrinsic to the Andhra Pradesh Reorganisation Act, identify the trauma inflicted on different sectors of the economy, analyse the disequilibrium created in the residuary Andhra Pradesh and identify measures by which a level playing platform can be created for the residuary State. The intention of this paper is to address the concerns of all citizens whose faith in public institutions has been seriously undermined during the past decade and to instil a sense of optimism, hope and purpose in the future and help alleviate the sense of cynicism and despondency.

**Andhra Pradesh Reorganisation Act 2014 – The Fountainhead of Problems**

7. A careful reading and analysis of the Act reveals that it was the principal source of unfair and unjust treatment to both successor States, with the residuary Andhra Pradesh being the worst sufferer. Some of its provisions are having - and would continue to have - adverse impact in the short-term as well as the medium-term on the residuary Andhra Pradesh. Some have been inserted with a deliberate intention to create friction and conflict between the two successor States and ensure protracted litigation to the detriment of all concerned. Some of the glaring defects and shortcomings of the Act that have a negative impact on the residuary Andhra Pradesh are outlined in the following paragraphs.

A) **Part II & Section 3 – Territorial Area of Andhra Pradesh**
8. Only those villages specified in G.O.Ms. No. 111 of Irrigation & CAD (LA IV R&R-I) Department dated the 27 June 2005 and the revenue villages of Bhurgampadu, Seetharamanagaram and Kondreka in Bhurgampadu Mandal of Khammam district were included in Andhra Pradesh State, along with thirteen districts. This entailed that several villages that would be submerged once the Polavaram multipurpose irrigation project gets completed would remain in Telangana State. This would have resulted in protracted litigation, virtual blockage of Polavaram project, and above all, made the resettlement and rehabilitation of project affected families an impossible task.

9. This calamitous scenario however has been mitigated to some extent, thanks to the action of the new NDA government that amended Section-3 of the Act and included seven Mandals of Khammam district in Andhra Pradesh. Nevertheless, the integration of these villages with the neighbouring districts of Andhra Pradesh and establishment of effective governance institutions would encounter several operational challenges. The misunderstanding and heart burning that has arisen in this context could have been avoided if only the UPA government acted with foresight and exercised due diligence.

B) Section 5 & Section 8: Common Capital & Its Governance

10. The Act has ordained that the Hyderabad city would be the common capital of the successor States of Andhra Pradesh and Telangana for a period of ten years. The Act has empowered the Governor with ‘special responsibility for the security of life, liberty and property of all those who reside in the Greater Hyderabad Municipal Corporation (GHMC) area’. However, it has made it ‘mandatory for the Governor to consult the Council of Ministers of the State of Telangana’ while discharging this responsibility. It is evident that the UPA government had neither created an institutional framework essential for effective governance of the common capital nor put in place standard operating procedures that would provide equitable platform to both State Governments and ensures safety and security of the citizens, and fair and equitable treatment of all concerned. The simple principles of good governance, it appears, were abandoned with an eye on political dividends.
11. It is well known that knowledge, talent, skills, capital, and hard work of all Telugu people and people from across the nation and beyond have contributed to the creation of Brand Hyderabad. The world-class infrastructure, industrial parks, Information Technology and knowledge networks, research and development hubs, international educational institutions, and the dynamic urban megalopolis that Hyderabad has become during the past two decades thanks to the vision, passion and hard work invested in the late 1990s and early years of the last decade, is under the threat of being undone and the Brand Hyderabad is under pressure because the previous government had failed to put in place an effective institutional mechanism and sustain the enabling environment essential for capital city governance.

12. To make matters worse, the State of Andhra Pradesh has not even been assigned a location for its capital city thus far. Instead, an expert committee has been set up by the central government to give its recommendation in six months from the appointed day. Yet another effort to snatch away the authority and the right of the new State to determine its own capital city. To compound the problem, the perambulations of the expert committee to different parts of the residuary State has given rise to contending claims, conflicting pronouncements, speculations, expectations and avoidable disappointment.

C) Section 9: Assistance to Grey Hounds and OCTOPUS

13. Andhra Pradesh has been vulnerable to left wing extremist activity for several decades. Though the left-wing movement has been subdued largely because of the measures taken during the second half of 1990s and first half of the last decade, essentially through intensive training and strategic deployment of Greyhounds and OCTOPUS, it could re-emerge with vengeance if there is any step-down in vigilance and enforcement by the Greyhound and OCTOPUS units. Similarly, the terrorist activity has become ubiquitous and no region or place can be immune from this scourge. Therefore, this provision that envisions three years of common training for Greyhound forces and OCTOPUS could prove to be a disaster for the control and containment of both left wing extremists and terrorist organisations.
D) Part V & VI: Apportionment of Revenues & Expenditure / Assets & Liabilities

14. Section 46 (1) of the Act orders for the distribution of tax devolutions from the centre in accordance with the dictates of the 13th Finance Commission to the combined State of Andhra Pradesh and thereafter apportioned between the two successor States in the population ratio. This entails that residuary Andhra Pradesh would receive above Rs 840 crores less during 2014-15 financial year than if both successor States were allocated central revenues based on the 13th FC formula. This provision has been disadvantageous to the residuary Andhra Pradesh, which has substantial resource gap to finance its expenditure.

15. The provisions of the Act provide for apportionment of assets based on geographical location, while the liabilities are apportioned on population ratio (58.32 per cent Andhra Pradesh; 41.68 per cent Telangana). Considering that all the major assets are located in and around Hyderabad city, Andhra Pradesh has forfeited all major economic assets and inherited huge liability without having the wherewithal to service the debt. Further, the fact the residuary Andhra Pradesh State, by virtue of its location, is vulnerable to serious cyclones, floods, Tsunamis, etc., and therefore would have to incur huge expenditure on relief and rehabilitation several times every year has not been considered, even remotely, while formulating the Act.

16. Section 50 of the Act confers the ‘right to recover arrears of the tax or duty on property, including arrears of land revenue, to the successor State in which the property is situated, and the right to recover arrears of any other tax or duty would belong to the successor State in whose territories the place of assessment of that tax or duty is included on the appointed day’. Considering that Hyderabad was the principal place of assessment for taxes and duties, including that of oil marketing companies and the Beverages Corporation, which together contributed nearly forty five per cent of VAT to the united AP, this provision would deprive the residuary State of its share in tax arrears amounting to hundreds of crores.
17. Section 51 of the Act deals with the principles relating to the recovery of loans and advances made prior to the appointed day, which is as follows:

(1) The right of the existing State of Andhra Pradesh to recover any loans or advances made before the appointed day to any local body, society, agriculturist or other persons in an area within that State shall belong to the successor State in which that area is included on that day.

(2) The right of the existing State of Andhra Pradesh to recover any loans or advances made before the appointed day to any person or institution outside that State shall belong to the State of Andhra Pradesh.

Provided that any sum recovered in respect of any such loan or advance shall be divided between the States of Andhra Pradesh and Telangana on the basis of population ratio.

18. Section 51 of the Act deals with deferment of tax granted as an incentive to the industrial units, usually for a period of fourteen years. In order to enable the industrial units to claim deduction under the Income Tax Act, the deferred tax is deemed to have been paid and offered as interest free loan, repayable in annual installments, after the expiry of the period of 14 years.

19. By applying the Section 51 (1) of the Act, the right to recover the deferred taxes accrues to the State where the industrial unit is located. However, since the deferred tax relates to the transactions effected by the industrial units all over the composite State prior to bifurcation, it is just and equitable that they should be apportioned between the two successor States in the ratio of population

20. Section 56 of Andhra Pradesh Reorganisation Act 2014 provides for refund of taxes collected in excess, which is as follows:

(1) The Liability of the existing State of Andhra Pradesh to refund any tax or duty on property, including land revenue, collected in excess shall be the liability of the successor State in whose territories the property is situated, and the liability of the existing State of Andhra Pradesh to refund any other tax or duty collected in excess shall be apportioned between the
Successor States of Andhra Pradesh and Telangana on the Basis of Population ratio and the State discharging the liability shall be entitled to receive from the other State its share of the liability, if any.

(2) The liability of the existing State of Andhra Pradesh to refund any other tax or duty collected in excess on the appointed day shall be the liability of the successor State in whose territories the place of assessment of such tax or duty is included, and the liability of the existing State of Andhra Pradesh to refund any other tax or duty collected in excess shall be apportioned between the Successor States of Andhra Pradesh and Telangana on the Basis of Population ratio and the State Discharging the liability shall be entitled to receive from the other State its share of the Liability, if any.

21. Prima facie, the above two sections are mutually contradictory; in case of tax arrears, the State having the place of assessment will have the right to recover. However, in case of refunds, the burden would have to be shared by both the States on the basis of population ratio though the liability is discharged initially by the State having the place of assessment.

22. The quantum of arrears and refunds is likely to increase in future on completion of pending assessments, re-assessments, revisions and disposal of pending appeals at various levels. It can be seen that in case arrears are not apportioned between the two successor states in the ratio of population, the state in which the place of assessment is located, which is Hyderabad for most of the large tax payers, will be to the disadvantage of residuary Andhra Pradesh.

23. Is it apparent from the above that the AP Reorganisation Act is riddled with anomalies, contradictions and inconsistencies. It has not applied principles uniformly and failed to apply the norms of equity and fairness.

E) Schedule IX & X – State Undertakings & Institutions

24. Section 68 catalogues eighty-nine (89) State Undertakings have been specified in the Ninth Schedule of the Act. Section 53 of Andhra Pradesh
Reorganisation Act that deals with the apportionment of assets and liabilities relating to the State undertakings is as follows:

(1) The assets and liabilities relating to any commercial or industrial undertaking of the existing State of Andhra Pradesh, where such undertaking or part thereof is exclusively located in, or its operations are confined to, a local area, shall pass to the State in which that area is included on the appointed day, irrespective of the location of its headquarters:

(2) Provided that where the operation of such undertaking becomes inter-State by virtue of the provisions of Part II, the assets and liabilities of—
   (a) the operational units of the undertaking shall be apportioned between the two successor States on location basis; and
   (b) the headquarters of such undertaking shall be apportioned between the two successor States on the basis of population ratio.

25. Though eighty-nine state undertakings were included in the Ninth Schedule, only seventy are incorporated societies or companies, rest being subsidiary entities. The previous central government has not paid adequate attention to the principles and the methodology for reorganisation of state enterprises and apportionment of assets and liabilities between the two states while formulating the Act. Though subsequently the undivided Andhra Pradesh government has constituted an expert committee for apportionment of assets and liabilities of the state undertakings, including the staff, it is far from completing its task. This has created uncertainty in the management of the state undertakings during the interregnum.

26. The Section 75 of the Act, cited below, has provided for the continuation of facilities in one hundred seven (107) institutions specified in the Tenth Schedule to the Act.

75. (1) The Government of the State of Andhra Pradesh or the State of Telangana, as the case may be, shall, in respect of the institutions specified in the Tenth Schedule to this Act, located in that State, continue to provide facilities to the people of the other State which shall not, in any respect, be less favourable to such people than what were being provided to them before the appointed day, for such period and upon such terms
and conditions as may be agreed upon between the two State Governments within a period of one year from the appointed day or, if no agreement is reached within the said period, as may be fixed by order of the Central Government.

27. However, a careful analysis of the institutions listed in the Schedule-X indicate that twenty-two are government departments, ten are statutory bodies, seventeen are societies and two are categorised as board / council. All these fifty-five entities are required by both States in their entirety and not amenable to sharing between the two States. Further, four of the hundred seven institutions are not functional, nine are universities and sixteen others are integral part of government departments.

28. Consequently, the Act has created a curious situation by including the heads of departments (HOD) and regulatory agencies that are integral to the governance of every State in the Schedule-X, while excluding several other entities that have been established under the central and state statutes. Further, the Act has remained silent on the apportionment of staff, assets, etc., of these institutions between the two States. Above all, since majority of the institutions included in the Tenth Schedule are headquartered in Hyderabad, the residuary Andhra Pradesh would take a long time to replicate them. The Act has not provided any provision to replicate these valuable institutions in the residuary State.

29. Moreover, several institutions established under the statute, like the Information Commission, State Election Commission, Lokayuktha, Human Rights Commission, etc., have not found place anywhere in the Act. Therefore, it is crystal clear that the Act was designed without adequate attention to the details.

F) Part VIII – Provision as to Services

30. The Part VIII of the Act that encompasses Sections 76 to 83 deal with the apportionment of employees – All-India Services and State Government Employees in local, district, zonal, multi-zonal and state cadres – between the
two States. The States that were reorganised in the past had their staff apportioned between the successor States on or before the appointed day.

31. The All-India Service officers have not been apportioned between the two States until now and less than ten thousand state cadre employees have been ‘provisionally ordered to serve the State of Telangana’, which have had an adverse impact on the effectiveness of the governance system and responsiveness of the official machinery in both the States.

G) Part-XI & Section 95 – Opportunities for Quality Education

32. Section 95 of the AP Reorganisation Act states that “in order to ensure equal opportunities for quality higher education to all students in the successor States, the existing admission quotas in all government or private, aided or unaided, institutions of higher, technical and medical education in so far as it is provided under article 371D of the Constitution, shall continue as such for a period of ten years during which the existing common admission process shall continue”.

33. Notwithstanding the pious intentions of Section-95, which is essential for ensuring equal opportunities to quality higher education to all students, the previous central government had failed to foresee the problems that are likely to emerge in its operationalization and did not create an institutional architecture essential for enforcement of Section – 95 of the Act. As a result, several brilliant students were forced to seek admission to engineering and medical courses in other States. Lack of clarity on this provision has given rise to insecurity, avoidable conflict and litigation. Above all, like all other provisions vital to reorganisation of any major State, the previous central government failed to create the institutional mechanism for operationalizing this important provision.

Reorganisation – Impact on Development

34. It is evident from the above paragraphs that the Andhra Pradesh Reorganisation Act 2014 concocted in a breathless hurry, is filled with grave inadequacies, gross inequities, omissions, commissions, errors, etc. This has
placed the residuary Andhra Pradesh at a great disadvantage. The reorganisation of the State has created disequilibrium in terms of the developmental dynamics and negatively impacted on a number of key sectors. Some of them are summarised in the following paragraphs.

**Fiscal Situation**

35. A diligent analysis of the potential revenue receipts and expenditure for the 2014-15 financial year and the subsequent years indicate that the residuary Andhra Pradesh is likely to face monumental fiscal challenges. The total revenue receipts, including the State’s own revenue, Central taxes devolution, grants and market borrowings are likely to be less than fifty per cent of the united State. However, on the expenditure side, due to the allocation of debt, salaries, pensions and subsidies based on population ratio, the residuary State of AP will have nearly sixty per cent of the united Andhra Pradesh expenditure.

36. The result is an unprecedented high revenue deficit and fiscal deficit for the residuary state of Andhra Pradesh. There has not been any revenue deficit for the State in the last decade and fiscal deficit has never crossed 3% of GSDP so far. The residuary State of AP, however, is likely to have a revenue deficit of 4.8% and a fiscal deficit of 7.18%. The expenditure on salaries and pensions in the new State of Andhra Pradesh will be around 73% of its own revenues, a steep increase from 58% in the combined State, leaving little scope for developmental expenditure.

37. Overall, the residuary Andhra Pradesh is at a significant disadvantage vis-à-vis Telangana State. First, the GSDP of the AP State is only 55.7 per cent of the combined State’s GSDP, and the per capita income of the residuary AP State is much below the Telangana State. More significantly, the AP State’s own revenues are far lower than that of Telangana; Andhra Pradesh State with 58.32 per cent of the population earns only 46.6 per cent of the VAT of the combined State. Further, Andhra Pradesh has a much higher debt burden compared to Telangana, as population ratio was the sole criterion for apportionment of debt between the two States. The Debt/GSDP ratio of AP is 19.4, compared to 18.1 of Telangana.
38. The resource gap for the 2014-15 fiscal year is estimated at Rs 18,236 crores, which translates to about 4.84 per cent revenue deficit and 7.18 fiscal deficit. The resource gap for the ten-month period of the current fiscal year is around Rs 15,691 crores, compared to Rs 3,555 crores surplus of Telangana. The current context has positioned Andhra Pradesh in a fiscally precarious position.

39. With the kind of Revenue deficit (Rs 18,237 crores for 2014-15 fiscal year and Rs.15,691 crores for 10 month period), the resources available for capital investment and financing the annual Plan are likely to be modest. Against a requirement of more than Rs.32,000 crores for the plan as per 2014-15 vote on account budget, the resources available are around Rs.5,791 crores. This would entail that about Rs.26,000 crores are required additionally over and above the limits approved by Government of India (GoI) for the current year borrowing. This would require relaxation from the limits imposed by FRBM Act.

40. So far, Market borrowings have been strictly used for capital expenditure. However, the residual AP might have to borrow significant amount to finance the revenue expenditure that would not create any capital assets. A continuation of this trend is likely to lead to fiscal imbalance, which may cause irreparable damage to the economy and adversely affect growth and development of the State.

**Agricultural Development**

41. One of the causalities of reorganisation has been the agricultural research, development, and above all, the training of new generation of agricultural scientists, as the only Agricultural University in the united AP is in Hyderabad, which has since become an integral part of Telangana state. To make matters worse, several important agricultural institutions like the DNA Finger Printing, Tissue culture, and Oil analysis laboratories are located in Telangana state.

42. Further, the DNA finger printing & transgenic crops monitoring laboratory, Bio-pesticides quality control laboratory and pesticide residue
testing laboratory are located in Hyderabad. The apex agricultural training institute, SAMETI, is also located in Hyderabad. It would be a major challenge in terms of financial and human resources to replicate these institutions in the State of Andhra Pradesh.

43. Significantly, Telangana districts have been the major producers of paddy seed production in the united Andhra Pradesh. Telangana State has 969 private seed processing units, compared to 309 in Andhra Pradesh. The reorganisation, therefore, has seriously affected the paddy seed production and processing capacity that is essential for sustaining and accelerating agricultural production and increasing productivity to ensure food security not only for the people of Andhra Pradesh, but also for the rest of India.

44. Andhra Pradesh, by virtue of its location, is prone to floods and cyclones as well as drought. During the period from 2008-09 to 2013-14, of the 20.18-lakh hectares of agricultural land affected by natural calamities in the united Andhra Pradesh, 15.16-lakh hectares, i.e., more than seventy five per cent was in the thirteen districts of residuary Andhra Pradesh.

**Irrigation Sector**

45. The AP reorganisation Act has brought the management and operation of projects in the Krishna and Godavari basins serving the states of Andhra Pradesh and Telangana under the control of River management boards. For the first time in the history of independent India, the water resources management that has been in the exclusive domain of the States has been taken over by the Government of India. This would has significantly reduced the authority and the discretion of the successor States in matters relating to the quantum and timing of water release, operation and maintenance of projects, etc.

**Conclusion**

46. The main purpose of this paper is to provide factual information to the citizens about the true import of the Andhra Pradesh Reorganisation Act 2014 and its adverse impact on the residuary Andhra Pradesh State. This paper is
expected to generate an informed debate on the challenges that the State of Andhra Pradesh is forced to encounter and manage within a short time and to enable the public to think, reflect and become proactive partners - with the Government - in mitigating the adverse consequences and turning the tide in favour of accelerated social empowerment, economic development, poverty eradication and reduced inequities. It is clear from this paper that inaction or even slow action is simply is not an answer.

47. The Government is committed not only to rectify the distortions created in all sectors of the economy and amongst all sections of the society during the past decade, but also to carry the State to a higher and faster growth momentum in partnership with all citizens of the State. The task, without any doubt, is arduous. The Government has difficult and painful options, especially since it has a large fiscal gap as a consequence of narrow resource base, coupled with burgeoning expenditure. This is not a situation that the citizens of this great State ever visualised would become a reality. Yet, there is no need to be despondent.

48. The Government will have to play a proactive role in implementing far reaching reforms stretching across all sectors of the economy. It will enable win-win partnerships with all sections of the society and attract the best of the knowledge, talent, technology, development practices, and capital available across the globe. In this endeavour, the Government seeks the active support, collaboration and cooperation of the people in effecting a paradigm shift to a higher and faster growth. In this direction, the Government will launch seven major Missions to galvanise the entire State into an accelerated development mode. In this endeavour, all citizens are encouraged to become active stakeholders in revitalising the economy and securing all round development.

49. The Government invites constructive suggestions and valuable advice from all sections of the society as well as the political parties in addressing the grave injustice inflicted on Andhra Pradesh by the previous central government through Andhra Pradesh Reorganisation Act. These inputs would help the Government launch series of development initiatives and infuse thrust and
dynamism into the implementation machinery. We invite whole-hearted participation in this glorious Yagna to create Swarnaandhra Pradesh.