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Devolution of Resources and the clamouring of Special Category Status by States: An Analysis of Finance Commission Transfers in India

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Abstract
This paper is trying to picturize the stipulating reality of Indian states during this twenty first century. We have developed a lot as a nation and we want to develop much more in better ways. So that we need more concentration as well as much clear attention on our states and need to satisfy their requirements. At the same time we need to guarantee a justifiable development of all states by ensuring the resources for covering up of the developmental needs. In this circumstance the clamouring of different states for getting a reasonable share in the allocation is much more generous one.
Here the study concentrates on that why the states are clamouring on special category status? The study show the way of states by its categorization on the basis of their income. The General Category States and the Special Category States are treated differently and also the needs of both are entirely different that's why the distinction in fund allocation to them. This paper tried an attempt to explain the centres devolution of funds through the various Finance Commissions to the General Category States and the Special Category States.
Key Words*: Special category states, finance commission, special category status, devolution of resources and clamouring of states.*

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I. Introduction

The idea of special category status was first introduced in 1969 by the national development council. It is because the fifth finance commission recommended that for the upliftment of some disadvantaged states the need for special category status is necessary. So at the initial stage three states namely Assam, Nagaland and Jammu & Kashmir are got the special category state privilege. From this Jammu and Kashmir is the first state having the Special Category status and then Assam and Nagaland 1969 – 1974. From 1974 – 1979 Himachal Pradesh, Manipur, Meghalaya, Sikkim and Tripura and in 1990 Arunachal Pradesh and Mizoram finally in 2001 Uttarakhand is the last state having the SCS status.

The special category states are located in the north east part of our country and they are suffering too much by underdevelopment. So the need for development of such states is too important that's why the concept of special category status gained ascendance. The difficulty for development of them are to be considered for giving the special status and they are enjoying benefit in the case of getting concession in excise and customs duties and income tax rates, Additional Central Assistance (ACA) and Centrally Sponsored Schemes(CSS). The major advantage is that on the Finance Commission Grants both Grants-in-aid and special grants, which provides more weightage than the General Category States. So every state is looking on to these additional benefits they enjoyed that's why some other states like Andhra Pradesh, Odisha and Bihar also clamouring for the Special category status.

1.2 Definition of the problem

Finance Commission is providing funds in three different forms which are Share in Central Tax, Finance Commission Loans and Grants-in-aid. Among this central tax is distributed among the states on the basis of a clear cut criterion, loans are provided with considering some repayment capabilities and the last one grants are distributed differently for the Special Category States and General Category States. Out of the grants the Special category states are the beneficent group. The main focus of all states who are clamouring for special category status is the much more grants to the special category states. Because the states will get tax devolution purely on the basis of weightage on the criteria the get but in the case of grants there is no clear cut criterion and it will benefit to the Special Category States. Here is the need for Special category status was raised by some more states they did not get the special category privilege. So the need for the Special category power is more important in the devolution of resources from centre to the states especially through the Finance Commission.

1.3 Objectives of the study

- To pictuarise the transfer of resources from centre to the states through finance commission.
- To analyse the devolution of resources from centre to states by its category.
- To investigate the methodology of devolution of funds to General Category States (GCS) and Special Category States (SCS).

1.4 Methodology

The study is classified states in to the General Category States (GCS) and Special Category States (SCS) and it gives more attention to the SCS. The SCS is provided on the basis of states having some developmental stringency which are classified under five heads and such states are considered as Special Category states. The study tries to address the transfer mechanism through the Finance Commission and the transfers to Special category States (SCS) and General Category States (GCS) and the important factors influencing it. Central transfer is an important factor which bridges the gap between the development and under development in the states. The study tries to incorporate the different dimensions of development of Special Category States (SCS) with the transfer of resources. It also attempts to explore the ideology behind the development of GCS and SCS and the transfer of resources flews in those states. it considers the Finance Commission transfers especially Share in Central tax and Grants in aid only did not take the case of Loans and advances because SCS are always reluctant to take loans and they are more depends on the Grants.

The study considers the Finance Commission transfers because here the attempt is focusing on it. For the study purpose two types of classification on data are undertaken one is data taken from 2004-05 to 2014-15 and the other is thirteen year data taken from 2000 to 2013. T test is done for comparing the devolution to GCS and SCS on the second set of data.

1.5 Features required for special category status

Features required for including in special category status are:

(i) Hilly and difficult terrain,
(ii) Low population density or sizable share of the tribal population,
(iii) Strategic location along borders with neighbouring countries,
(iv) Economic and infrastructural backwardness and
(v) Non-viable nature of state finances.

1.6 Observation of the study

Here an attempt is made to know that why all states is clamouring for the Special category status than the Special Status by the central government. The main aim is to attain more tax reduction in the developmental paths than the other states. The important reasons for demanding SCS is given below.

Benefits of Special Category States

- Preferential treatment in getting central funds
- Concession on excise duty to attract industries
- 30% of gross budget goes to theses states
- Avail the benefit of debt swapping and debt relief schemes
- 90% as grant and 10 % as loan and other states get only 30% as grant and 70% as loan
- Tax breaks to attract investment
- Centre bears 90% of the expenditure of all CSS

The constitution of India does not provide any categorisation of states as SCS and GCS the categorisation is given by NDC and it does not have any constitutional backup so at any time the status can withdraw more than that now the planning commission was dismissed and the role of it is handled by Niti- aayog another institutional framework.

1.7 Data interpretation and discussion

The important components of central assistance are mainly of two which are share in Central tax revenue and Finance Commission Grants. These two sources provides majority of the revenue as central transfers to states. So the distribution of these two into GCS and SCS to the respective State-wise Percentage of GSDP are given in the following table 1.1.

Table – 1.1
State-wise Percentage of Total Transfers to the GSDP Recommended from Union (Tax Devolution and Grants) by Finance Commission in India (2004-2005 to 2014-2015)

States	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 (RE)	2014-15 (BE)
General Category States											
Andhra Pradesh	3.9	4.3	4.6	5	4.6	4.6	4.3	4.3	3.7	4.7	7.2
Bihar	15.4	16.7	18.4	19.9	18	15.8	16.5	15.3	13.4	17.7	19.1
Chhattisgarh	5.8	6.7	7.4	7.8	7.1	8	8.3	8.4	7.8	9.1	12.1
Goa	1.8	2.2	2.4	2.8	2.4	2.1	3.1	2.5	3.1	3.1	3.3
Gujarat	2.1	2.5	2.7	2.8	2.7	2.2	2.1	2.3	2.3	2.3	3.5
Haryana	1.2	2.1	1.9	2	1.9	2.3	2.1	1.8	1.6	2.5	2.6
Jharkhand	5.4	7	8.3	8.3	8.6	8.3	8.1	8.6	7.9	10.6	13.7
Karnataka	3.6	4	4.5	4.4	4	4.5	4	4.2	3.9	4.8	5.4
Kerala	3.1	3.3	3.5	3.6	3.4	2.9	2.8	3.2	2.8	3.4	3.4
Madhya Pradesh	6.6	7.5	8.7	9.9	8.4	7.8	9.4	9	8.8	8.5	14.1
Maharashtra	1.5	1.8	2.5	2.2	2.6	2.3	2.2	2.1	2.3	2.3	2.2
Odisha	8.1	8.9	9.2	9.6	9.1	8.7	8.8	9.5	8.2	10.1	12
Punjab	1.6	3.2	3	2.7	2.2	2.3	2.4	2.3	2.4	3.1	3.8
Rajasthan	5.6	5.8	6.2	6.9	6.3	5.4	5.6	5.6	5.4	5.8	8.9
Tamil Nadu	3.1	3.1	3.1	4.2	3.9	3	3	3	2.8	3.4	3.3
Telangana	-	-	-	-	-	-	-	-	-	-	6.7
Uttar Pradesh	7.4	8	9.2	9.9	9.5	9.4	9.8	10	9.7	10.3	13.1
West Bengal	4.1	5.4	4.9	5.2	5.1	4.4	5.2	6	5.4	5.7	7.2
Special Category States											
Arunachal Pradesh	36.7	42.2	54	46.7	51.8	48.3	51.9	45.4	42.7	50.4	58.8
Assam	11.5	12.4	12.9	13.8	14.4	12.7	13	13.5	14.1	18	20.7
Himachal Pradesh	11.5	16.1	16	15.8	12.8	12.4	12.8	13.1	13	12.7	10.5
Jammu and Kashmir	25.2	27.2	26.3	26.7	25.5	28.1	30.4	27.4	24.1	24.1	30.4
Manipur	31	39.1	41.7	47.1	46.6	41.6	53.7	47.4	52.2	54.1	53.1
Meghalaya	18.4	18.6	19.2	19.8	19.1	21.5	23.2	21.9	23.2	34.1	38.1
Mizoram	51.7	49.8	53.7	48	52.4	51.9	40.4	48.3	50.9	55	55
Nagaland	28.8	31.3	35.3	34	32.5	32.4	39	38.2	38.1	42.5	56.9
Sikkim	46.7	43.9	41.9	45.3	39.7	27.3	22	27.1	25.6	34.7	39.1
Tripura	24.3	27.1	26.5	27.2	25.7	24.3	24.7	25.8	24.6	27.7	32.4
Uttarakhand	8.4	10.4	11.4	9.8	8.7	7.5	7.8	7.1	6.8	9.8	10.7
India	4.1	4.6	5	5.2	5.1	4.8	4.9	4.9	4.8	5.4	6.5

Data source: Ministry of Finance, Government of India

Here the overall benefit cannot measure because the percentage value is given on the GSDP of respective states. So by comparing the value of each state with their GSDP the SCS are getting a greater share than the GCS. In this case a comparison of the actual amount to each gives an idea about the actual beneficiary of central transfers. The following table 1.2 gives information on this.

Table– 1.2
Finance commission Transfers of resources to GCS and SCS

(Amount in billion)

Year	General Category States(GCS) average			Special Category States(SCS) average		
	Grants-in-aid	Share in Central Tax	Total	Grants-in-aid	Share in Central Tax	Total
2000-01	249.1	469.8	718.9	139	36.9	175.9
2001-02	238.3	482.5	720.8	172.3	39.3	211.6
2002-03	243.2	524.1	767.3	178	42.5	220.5

2003-04	280.4	617.3	897.7	209.3	53	262.3
2004-05	317	723.1	1040.1	225.8	62	287.8
2005-06	456.8	862.5	1319.3	284	77.4	361.4
2006-07	596.3	1105.8	1702.1	316.5	97.4	413.9
2007-08	703.7	1392.9	2096.6	344.2	120.8	465
2008-09	860.2	1479.2	2339.4	395.8	131	526.8
2009-10	994.3	1517.9	2512.2	279.5	132.3	411.8
2010-11	1068.7	1987.5	3056.2	522.1	207.6	729.7
2011-12(RE)	1500	2351.1	3851.1	668.3	246.3	914.6
2012-13(BE)	1781.5	2737.8	4519.3	769.8	283.8	1053.6

Data Source: Computed from Handbook of Statistics on State Government Finances-2010 and State Finances: A Study of Budgets.

The table 1.2 shows the Finance Commission transfers as Share in Central Tax and Grants-in-aid to the GCS and SCS. The values expressed the meaning that GCS are the more beneficiary. It does not mean that the receipts of SCS are negligible. The table shows that SCS are getting significant representation in transfers in the case of grants-in-aid than the Share in Central Tax. The difference between GCS and SCS in much higher in case of divisible pool but the amount of difference in case of Grants-in-aid is relatively low. The amount of divisible pool is larger than grants but the difference between GCS and SCS are relatively low in case of Grants-in-aid.

1.8 Summary and conclusion

The study shows that by doing some analysis in the case of Finance Commission transfers to GCS and SCs as Share in central tax and grants. The result of t test is showing that the transfers as share in central tax is beneficent to the GCS, the result explains the reason that the criteria used for the Finance Commission give more weightage to the GCS states than the SCS. In case of grants in aid also SCS do not have any statistically significant difference in the allocation but there is difference in favour to the SCS. The Finance Commission transfers did not give any special attention to the SCS but the Central government ensure some benefits in the form of grants-in-aid to the SCS through Planning Commission and Centrally Sponsored Schemes. The more benefit is transferred through the Centrally Sponsored Schemes that means the 90 per cent of funds are given by the Central government and only 10 percent by the state government for SCS. For the GCS the more burdens are to the state government and a small part of the expenditure is shared by the central government. Here one important factor is that Finance Commission did not make any discrimination in devolution apart from its criteria. The discriminating role is dome by Central Ministries and the Planning Commission. More discrimination is done through central ministries because their funding strategy is like that which is in favour of the SCS. So they are the two players in the discriminating devolutionary mechanism in support of the SCS.

Special category states can enjoy concessions in excise and customs duties, income tax rates and corporate tax rates as determined by the government. The central assistance to the states is distributed more to the special category states. In the transfer of resources from centre to the special category states, 90 per cent of funds are provided as grants and remaining 10 per cent are given as loans whereas for general category states, 70 per cent are given as loans and 30 per cent are grants. These are the major attraction for the special category status to the states. But these three states (Bihar, Odisha and Andhra Pradesh) did not eligible for the Special Category Status by its requirement for being a Special Category State.

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