

# Special Category Status

## Will It Actually Benefit Bihar?

GOVIND BHATTACHARJEE

Even if Bihar is accorded Special Category State status, as its chief minister is demanding, it will not gain much because, by far, the larger proportion of transfers from the centre to the states is in the form of central and centrally-sponsored schemes. In any case, Bihar should be looking at other impediments to development and not an imagined resource constraint.

**B**ihar Chief Minister Nitish Kumar's aversion to Narendra Modi who may be the BJP's prime ministerial candidate during the 2014 Lok Sabha elections is well known. The discomfiture of the Congress Party, yet to recover fully from the damage caused by the series of corruption scandals like the Commonwealth Games and 2G, Adarsh, Coalgate and Choppergate, is also well known. As a result, the grand old party of India seems to be a little uncertain of the outcome of the 2014 elections. It is therefore not surprising that Nitish Kumar and the Congress are cosyng up to each other. Union Finance Minister Chidambaram has already promised to review the case for special category status for Bihar, something Nitish Kumar has steadfastly been demanding for sometime now.

Assembly elections will be due in Bihar in less than three years and the Bihar chief minister is clearly hoping to play the special category card for his state to project it as one of his major achievements. Nitish Kumar is certainly not so naïve as to believe that this status will transform Bihar and solve all its economic backwardness within three years' time. Besides, the special category status may not exactly bring a bonanza to Bihar as it is being touted by Nitish.

### Criteria

There are 11 "Special Category States" in India, including all the eight states of the north-east, besides Himachal Pradesh, Jammu and Kashmir and Uttarakhand. Starting with only three states in 1969 – Assam, Nagaland and Jammu and Kashmir – the status was accorded to the other states at different points of time, the last being to Uttarakhand in 2001, to address the problems of their backwardness, lack of infrastructure and shortage of capital and resources. This status has no constitutional backing. And like the Planning Commission, it is also an

extraconstitutional device to address the problems and development and backwardness. The criteria to determine the eligibility for a state to become a special category state as decided by the Planning Commission are: hilly and difficult terrain, low population density, sizeable share of the population as tribals, strategic location along borders, economic and infrastructural backwardness, and non-viable nature of state finances. All these criteria are meant to address the handicaps these states suffer from – handicaps that arose from reasons of geography. Bihar does not satisfy all these criteria, and Bihar's backwardness is not because of its geographical disadvantages, but because of sustained governance failure in the past. It is precisely this failure that Nitish Kumar is now trying to reverse. But if governance failure entitles a state to claim special category status, then many other states in India would be qualified to belong to this category as well. Once the special category status is awarded (which carries only rewards but no obligation), the state becomes entitled to higher central funding.

### Transfers

But what benefits would Bihar actually get if it is made into a special category state? Benefits of the special category status accrue mainly in the form of higher central Plan assistance. Plan assistance to states is given in various forms, as normal Plan assistance (NPA) and additional or special Plan assistance for various purposes. Special category benefits come in the form of higher normal assistance which is given according to the so-called Gadgil-Mukherjee formula, under which 30% of total central assistance for state Plans is distributed to the special category states, after setting aside funds for externally aided schemes, Special Area Programmes and North Eastern Council. The rest is distributed to the non-special category state according to a composite criteria involving population, per capita income, etc. During the Eleventh Plan, under the Gadgil-Mukherjee formula, the Bihar's share in total NPA was 11%, the highest among all non-special category states save Uttar Pradesh, whose share was 19.5%. Among the

The opinions expressed are strictly personal.

Govind Bhattacharjee ([govind100@hotmail.com](mailto:govind100@hotmail.com)) heads the International Centre for Information Systems and Audit in the National Capital Region.

special category states, the share of individual states varied between Sikkim with 3.8% of the funds earmarked for the special category states to 19.5% for Assam. Besides the higher assistance to special category states, tax breaks for excise duty as well as income tax exemptions are also available for setting up of industries within their territories.

Even though the number of special category states has increased from only three to 11 between 1969 and now, the kitty of 30% of the central Plan funds has remained unchanged. As a result, the share of individual states within the category had declined. During the first three years of the Eleventh Plan, 11 special category states received Rs 64,787 crore as NPA, or about Rs 2,000 crore on average for each state every year. As per the 2013-14 budget, the total central assistance to states is Rs 1.3 lakh crore, of which the NPA is only Rs 27,636 crore, and about a third of this money would only go to the special category states. This is, however, minuscule compared to the total Plan expenditure of Rs 4.2 lakh crore for central and centrally-sponsored schemes, of which Rs 1.4 lakh crore would be passed on to states in respect of flagship welfare schemes of the centre, not through their budgets but as direct transfers to the implementing agencies in districts. States have no control over this money; lying outside government accounts these funds also bypass all controls. This is a politically manoeuvred aberration in the Indian financial system – supposedly a sure vote catcher from the rural electorate – but in fact is an assault on the principles of fiscal federalism enshrined in the Constitution by diluting and undermining the authority of the states.

Over the years such extra-budget direct transfers have increased phenomenally, while the Gadgil transfers have shrunk. Their share in total Plan transfers has gradually fallen from 35% during the Ninth Plan to only 10% during the Eleventh Plan, while the share of direct transfers has increased from 20% to 52% over this period. Consequently, the Plan transfers to special category states have also contracted. The Plan funds routed through the state budgets now constitute less than 30% of total transfers of states. During 2011-12,

Rs 8,958 crore, or 90% of total central Plan grants to Bihar – nearly one-fifth of its total revenue receipts – were given as such direct transfers, over which the state government had no control. During 2010-11, the total amount of such direct transfers was Rs 10,309 crore. This in itself would be far more than the grants Bihar would receive as a special category state, should it be accorded that status. Compared to this the total Plan grants received by the state during 2010-11 and 2011-12 were respectively Rs 7,774 crore and Rs 7,320 crore. As a special category state, there cannot be much substantial increases to such Plan grants to Bihar.

### Limited Gains

If Nitish Kumar is pragmatic, rather than clamouring for special category status, he should ask for a share of this money and ask the centre to stop these direct transfers in the name of “centralised welfare”. By becoming a special category state, Bihar does not stand to gain much otherwise. Tax breaks would not get many industries to the state, as they have not in the north-eastern states even though they have been among the special category states for so many decades. Their credit-deposit ratio is low, lower even than Bihar’s 30% because of low demand for credit by industry. For attracting industries to a state and thereby to generate employment and income, availability of power and infrastructure are much more powerful incentives as well as prerequisites. Equally important is the availability of skills and the climate of entrepreneurship. Bihar has none of these capitals, and a little more by way of grants is not going to help the cause of Bihar’s underdevelopment.

As regards resources, Bihar is not able to spend whatever little resources and funds it has even now. As per the Appropriation Accounts of the Government of Bihar prepared by the Accountant General (Audit), Bihar for 2010-11, the government could not spend as much as Rs 14,748 crore approved by the legislature and appropriated from the Consolidated Fund of the State for expenditure under 44 grants related to various schemes and projects, covering both revenue and

capital expenditure. These included expenditure for the National Programme of Midday Meals in Schools, Relief on Account of Natural Calamities, Grants-in-Aid to Urban Local Bodies for Integrated Urban Development, Jawaharlal Nehru National Urban Renewal Mission, Integrated Slum Area Development Programme, to name only a few, many of which are central schemes for which the state is receiving grants from the centre.

The major departments that could not spend the funds were panchayati raj (Rs 591 crore), human resources (Rs 1,229 crore), disaster management (Rs 1,355 crore), urban development and housing (Rs 1,532 crore), social welfare (Rs 608 crore), water resources (Rs 1,723 crore) and finance (Rs 1,174 crore). It may be pertinent to mention that when departments are unable to utilise the resources placed at their disposal, it does not simply mean their inefficiency and the lack of institutional capacity, it also means placing a heavier tax or debt burden on the people than was actually required.

### Real Problem

Bihar’s problem is not scarcity of resources, but the lack of institutional capacity, infrastructure, a developed market within the state and easy and affordable access to markets outside, entrepreneurial skills, and a proper industrial climate. These are impediments not addressable in the short term. Since taking over, Nitish government has signed MOUs of over Rs 1 lakh crore, and not even 10% of this figure has flowed into the state in the shape of concrete investments so far. Even these will take a few years’ time to translate into viable projects that would generate employment and income.

By demanding, and hopefully getting the special category status for Bihar, Nitish Kumar may score a political point, but Bihar’s economy will remain where it is in the foreseeable future.

**Economic & Political WEEKLY**

available at

**Oxford Bookstore-Mumbai**

Apeejay House

3, Dinshaw Vacha Road, Mumbai 400 020

Ph: 66364477