CHAPTER – VI
SUMMARY AND CONCLUSION
Special Category State Status to Pondicherry

1. Strategic Economic and Social Case

In retrospect, Pondicherry despite being a resource deficient state has done well within its limited means as an emerging model state on the national scene, with its consistently higher spending on social infrastructure of education and health. In prospect, Pondicherry could be transformed into special economic zone of India, given its heritage, international connection, socio-economic launch pad and potential to create wealth based on human genius, understanding and skills. Such a strategic positioning of Pondicherry based on large scale strengthening of its maritime port, functional airport and broadgauge railhead, would be a long and challenging task worth taking with the first facilitating small step of Special Category Status being accorded to the state. This would pave the way for large investment from Centre for the development of infrastructure of vital importance to the Pondicherry state and the nation.

Even today a third of Pondicherry's labour force ekes out its living in agricultural sector, being the mainstay of rural masses. Major thrust on animal husbandry and fisheries would require large-scale efforts and significant financial resources to ensure substantial and growing income prospects to those below the poverty line. In Pondicherry, Urbanisation has brought its own problems of slums, unemployment and underemployment. High density of population beyond sustainable level has created such socio- economic problems, which need to be addressed properly. Pondicherry on attaining statehood becomes our smallest state in terms of area, but in population size it would be ahead of Sikkim and Mizoram. Though smallest state, because of its geographical dispersal in three states, would be equally difficult terrain to administer as in the case of present Special Category Status states.

2. Proper Perspective in Application of the 5 Parameters of Special Category Status in respect of Pondicherry

The main spirit behind special category status is to enable a disadvantageously placed state to get larger central assistance on more liberal terms in terms of strategic location, low density of population, difficult terrain to administer, economic and infrastructural backwardness and non-viable nature of state finances.

In respect of Pondicherry, there is a need to look at these 5 parameters in proper perspective in terms of:

i. Strategic Location:

In proper perspective, strategic location factor for a state should be seen as one, which could impede its growth. Being significantly dependent on neighbouring states for raw material resources, power, river water, air link and broad gauge rail head, underscores the impeding aspects for growth of Pondicherry. Under such circumstances, a more benign view should be taken to accord special category status to Pondicherry to facilitate central assistance on liberal terms.

ii. Density of Population:

High density of population causes its own problems of pressure on land and social fallout of urbanisation i.e. slums and educated unemployed and underemployed population. The horizontal problem of low density of population becomes a vertical problem when you have high density of population beyond sustainable level. Such a socio-economic problem equally needs special attention and efforts.

iii. Difficult Terrain to Administer

The main Pondicherry region itself consists of 12 scattered areas interspersed with enclaves of South Arcot District of Tamilnadu. Other three regions of Mahe, Yanam and Karaikal are far-flung outlying areas in three different states. Geographically it is quite a difficult terrain to administer and ensure regional balance but for the cultural bond, which unifies the 4 regions.

iv. Economic and Infrastructural backwardness:

Extent of such backwardness needs to be assessed in the context of untapped potential of the state for growth. Without functional airport, broad gauge railhead, and well developed maritime port, the state faces acute infrastructural handicap in realising full potential for itself and the nation. Entire state except the main Pondicherry City is economically backward. So far for all central special incentives for industrial development, Pondicherry is considered as economically backward**.**

v. Non-viable Nature of State Finance:

Even at present Pondicherry is able to balance its budget thanks to rollover facility for interest and instalment payments embedded in annual grants-in-aid and central loan respectively. With the introduction of UFR (particularly on 25-30 sensitive commodities) and advent of VAT from April 2002, the reverse swing in sales tax revenue earnings of Pondicherry is on the cards. Once granted statehood it would require special grants under Article 275(1) throughout 2000-05 to bridge its non-plan revenue deficit. Therefore, this nascent state to be viable requires central assistance of 90% grants and 10% loans.

3. Financial Case:

The financial case of Pondicherry on this main issue is threefold:

i. Even at present the adverse effect of debt servicing is obvious. But for rollover facility as Union Territory, it is not able to service even interest obligations from own revenues, leave alone instalment repayments. Therefore simultaneously removing rollover facility and also increasing loan proportion to 70% (at present around 30-33% as U.T) as normal state would compound its debt servicing problem. As normal state its public debt would double in 5 years, whereas as special category state it would get stabilised at around the present level.

ii. Even with devolvement of central taxes and duties, Pondicherry would still face non-plan revenue deficit(includes need for Power cost Subsidy) throughout 2000-05, which requires non-plan revenue grant from the Finance Commission. Eleventh Finance Commission has restricted such grants only to Special Category States for the entire 5 year period. In respect of Pondicherry certain level of power subsidy,which is around Rs.30 crores annually, is inherent as it relies on outside sources for power and caters the same to all its scattered parts.

iii. With the introduction of UFR (uniform floor rate) including on 25-30 sensitive commodities and advent of VAT scheme from April 2002, reverse swing of Sales Tax Revenue (two thirds of tax revenue of the state) is expected. On one hand UFR regime will affect cost effectiveness of SMEs as the raw materials, which they entirely procure from outside the state, would suffer CST on raw materials. On the other hand pressure will be on SMEs to bill their products outside the state so that their bulk customers can set off CST on products under VAT scheme.

Under above circumstances the future GSDP growth rate of Pondicherry (in the recent past above 14%) is expected to dip to 13% or less. Therefore, it may be more appropriate to consider Pondicherry under G2 cluster group of better placed special category states (Arunachal Pradesh and Himachal Pradesh) than be clubbed in G3 cluster group of Goa, Karnataka, Kerala and Tamilnadu. (14% of GSDP growth rate).

The apparent position of Pondicherry being on the razor edge of entering High Income Group (GSDP of Rs.16,000 to Rs.16,500 percapita as against high income group range of Rs.16,000 to Rs.25,000) could still be made realisable for this resource deficient state despite the back drop of UFR and VAT regime and withdrawal of rollover facility in debt servicing facility. For this not only non-plan revenue deficit grant should be extended but also central assistance of 90% grants and 10% loans for ensuring sustainable development and optimum debt level to service. As a first step, it is imperative to extend special category status to Pondicherry. Only this would pave the way for large investment from Centre necessary for the development of infrastructure of vital importance to the state and the nation. The state only needs this hardware component of infrastructure, as it has already developed its software base of human genius, understanding and skills for its socio-economic development.

In case Pondicherry is considered as Normal State, then it would have to face following negative fallout in terms of:

1.Unbridged Non Plan Revenue Deficit of Rs.410 to 470 crores

i.eRs.80 to 90crores annually for the five year period

2.In addition to item 1.above, also bear on its own annual Power Subsidy of Rs.25 to 30 crores

3.At present as UT even with two-thirds plan grants and one-third loans, public debt level is unsustainable warranting serious thought on debt swap measure. As Normal State, with plan grants of 30% only and 70% as loans entails inviting sure disaster on public debt front.

The present financial luxury of being a Union Territory with liberal Non Plan grant provision considered as a plug to fill the gap between Revenue Receipts and Revenue Expenditure, Plan allocation based on a favourable Grant to Loan ratio of 65:35(for Normal State it is just the reverse of 30:70 with immediate implication of debt trap) and no need to raise restrictive bonds from market for development expenditure (credit rating of state for bonds stipulated by RBI) would no longer be available as financial cushions once Pondicherry becomes a Normal State.

Withdrawal of both (i) roll over facility of interest and principal installments obligations on public debt and (ii) facility of non plan revenue expenditure gap bridging deficit financing ,once Pondicherry becomes a Normal State may turn out to be an unnecessary financial distress for Pondicherry, as compared to its present well secured financial status as Union Territory.

In proper perspective, strategic location factor for a state should be seen as one which could impede its growth. Being significantly dependent on other states for raw material resources, power, river water, air link and railhead, underscores the impeding aspects of the strategic location for growth of Pondicherry.

Under such circumstances a more benign view should be taken to accord special category status to Pondicherry to facilitate central assistance on liberal terms.

Under the above circumstances, there is need to appeal to the Central Government to look at strategic location as locational disadvantage which impedes state's growth in the case of Pondicherry and not to be solely tied to common borders with neighboring countries.

According Special Category Status to Pondicherry would be appropriate.
It is preferable to be Union Territory with quasi special category status than an ordinary Normal State. Next best alternative is a preferred "Normal" State with following facilities:

1. **Atleast initial 5 years Non Plan Revenue Deficit Grant under Article 275(1) other as accorded to Goa when it ceased to be Union Territory and continuation of the same for further period,if required. At present Central Finance Commission has practically restricted it to Special Category States for entire 5 year period and at best 1 or 2 year to limited other states.**
2. **Continuation of present Plan Scheme funding of 65% grants and 35% loans**
3. **Write off of Interest and freezing of Principal as Interest free loan as accorded To Arunachal Pradesh**

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