

## **Special Category Status to Pondicherry**

### **Final Report**

#### **Preface: Scope and Coverage of the Study**

**Sub: Conferment of Statehood and Special Category status to Pondicherry-  
Devolution of Funds- Consequent on 11<sup>th</sup> Finance Commission's  
recommendations –Study by IFMR, Chennai**

**The twin objectives of the study are as under:**

- 1. Devolution of Funds to Pondicherry on attaining statehood consequent on 11<sup>th</sup> Finance Commission recommendations if:
  - a) Pondicherry is given statehood with special category status and Pondicherry is treated as normal state.****
- 2. Presenting the case of Pondicherry for special category statehood both on economic and financial grounds.**

**In Chapter I of this Report, the Profile, Inter State comparable Position and Future Potential of Pondicherry are covered.**

**In Chapter II, the Strategic, Economic and Social Case for conferment of Special Category status to Pondicherry is put forth, emphasizing the need for proper perspective in application of the 5 parameters by the Union Government in this regard.**

**Chapter III traces the recent trends and prospects of State Finances of Pondicherry. In particular its financial requirements are considered after conferment of statehood, and consequent withdrawal of both Grants-in-Aid and facility to annually rollover principal and interest dues on loan account. Further effects of the adverse backdrop of Uniform ST rate compulsion and advent of VAT system on the buoyancy in ST revenues, which is bound to get dampened significantly, are highlighted.**

**In Chapter IV the important parameters considered by 11<sup>th</sup> Finance Commission, its implications for Pondicherry both as (i) Special Category State and (ii) Normal State and likely annual devolvement of Central Taxes and other funds, for next five years are covered, using other similar state(s) as proxy. Some of the recommendations of the Finance Commission like**

restricting shortfall grants under Article 275(1) mainly to Special Category States and implications of the same for Pondicherry are brought out.

Chapter V emphasizes the financial justification for special category status to Pondicherry. In the final Chapter VI the basic approach to present the case of Pondicherry for Special Category Status is outlined as part of summary and conclusion of this report. The possible negative fall out as Normal State is brought out clearly.

In addition, an endnote on “Case Analysis Presentation” has been added, The implications of being considered as Normal State instead of Special Category State and reforms necessary to adjust to such a harsh reality is emphasized. The present financial luxury of being a Union Territory with Non Plan Grant allowed as a plug to fill the gap between Revenue Receipts and Revenue Expenditure, Plan Allocation based on favorable Grant to Loan ratio of 65:35 and no need to raise restrictive bonds from market for development expenditure would all cease once Pondicherry becomes a Normal State

The presentation made to senior officials at a meeting at Pondicherry on 3<sup>rd</sup> Feb.2004 is enclosed as Annex-IV. Clarifications in brief for the three points raised at meeting are as follows:

1.Strength of Pondicherry’s case on the 5 factors(reasons give for according special category status to Uttaranchal in 2001-02)

On factors other than Strategic location Pondicherry has a good case. An appeal to Centre to look at Strategic location as locational disadvantage which impedes state’s growth and not to be solely tied up to common borders with neighbouring countries is necessary.This point has been included on page 11 of Chap.II,page 51 of Chap.VI and page55 of End Note

2.Article 275(1) and other envisaging grant to cover Non Plan Revenue deficit of states(mainly special category):It was clarified that Eleventh Finance Commission(EFC) envisages it on page 97 of its report.PI and. see page 21,Chap.III of IFMR Study report for details

3.Three alternatives possible and its relative merits indicate Spl.Category status as much better than U.T. status.Otherwise better to be U.T. Normal State only if proviso(point 2 above) of bridging non plan revenue deficit is forthcoming for first 5 years(as considered for Goa when it ceased to be U.T.) and possible continuation of same for further periods,if needed.

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