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Special Category Status

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Why is in news? Why is Bihar demanding the Special Category Status?

On November 22, the Chief Minister Nitish Kumar-led Cabinet passed a resolution seeking the grant of special category status (SCS) to Bihar. The demand comes in the backdrop of the findings from the "Bihar Caste-based Survey, 2022", which revealed that nearly one-third of Bihar's population continues to live in poverty.

About:

It is a classification **granted by the Centre to assist the development of States** that face **geographical or socio-economic disadvantages**.

The SCS was **introduced in 1969** on the **recommendation of the fifth Finance Commission (FC)**.

There is **no provision of SCS in the Constitution**.

The SCS States used to receive grants **based on the Gadgil-Mukherjee formula**, which earmarked nearly 30% of the total central assistance for States to the SCS States.

After the abolition of the Planning Commission and the **recommendations of the 14th and 15th FC**, this assistance to SCS States has been **subsumed in an increased devolution of the divisible pool funds** for all States (increased to 41% in the 15th FC from 32%).

Factors considering for granting SCS:

hilly and difficult terrain

low population density and/or sizeable share of tribal population

strategic location along international borders

economic and infrastructural backwardness and

non-viable nature of state finances.

States with SCS:

In 1969, three States — Jammu & Kashmir, Assam and Nagaland — were granted the SCS.

Subsequently, eight more States including Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Sikkim, Tripura, Himachal Pradesh, and Uttarakhand were given the SCS by the erstwhile National Development Council.

Difference between Special Category Status and Special Status:

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The constitution provides special status through an Act that has to be passed by 2/3rds majority in both the houses of Parliament whereas the special category status is **granted by the National Development Council**, which is an administrative body of the government.

For example, Jammu and Kashmir enjoyed a special status as per Article 370 and also special category status. But now that Article 35A has been scrapped and it has become a union territory with legislature, special category status doesn't apply to J&K anymore.

However, a wide range of provisions are available to as many as 10 states that have been listed under Articles 371, 371-A to 371-H, and 371-J.

Special status empowers legislative and political rights while special category status deals only with economic, administrative and financial aspects.

Benefits of SCS:

In the SCS States, the Centre-State funding of centrally sponsored schemes is divided in the **ratio of 90:10, far more favourable** than the 60:40 or 80:20 splits for the general category States.

Unspent money in a financial year **does not lapse** and is carried forward.

Besides, there are **several other incentives available to the SCS States** in the form of concession in customs and excise duties, income tax rates and corporate tax rates to attract investments to set up new industries etc.

There is a preferential treatment in getting central funds.

The 30 percent of the Centre's gross budget also goes to special category states.

These states can avail the **benefit of debt-swapping and debt relief schemes**.

Concerns:

It causes **increased burden on Central Finances** and **hinders competitive federalism** among the states.

Also, giving special status to a state leads to **demands from other states too**. For instance, demands from Andhra Pradesh, Odisha and Bihar.

States are not economically benefited by pursuing special status because the benefits under the current system are meagre.

The granting of SCS and liberal central assistance is at the **Centre's discretion rather than based on any strict principle/ criterion**.

Allocation of resources by Planning Commission was **influenced by political rather than economic considerations**.

The generous central assistance, often without proper accountability mechanism, **led to misuse and diversion** of these easy funds and fed and fuelled corruption.

Reasons for Bihar's demand for SCS:

The demand for SCS for Bihar has been made by various political parties of the State time and again.

The **poverty and backwardness of the State** are argued to be because of the lack of natural resources, continuous supply of water for irrigation, regular floods in the northern region and severe droughts in the southern part of the

State.

Simultaneously, the bifurcation of the State led to the **shifting of industries to Jharkhand and created a dearth of employment and investment opportunities.**

With a per-capita GDP of around ₹54,000, Bihar has consistently been one of the poorest States.

Highlighting the same in his fresh demand for SCS, the CM of Bihar said that the State is home to around 94 lakh poor families and the granting of SCS will help the government get about ₹2.5 lakh crore required to fund various welfare measures over the next five years.

Demand of other states:

Since its bifurcation in 2014, **Andhra Pradesh** has asked for a grant of SCS on the grounds of revenue loss due to Hyderabad going to Telangana.

Additionally, **Odisha** has also been requesting for the SCS, highlighting its vulnerability to natural calamities such as cyclones and a large tribal population (nearly 22%).

However, the Central government citing the 14th Finance Commission report, which made a recommendation to the Centre that no State be accorded the SCS, has repeatedly denied their demands.

Is Bihar's demand justified?

Although Bihar meets most of the criteria for the grant of SCS, it **does not fulfil the requirement of hilly terrain and geographically difficult areas**, which is considered to be the primary reason for difficulty in infrastructural development.

In 2013, the **Raghuram Rajan Committee** set up by the Centre, placed Bihar in the “least developed category” and suggested a new methodology based on a ‘multi -dimensional index’ for devolving funds instead of a SCS, which can be revisited to address the State’s backwardness.

Conclusion:

Following the recommendations of 14th Finance Commission, the Special Category States cease to exist and thus, no special category status has been granted to any State.

It is time to revisit the criteria and include other states into this exclusive category by excluding those who do not need such assistance any longer.