END NOTE

SUB: SPECIAL CATEGORY STATUS TO PONDICHERRY

Overall Case Analysis and Presentation

The Strategic, Economic and Social case for Special Category Status to Pondicherry when it attains statehood are dealt in detail in Chapter II. On the first three aspects of non-viable nature of state finances (Chapter V), economic and infrastructural backwardness and difficult terrain to administer, Pondicherry has a good case.

While low density of population (fourth parameter) does pose economic, social and administrative inconvenience and problems, high density of population spread over 4 geographically dispersed areas also equally poses challenging administrative problems, besides economic and social problems of urbanization, slums and considerable unemployment/underemployment .In fact, density of population beyond sustainable level needs equally special attention, efforts and assistance. In short, the horizontal problem of low density transforms itself to one of a vertical problem when you have high density of population.

On the aspect of strategic location (fifth parameter), the emphasis should be:

"In proper perspective strategic location factor for a state should be seen as one which could impede its growth. Pondicherry being significantly dependent on neighboring states for raw material resources, power, river water, air link and rail-head, underscores impeding aspects of its location affecting potential growth. Under such circumstances a more benign view should be taken to accord special category status to Pondicherry to faciliate Central assistance on liberal terms (90% grants and 10% loans as against two-thirds grants and one-third loans as at present as Union Territory of Pondicherry)."

On the Public Finance front, Union Territory of Pondicherry on attaining statehood should be allowed to start at least on a freshly wiped Slate, if not a clean one as follows:

1. **Since rollover of Interest and Principal repayment obligations through Grants- in-Aid will cease, the interest overdue of Rs.86-100 crore should be waived (as in the case of Arunachal Pradesh) and principal frozen as interest free loan repayable in instalments after sufficient moratorium period.**

2. Non-Plan Revenue Deficit assistance (including for Power Cost Subsidy) to be made available to Pondicherry as extended now to Special Category States and earlier to Goa under Article 275(1) provision when it attained statehood.

3. Central Assistance for Plan Schemes and Projects on the basis of 90% grants and 10% loans to be extended to Pondicherry, as even with two-thirds grants and one-third loans at present debt servicing poses problem to Union Territory of Pondicherry

4. With the advent of UFR regime under Sales Tax Scheme and impending introduction of VAT Scheme, the Unique Selling Point of Union Territory of Pondicherry as trade, commerce and industrial corridor to neighboring states has lost its economic appeal. Already signs of predictable reverse swing in ST collections are evident. This aspect would necessarily entail Non-Plan Revenue Deficit financing by Central Government.

In view of the 4 points indicated above, the more sensible measure of taking an integrated financial view by the Central Government would be to consider Pondicherry as a Special Category State with all attendant benefits when it accords Statehood. Only such a step would make "Financial Sense' in the transition and blossoming of Union Territory of Pondicherry as a full-fledged State of the Union of India.

It would be financially prudent on the part of Pondicherry to remain as Union Territory if the alternative is not Special Category State but Normal State Status.

The present financial security 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 favorable 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 immediately cease once Pondicherry becomes a Normal State.

Withdrawal of both (i) roll over facility of interest and principal installment 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 financially imprudent for Pondicherry, as compared to its present financial safety net as Union Territory.

On its part Pondicherry as a Normal State has to undertake substantial fiscal reforms and reposition its revenue profile to the changed circumstances as follows:

i. **Start to tap the remaining 14 of the 19 taxes as mentioned in list II of VII Schedule. Further within the five major taxes increasingly focus on other than sales tax. Also explore service sector as revenue source.**

ii. **As pointed out by EFC, non-tax revenue particularly from economic services should be user charge based gradually by 2004 –05. More importantly, take steps to significantly reduce subsidy on economic services and go in for privatization even for public services, wherever feasible. Private Finance Initiative in Infrastructure projects (BOT, DBFO, BLT) need to be tapped innovatively**

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.

In view of 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, when it became a state.**