



CURRENT AFFAIRS



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Date - 08 June 2024

DEMAND FOR SPECIAL CATEGORY STATUS

THIS ARTICLE COVERS 'DAILY CURRENT AFFAIRS' AND THE TOPIC DETAILS OF "DEMAND FOR SPECIAL CATEGORY STATUS". THIS TOPIC IS RELEVANT IN THE "POLITY AND GOVERNANCE" SECTION OF THE UPSC CSE EXAM.

Why in The News?

In the recent Lok Sabha election verdict, the BJP did not achieve the majority mark of 272 seats independently and will require the backing of coalition allies, such as TDP and JD(U), to establish a government. Bihar and Andhra Pradesh are demanding Special Category Status (SCS) from the central government in a negotiation deal to support the BJP government.

ABOUT SPECIAL CATEGORY STATUS

Special Category Status (SCS) in India is a classification given to certain states based on criteria set by the Finance Commission. This status aims to provide additional financial assistance to states facing significant economic and geographical challenges. The Special Category Status was introduced by the Fifth Finance Commission of India in 1969, and it has been a subject of extensive debate and policy formulation since then.

BENEFITS OF SPECIAL CATEGORY STATUS

1. Financial Assistance

- **Higher Grants:** States with SCS receive a higher proportion of grants compared to loans in centrally sponsored schemes. Typically, they receive 90% grants and 10% loans, while other states receive 70% grants and 30% loans.

2. Tax Benefits

- **Tax incentives:** SCS states enjoy tax breaks and exemptions, which can attract industries and investments. These concessions can include exemptions from excise duty and customs duty.

3. Preferential Treatment in Central Schemes

- **Preferential Funding:** States with SCS receive preferential treatment in allocating funds for central government schemes and projects. This helps ensure that these states get adequate resources for development.

4. Infrastructure Development

- **Additional Support for Infrastructure Projects:** SCS states often receive enhanced support for infrastructure projects such as roads, railways, and power. This can help overcome geographical and logistical challenges.

5. Investment Incentives

- **Attracting Investment:** The financial and tax incentives provided to SCS states can attract both domestic and international investments, leading to industrial growth and job creation.

6. Social Sector Improvements

- **Enhanced Funding for Social Sectors:** Additional central funds can be directed towards improving education, healthcare, and other social sectors, leading to better human development indicators.

7. Economic Stability

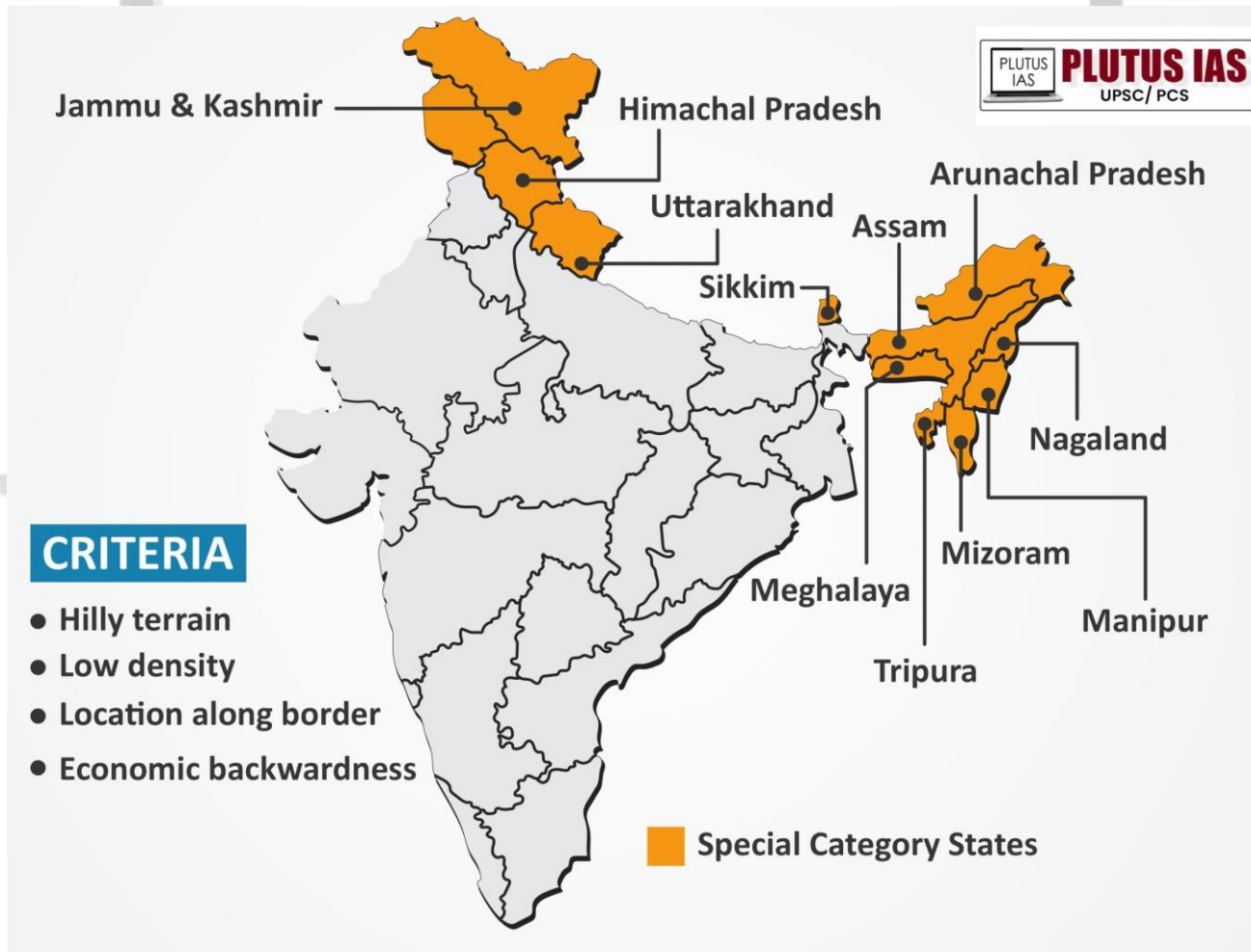
- **Fiscal Support:** SCS states often have weaker economic bases and higher fiscal deficits. The additional financial support helps maintain fiscal stability and enables these states to invest in development projects.

8. Disaster Relief

- **Priority in Disaster Relief Funds:** SCS states receive priority in allocating funds for disaster relief and management, which is crucial for states prone to natural disasters.

ELIGIBILITY CRITERIA TO GET SPECIAL STATUS

- Hilly and difficult terrain
- Low population density or a large share of the tribal population
- Strategic location along borders with neighbouring countries
- Economic and infrastructural backwardness
- The non-viable nature of state finances



STATES THAT ARE GETTING THE BENEFITS UNDER SPECIAL STATUS

Arunachal Pradesh, Assam, Himachal Pradesh, Jammu & Kashmir (now a Union Territory), Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Uttarakhand

WHY IS BIHAR DEMANDING SPECIAL STATUS?

- Bihar has a high poverty rate, with nearly one-third of its population living in poverty, as revealed by the "Bihar Caste-based Survey, 2022.
- Bihar's per capita net state domestic product for 2022-23 was among the lowest in the country, at ₹31,280.
- Bihar argues that it faces challenges similar to those of other states that have been granted SCS, such as hilly terrain, low population density, and economic backwardness, but has not received the same support.
- Bihar has been demanding SCS since its bifurcation in 2000, citing the need for special assistance to address its economic and infrastructural challenges.

WHY IS ANDHRA PRADESH DEMANDING SPECIAL STATUS?

- When Andhra Pradesh was bifurcated in 2014, then Prime Minister Manmohan Singh promised SCS to the residual state for a period of five years to address its economic disadvantages.
- Chandrababu Naidu's Telugu Desam Party (TDP) has consistently demanded SCS for Andhra Pradesh, citing the state's economic challenges and special assistance.
- Large parts of Telangana are drought-prone, impacting agriculture and water availability. Special status would bring in more funds for irrigation and water management projects, addressing these challenges more effectively.
- Special status typically comes with tax breaks and incentives, which can attract industries and investments to the state. This would lead to job creation and economic growth.

DRAWBACKS OF GRANTING SPECIAL CATEGORY STATUS TO DIFFERENT STATES:

- **Increased Financial burden on central government:** Granting SCS to more states increases the financial burden on the central government, as it has to provide higher grants and financial assistance. This can strain the central budget and impact fiscal discipline.
- **Over-dependence on central funds:** States with SCS may become overly dependent on central assistance and might not strive as hard to generate their own revenues or improve their financial management. This could hinder long-term sustainable development.
- **Less funds available for General states:** Allocating significant resources to SCS states may reduce the funds available for non-SCS states, potentially affecting their development and growth prospects. This could exacerbate regional disparities.
- **Domino effect:** Granting SCS to more states can lead to a proliferation of demands from other states, each arguing their case for special status. This can complicate the decision-making process and create administrative and financial challenges for the central government.
- **Political lobbying:** The process of granting SCS can become politicised, with states lobbying for special status based on political considerations rather than genuine needs. This could lead to a misuse of the system and allocation of resources based on political expediency rather than objective criteria.

WAY FORWARD

- **Development Index:** Raghuram Rajan proposed creating a composite development index that objectively assesses each state's development needs. This index would consider per capita income, poverty rate, education levels, and health indicators.
- **Tailored Financial Assistance:** Rather than a blanket SCS, financial assistance should be tailored to each state's specific needs and challenges. This approach would ensure that funds are used more effectively and address each state's unique issues.
- **Project-Based Funding:** Central assistance should be linked to specific developmental projects rather than general budgetary support. This would ensure better accountability and targeted use of funds for impactful projects.
- **Performance-Based Incentives:** States should be incentivised based on their performance in implementing developmental programs and achieving outcomes. This approach promotes healthy competition among states to improve their governance and development metrics.

Prelims Based Question

1. **Consider the following statements regarding Special category status:**
2. The concept of Special Category Status was introduced by the Fifth Finance Commission of India.
3. Low sex ratio and high population density are some criteria for granting special status.

Choose the correct answer using the codes given below:

- (a). 1 Only
- (b). 2 Only
- (c). Both 1 and 2
- (d). Neither 1 nor 2

ANSWER: A

Mains Based Question

Q. Discuss the historical context and primary objectives behind the introduction of Special Category Status (SCS) in India. How has this status evolved over time?

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