Research Paper History

SPECIAL CATEGORY STATES IN INDIA

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KEYWORDS

The present report seeks to discuss the allocation of funds to special category states in India. Special category states encompass a group of under-privileged states. The classification is done based on certain rules. We set out to devise a rough formula for allocation of funds to such states. For this purpose we first need to analyse the existing methods of federalism in India,that is the existing methods of division of funds between states and centre, and then focus on any special provisions, if any for the special category states of India. For this, we shall study the whole process in different sections. The first section will be focussed on fiscal federalism in India, i.e how funds are allocated to states from the centre. The second section will focus on what the special category states are, the basis of their classification and the major challenges faced by them. The third section focusses on the major parameters which must be considered for special category states for fund allocation and on the possibility of development of such formula.

Fiscal federalism in India:

Fiscal federalism entails the division of responsibilities in respect of taxation and public expenditure among the different layers of the government, namely the Center, the states and the local bodies. Fiscal federalism helps governmental organization to realize cost efficiency by economies of scale in providing public services, which correspond most closely to the preference of the people. From the point of view of economy, it creates a unified common market, which promotes greater economic activity. Centre-state transfers take place mainly through three channels:

(a) **Statutory transfers** through the Finance Commission mechanism. These include devolution of central tax revenues (divisible pool) to different states and grants-in-aid;
(b) **Central Assistance** for State Plans including Normal Central Assistance (NCA) grant, which is governed by Gadgil-Mukherjee Formula;
(c) **Grants** through central ministries in accordance with guidelines of various Centrally Sponsored Schemes.

The allocation of funds from the Centre to states occurs through two mechanisms: the Finance Commission and the Planning Commission. There are a few fundamental differences between the two.

In the case of **Finance Commission**, the objective is to make allocations such that fiscal capacities are equalized with a view to enabling the states to provide public services and merit services at equal standards to all citizens in the state provided that comparable tax effort is made by the states. In other words, differences in the service standards should be due largely to deficiency in own tax effort and not due to deficiency in fiscal capacity. In determining the inter se shares, at any point of time fiscal capacity is taken to be given.

Planning Commission is in charge of plan grants aim at the development efforts of the state. The objective is to change the fiscal capacity itself. Plan grants therefore aim at reducing the difference in fiscal capacity: large transfers should be made to states with lower developmental levels. The planning commission provides developmental grants to the states as a part of an overall assistance package. The package was determined as a composite of loans and grants. For general states assistance was 30% grant and 70% loan. For special category-states, assistance was 90% and loan was 10%. The expenditure side of state budgets may be divided into four parts:

- Non-plan expenditure
- Plan revenue expenditure
- Plan capital expenditure
- Non-plan expenditure

The planning commission allocates aggregate plan assistance among states under a set of criteria called the Gadgil-Mukherjee Formula.

The objective in the Finance Commission determination of transfers is equalization of fiscal capacity to enable the states to provide public and merit services at comparable standards provided the states make comparable tax effort. The FC keeps looking only to the (non-Plan) revenue expenditures without paying much attention to the linkage of interest payments with past fiscal deficits and accumulated debt stock. The Planning Commission looks only at new schemes. It looks at the scope of borrowing in the Plan period without considering what future liabilities are being created and how they may be financed beyond the Plan period. Projects financed by external assistance, which is transmitted to the state on the same terms and conditions as normal Plan assistance, also create similar liabilities regarding interest payments and maintenance.

The Special Category States:

Out of a total of 29 states in India, 11 states are classified as special category states: **Arunachal Pradesh, Assam, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand**. These states are in a poorer condition than their counterparts. These handicaps were caused also by the shortage of capital and natural resources within their boundaries, lack of any viable physical and social infrastructure for economic growth and development, high cost of production with low availability of resources and hence low economic base, coupled with high transport costs leading to high delivery cost of public services. The special category status is granted to a state by the **National Development Council (NDC)** on the recommendation of the **Planning Commission.** The Planning Commission had laid down the criteria for this status according to which the special category status is granted to states characterised by certain common features that demand special considerations. These handicaps arose not simply from the remoteness of their locations or the inaccessibility of their hilly terrains with sparsely populated habitation, nor due to their historical circumstances alone. They were caused also by the shortage of capital and natural resources within their boundaries, lack of any viable physical and social infrastructure for economic growth and development, high cost of production with low availability of resources and hence low economic base, coupled with high transport costs leading to high delivery cost of public services. Centuries of economic depriva-

tion and neglect coupled with isolation from the mainstream of Indian states had resulted in widespread **poverty, unemployment and economic backwardness** of the people living within their territories. The process of economic reforms has not promoted balanced regional development. The better-off states, by virtue of their higher income, better physical and social infrastructure, higher per capita transfers and private investments, were much better placed to take advantage of the globalisation and liberalisation process and moved ahead. As a result, richer states became even richer compared to the poorer states. All these indicate that whenever the disparity level increases across the states, the special category states can be expected to be the worst sufferers in terms of economic growth and development. Also all the special category states are border areas. **Border areas** have their own problems and peculiarities. Such areas are in general **less accessible**, making provision of basic facilities more difficult and costly. Such areas are often more vulnerable to **illegal infiltration of population**, which adds pressure on their economic and environmental resources. Moreover, porous nature of the border enables easy cross border passage for insurgents and criminals including drug traffickers. Thus, governments of the states with international border are required to bear heavier burden for not only providing basic facilities to the people living in such areas but also for the broader national goal of securing the border. The special category status is granted to a state by the National Development Council (NDC) on the recommendation of the Planning Commission.

The North-East Region:
The Northeast region with **99 per cent** of its boundary being international border, the problems and peculiarities are even more accentuated.

The region consists of Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and Sikkim. The region is located between latitudes 290 and 220 North and longitudes about 89.46 and 97.5/ East. The region is covering an area of 262185 sq. km, which is nearly 8 per cent of the total geographical area of the country. The region has a population of 389.84 lakh that is 3.79 per cent of the total population of India.

The region has a vast coverage of forest nearly 55 per cent of the total geographical area. The States of the region are surrounded by China, Bangladesh, Myanmar and Bhutan. In fact, the region has a long international border of (5182 km), which is more than 99 percent of its total geographical boundary. These States have international border with China (1395 km), Bhutan (455 km), Myanmar(1640 km), Bangladesh (1596 km) and Nepal (97 km).

On the other hand the region is connected with the mainland India through a very narrow strip of land with the width of about 22 km called 'chicken neck'. The region is best known for its picturesque topography, cultural heritage, ethnic beauty and rich natural resources.

The region has rich bio diversity, oil and natural gas, coal, limestone, hydro potential and forest wealth. Given the peculiar geo-political location, the region can develop cross-border markets, which are likely to be more cost effective for North East India' surplus production than the distant national markets. The region is famous for its exotic flora and fauna. It is ideally situated to produce spices, fruit & vegetables, flowers and herbs. Therefore, the North East India can emerge as an exporter of orchids, flowers, apple, orange, pineapples, spices, herbs, etc. to the South East Asian Region. The vast array of aromatic plants of the region can be used in aromatic industry for the manufacture of perfumes, incenses, etc. Rich bio-diversity, heritage sites & ethnic beauty can make it a destination for the tourists. Several big & small rivers flowing across this region are suitable to construct hydro projects to generate electricity. Moreover, owing to climatic advantage the region can also be a major producer and exporter of tea. In spite of resourcefulness the entire region is regarded as underdeveloped.

The **remoteness, difficult terrain, infrastructural bottlenecks and unfriendly neighbours** are the serious impediments of the development of the region. Being a border area, the region is suffering from specific problems like **illegal cross-border movements, law and order, security, insurgency, smuggling** etc.

Jammu and Kashmir:
The slow growth of the state of Jammu and Kashmir can be attributed to various factors.

The climate of **armed militancy** in Kashmir during the past decade has been a major factor. Low productivity in agriculture and allied sectors has impeded employment and income generation.

Poor industrial infrastructure along with the poor investment climate has left the industrial sector in its infant stage. There has not been a suitable strategy for the potential sectors to achieve higher economic growth.

Lack of good governance and sound fiscal management has also been responsible for the poor economic growth of the state.

The **special category status** is an**extra constitutional** arrangement. 32% of all sharable taxes are transferred to states. Apart from share in central taxes, receive grants from states.

A Planning Commission details these **criteria**: These features include:

- Hilly and difficult terrain,
- Low population density and/or sizeable share of tribal population,
- Strategic location along borders with neighbouring countries,
- Economic and infrastructural backwardness, and non-viable nature of state finances. States under this category have a low resource base and are not in a position to mobilise resources for their developmental needs" irrespective of their per capita income.

Major Problems:
As mentioned earlier, these states face several problems. We shall be taking some major issued and noting down the figures for these states and comparing them with the national average, then we shall sort out those parameters which have a low value compared with the national average. Then we shall calculate the correlation of these parameters with NCA, that is analysing that how effective is the present mechanism of distribution of funds from Central government to the states.

The factors are:
- **Population and population density**
- **Education**
- **Physical Infrastructure**
- **Per capita income**
- **Nature of geographical area (hilly or forest cover)**
- **Financial infrastructure (banks)**
- **Insurgency**
- **GSDP**
- **GSDP-NCA**
- **Contribution of agriculture to GSDP**
- **Some poverty indicators**

The major factors to be considered are elaborated as follows:

Population and Population density:
This is the most important feature of all special category states. A higher density of population of a region would essentially mean that it is an urban area with high buildings and other modern aspects, while the low density of population of region would mean that it is a rural area with a probability

there might be lack of modern amenities in the region. Low population is also because of difficult terrain like hilly areas. Also it implies that the level of development is very low in such regions as most of the area is uninhabited. Less GDP.

As can be even seen from the tables, the special category states have a very low population density. Hence this is a very important factor.

Education:
The lack of education is a major backlog of special category states. Education is the primary requirement of any developed society. It defines what kind of employment a person be eligible for. It also qualifies the individuals for jobs other than in the agriculture industry. Lack of education is a glaring problem in most of the special category states. We will now justify the need for considering education as a major problem of special category states by illustrating the level of education in various such states. **Primary school is considered a primary measure of educational infrastructure**
Manipur: it is one of the special category stated located in north-east India. In some border areas, there is only primary school in 1 sq.km. Most of the districts in the state have only one primary school per district. The schools also lack basic facilities. More ever the education institutions are restricted only up to primary and middle education only.

Arunachal Pradesh: The educational infrastructure of the two major districts is poor because there are only 132 primary schools in one district having 285 villages and only 18 primary schools in the other district having 266 villages. The distribution of primary schools in the surveyed Blocks is 40 and 7 in Nampong and Hawai Blocks respectively. Similarly, the number of ME, High and Higher Secondary schools both at Block and District levels is also low. (75)

Assam:Dhubri is a major district in the state in which 15% of villages don't have schools. In the border areas the situation is worse with 86% of villages without a secondary school. In only 28% villages, there is a college within 5 km. For 43.50% of the villages of the district the nearest college is at a distance of 10 kms.Baska district is another major district in Assam. The **school density i.e number of schools per 100 sq.km** is very less. (130) another major problem faced by the districts is the teacher to student ratio. The student: teacher ratio is 39:1 for primary schools and 61:1 for middle elementary.

- Density of schools per 10 sqkm: This is a fairly good measure to assess the quality of education in any state. However when we look at the values, it was observed that most of the states, special and non-special have almost same school density. The reason why non-special states have a higher density is because of Delhi which has an extremely high value of 28. Hence this factor does not accurately define if a state should be classified as special.
- Student-Teacher Ratio: An important factor which tells about the **quality** of education in a state. This value should be as low as possible, which means that the number of teachers is good compared to the number of students.

Physical Infrastructure:
This is a very important factor to be considered. Connectivity implies how well can the states communicate with the outer world. This determines the transport facility in the states. Roads constitute the principal mode of access and communication in the hilly and difficult terrains of the State. An important measure of connectivity of a state is the **Road density**, i.e the length of roads in km per 1000 square kilometres of area. As can be seen from the tabulated values, these states lag much behind the normal states. The average for these states is very low compared to normal states. This hampers the activities like trade.

Communication: The communication facilities are very poor in the state because the private service providers are not interested due to low profitability yields. Let us first analyse the north east region. The main issues in providing telecommunication services there can be summarized as follows:

o **Terrain Difficulties** – Most NER States have hilly terrain. As a result, wireless coverage in Base Trans-Receiver Station (BTS) shadow zones is a major concern. In most NER States there are several remote hilly locations that do not have road connectivity (even at sub-divisional locations). Reaching these locations is time-consuming and arduous. This severely impedes establishing and maintaining telecom connectivity viz. setting up of telecom infrastructure and operating and maintaining it.

o **Infrastructure issues** – In absence of a National Policy on telecom infrastructure for the country, State Governments and local bodies often take action that directly impinges on day-to-day operational issues which, in turn, impedes and delays setting up of telecom infrastructure. Numerous Government agencies and local bodies have to be approached for obtaining different permissions. At present, State Governments do not facilitate the setting up of telecom infrastructure by TSPs, through a single-window clearance system. Some key infrastructure-related issues faced by the TSPs in these States are discussed below:

o BTS Towers
TSPs face huge difficulties in locating new BTS sites. In some States, the Village Headman's/Local body's permission is required to erect a telecom tower for installing BTSs, and, more often than not, such permissions are routinely denied. A few States have banned erection of Roof Top Towers (RTT) especially after the 2011 earthquake. Moreover, houses in hill States, especially in rural and remote locations, do not have concrete roof on buildings; hence, erection of Ground Based Tower (GBT) is the only available option. However, land acquisition for erecting a GBT is beset with problems because of unclear land titles and commercial land usage clauses.

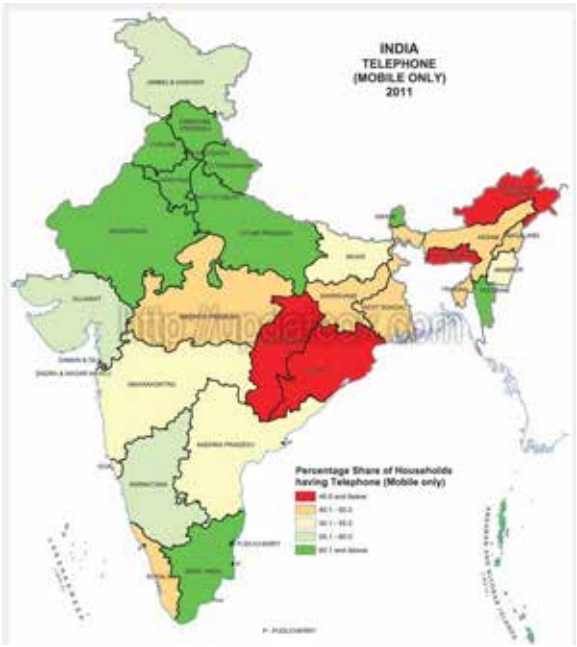
o Right of Way (ROW) permissions
In the absence of a clear mandate and the involvement of multiple agencies, getting ROW permission is very difficult. In addition, rates charged for reinstatements are very high, and TSPs simply cannot afford to pay the large sums involved as this would render the business unviable.

o Power related
Power supply in most of the States is both precarious and inadequate. Even in State capitals, electricity supply is restricted to 14 hours a day. To further exacerbate matters, most local communities do not permit running of Diesel Generators (DGs) between 6 pm to 6 am. In addition, in some States, very high captive charges are levied for running DGs. The experience of some TSPs in using solar power for running a BTS in the NER States has not been very encouraging as sufficient sunlight is not available due to climatic conditions.

o Optical Fibre Cables(OFC) related
Due to hilly and difficult terrain it is very difficult to lay OFC in the NER. As a result, the number of OFC Points of Presence (POP) in the NER States is very limited.

This delays operations and maintenance essential for telecom services.

The following map shows the distribution of telecom sector in India:



Per Capita Income: Per capita Income means how much an individual earns, of the yearly income that is generated in the country through productive activities. It means the share of each individual when the income from the productive activities is divided equally among the citizens. Per capita income is reported in units of currency. Per capita income reflects the gross national product of a country. Per capita income is also a measure of the wealth of a population of a nation when compared with other countries.

Geographical Area: The terrain type is a very important factor for considering development in a state. In fact it is so important that it is one of the factors that qualifies a state as being called a 'special category state'. The hilly states have been classified as special category states.

This is because the people of hill states bear a large part of the **opportunity cost** of providing essential ecosystem services to society at large. Yet they receive inadequate incentives for their conservation efforts and are often asked to bear additional burdens.

The difficult terrain and inadequate infrastructure especially connectivity, sharply increases the cost of service delivery in these areas. This is reflected in below par economic and social indicators of development in the hill states. Also mountains are vulnerable to catastrophic events also. The recent catastrophe in Uttaranchal stands testimony to this fact. To sustain the challenges provided by the mountain ecosystems, it is essential to promote positive conditions to motivate hill states to continue and enhance their efforts in conserving the ecosystems required to address the developmental needs. It is important that the strategy for development takes into account their special features (geographical, topographical, and socio-political characterstics).

Banks: The financial infrastructure in these states is very poor. The number of banks is very less. This is to a large extent owing to the low population density.

This gives less incentive to banks to setup more branches. More ever, it is difficult for banks to set up new infrastructure because of difficult terrain. To assess the level of bank development in these states, we have divided population by number of banks. This gives us an estimate of the number of people who are served by one bank. The figures may not give a very clear picture of the state of financial development because the good districts of the state might have all the branches while the more difficult may have none,that is the bank distribution is not uniform within the state. However we still get an idea of how much load does a bank branch have in such states.

This has detrimental effects since farmers, who constitute the major workforce in these states find it difficult to borrow money. Many large districts have only one bank in the entire area and people find it difficult to carry out bank transactions.

International Border and insurgency:This is also one of the primary factors considered while assessing the special category states. In our case, all the special category states have an international border. For instance, the Naga insurgence, which started in the 1950s, known as the mother of the Northeast insurgencies, is one of the oldest unresolved armed conflicts in the world. In total, Manipur, Assam, Nagaland and Tripura have witnessed scales of conflict that could, at least between 1990 and 2000, be characterised as low intensity conflicts. Currently, most of the states in the region are affected by some form of conflict, expect for Arunachal Pradesh, Mizoram and Sikkim in which the situation is at the moment relatively stable.

The backdrop to many of the Northeast's conflicts is **immigration** from rest of the sub– continent and the resultant fear of**minoritization**by many of the region's indigenous ethnic groups.The Partition of India intensified the migration pressure on Assam and Tripura since Hindu refugees now joined the flow. Tripura's demography changed within two decades as Bengalis became a powerful majority. The fear that other North-eastern states would go the Tripura way weighed heavily on indigenous people and early settlers throughout the Northeast and provoked more militants to take up arms**. The broad racial differences between India and its Northeast and the tenuous geographical link (the chicken neck Siliguri Corridor) contributed to a sense of alienation, a feeling of 'otherness' that subsequently gave rise to a political culture of violent separatism**. The reasons for the respective conflicts are wide ranging from separatist movements, to inter-community, communal and inter-ethnic conflicts. The Indian government's past and ongoing processes of national integration, state-building and democratic consolidation have further aggravated the conflict scenario in the region. For instance, the eight states comprising the Northeast is populated by nearly 40 million inhabitants who vary in language, race, tribe, caste, religion, and regional heritage. Therefore, most often, the clubbing of all these states under the tag of 'northeast' has tended to have a homogenizing effect with its own set of implications for policy formulation and implementation; not to mention local aversion to such a construct. For the purpose of assessing, the states have been assigned either indices of 1 or 0.

Gross State Domestic Product:Gross State Domestic Product (GSDP) is the total monetary value of all the final goods and services produced by an economy during a given period of time (generally a year) accounted without duplication. Like GDP, it is a measure of the economic activity of a state. An increase of effective demand will increase GDP. GDP is expressive of three factors. These three represent the level of development in a state. All three are deeply interconnected.



Central Assistance: Expenditure of the states (or the union) is classified as plan and non-plan expenditure; plan expenditure pertains to expenditure allocated by the Planning Commission to meet the requirements of the states' annual plans and five-year plans which are supported by central assistance. States are entitled to get the following types of central assistance for their annual plans and five-year plans:

- Normal plan assistance for central plans and state plans;
- Additional plan assistance for implementation of externally assisted projects; and
- Additional plan assistance for CSSs like Mahatma Gandhi National Rural Employment Guarantee Scheme

The central assistance to the states comes in various forms:

- Normal Central Assistance**(NCA)**
- Additional Central Assistance**(ACA)** for externally aided projects**(EAP)**
- Special Central Assistance**(SCA)** for hill and border areas

The **Gadgil formula** is applied to give NCA to states. NCA is the most important component of the central assistance to the states. Before the Gadgil formula was applied to determine the NCA, the existing states which would later become the special category states used to receive less than 10% of the total NCA for all the states. After the implementation of the formula, their share gradually increased over the successive plan periods to reach more than a third of the total NCA for all the states during the Eleventh Plan. Side by side their numbers also went on increasing, but in respect to NCA, the Gadgil formula did make a difference to special category states. Before the Gadgil formula was applied to determine the NCA, the existing states which would later become the special category states used to receive less than 10% of the total NCA for all the states. After the implementation of the formula, their share gradually increased over the successive plan periods to reach more than a third of the total NCA for all the states during the Eleventh Plan. Side by side their numbers also went on increasing, but in respect to NCA, the Gadgil formula did make a difference to special category states.30% of the centre's gross budgetary support for plan expenditure goes to the special category states. Earlier, plan assistance was given to the general category states by way of **grants and loans in the ratio of 30% and 70% r**espectively. In the case of special category states, however, **90% of plan assistance was given as grants, and only 10% as loans.**

GSDP-Central Assistance: This was another factor which was observed for these states. This variable told about how heavily dependent are the special category states are dependent on the government for central assistance. As expected, the major portion of the GSDP of these states comes from Central assistance from the Government.

Tax to GSDP ratio: The central plan assistance to states had a counterpart in the interest rate charged by the central government on the plan loans given to the states, which was much higher (by about 3%-4%) than the cost of funds to the centre, i.e the market rate of interest, and hence could become a source of funds to the centre at the cost of the states. States experience high tax-Gsdp ratios because of high fiscal deficits and low growth rate. There is very less debt sustainability. An important problem these states face is the significant proportion of contingent liabilities to GSDP. Public expenditure plays an important role in growth pf GSDP in special category states. Private investment is negligible. Thus, growth mainly comes from government spending. In a situation, where primary expenditure is compressed, automatically the victim is the developmental capital outlay, which ultimately results in reduction in growth. This was a factor analysed for assessing performance of states.

Share of STs in the states: The Scheduled Tribes have been a long discriminated against caste in India. The STs account for 8% of total population. They are concentrated in central and north-eastern parts of India. Another important problem is their isolation from the mainstream on account of geographical location. This is especially true of the north-east where STs are in a majority in several small States. However an important point to note is that there is difference in the status of STs who live in the north-eastern states (our area of interest) and those who live in central India.

There is a qualitative difference between the development experience of STs in the north-east and in the central regions. In the north-east where they are in a majority and have the freedom to shape their destiny the outcome in terms of economic, social and human development has been better. In other parts of the country where tribals are dominated by others, their living conditions have not significantly improved. Often-they become victims of exploitation by non-tribals in various ways. They are often alienated from their own land and made to work as bonded agricultural labour by usurious money lenders. The fate of the tribals has not realty improved even in the two newly created tribal States of Chhattisgarh and Jharkand. In both States the real economic and political power is wielded by the non- tribal majority. Therefore though we have noted down the %share of STs in different states, we are not really considering this share as a probable parameter. There are many rich STs in NE India and we cannot consider their share to determine the central assistance of these states.

Poverty: For this we haven't considered the people below poverty line or similar indicators. We have considered a few parameters which are a *measure*of the economic status of an individual or a family. These have been decided on common sense:

- **% of households having concrete roof**: This has been chosen considering the fact that a secure house is the basic requirement of a person. Concrete has been specified to denote a reasonable standard of living because concrete is a decent material which must be used to make the houses.

- **% of households with TV/computer**: computer might represent affluence slightly, however TV is a basic requirement which highlights a decent standard of living.

- **% of household with no vehicles**: Apart of representing a class of people who have basic modes of transportation, this is an indicator of another important factor. Lack of vehicles also tells that these areas are highly inaccessible and often people belonging to difficult terrain remain confined to that place for long period of time. This is a problem which has been discussed before.

- **No lighting:** This is also an important factor to be considered. This is representative of very low level of income so as not to be able to afford electricity. Also it represents very less developed areas which do not have access to even electricity.

- **Access to drinking water:** This is also a very basic and primary requirement of a household. Availability of potable water is very necessary.

% contribution of agriculture to GSDP: Most of the special category states are havily dependent on agriculture. There is very little or no industry, with a result of which there is very less contribution of manufacture or service sector. This is because owing to very difficlut terrain in such states, these are very less lucrative for industries. Less population density means less workforce and less customer base. Agriculture is the primary source of employment in such states.

ANALYSIS OF EXISTING SYSTEM OF ALLOCATION OF NCA TO SPECIAL CATEGORY STATES:

Currently the method of allocation is that 30% of NCA are given to special category states. The remaining 70% is given to non-special states according to the Gadgil formula which allocates funds according to following distribution:

	Criteria	Weight
1.	Population	60
2.	Per Capita Income (a) Deviation method (b) Distance method	25 20 5
3.	Performance (a)Tax effort (b)fiscal management (c)progress	7.5
4.	Special problems	7.5

A noticeable feature is that **there is no proper formula to allocate funds to special category states**. Also, it is to be mentioned that even though the number of special category states increased from only three in 1969 to 11 in 2001, its kitty of 30% of the central plan funds, after setting aside funds for externally aided projects and special area programmes in certain states, remained unchanged – there was no proportionate increase in resources set out for this category as new states were added on. In the books of Finance and planning Commission it is merely mentioned that 30% funds should be diverted for the special category states, without considering their individual needs and economic, financial and infrastructural status.

From the data we collected, the correlation between the parameters we deemed appropriate to be considered for allocating funds to the states and NCA was examined. This is tabulated below:

Sno.	Parameter	Correlation
1.	Total Area	0.82
2.	%hilly area	-0.68
3.	%forest cover	-0.73
4.	Share of STs	-0.55
5.	Contribution of agriculture to GSDP	0.4
6.	Population	0.87
7.	School density	0.3
8.	Road Density	0.23
9.	GSDP per population	-0.41
10.	Population per banks	0.02
11.	Concrete roof	0.05
12.	TV or comp	-0.1744
13.	No vehicles	-0.22
14.	No lighting	0.296
15.	Access to drinking water	0.308
16.	(GSDP-CA)/pop	-0.3
17.	(GSDP-CA)	0.79

As can be seen from above table that there is no coherent relation between our parameters and NCA. The three parameters on which NCA shows a strong correlation are:

- Population
- Area
- GSDP-CA

A big irony which can be seen is that hilly areas is a parameter which qualifies a state as 'special' and the proportion of hilly areas has absolutely no relation with the NCA allotted. In fact the correlation is negative bringing the fact to the fore that the allocation has been random. NCA has no relation with other developmental parameters. In fact it shows a negative correlation with following:

- %hilly area
- %forest cover
- Share of STs
- TV or comp
- No vehicles

There is no relation with proportion of STs which makes sense because it was mentioned earlier that STs represent a very distorted view of the level of development in a state.

Rest of the parameters show little or poor correlation. All these parameters were chosen with care, they all represent the level of development of the state. However the NCA allotment doesn't go in tandem with these parameters. This is sad, because a systematic formula was developed for the non-special states, namely the Gadgil formula. However the states which require more attention are being allocated the funds randomly without paying any regard to their requirements. The government is just dumping its resources to these states. Without properly looking into the need of these states, it is imprudent to allocate resources like this. Though the fund allocation is appreciable, the mechanism is vague as highlighted by the correlation values.

Conclusion:

The special category states represent a significant fraction of the country : 11 out of 29 states are categorized as special. Even though the central gives a huge chunk of funds to them, the allocation is arbitrary. The needs of states are not really addressed in this. Hence some main factors were considered and analysed. It was found that the correlation between our indicators and fund allocation came out to be pretty poor. This calls for a need to address this issue and devise a formula for the same.

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