

CHAPTER XIV

FINANCING OF RELIEF EXPENDITURE

Provision of relief to victims of natural calamities is one of the basic responsibilities of State Governments in India and requirements in this regard have been taken into account by the Finance Commissions. But this time, we have been asked to make a somewhat more detailed enquiry into the several aspects of financing of relief expenditure. Our terms of reference in this regard are :

“The Commission may review the policy and arrangements in regard to the financing of relief expenditure by the States affected by natural calamities and examine, *inter alia*, the feasibility of establishing a National Fund to which the Central and State Governments may contribute a percentage of their revenue receipts.”

2. In a predominantly agrarian economy like ours, the failure of crops over large tracts resulting from deficiency or failure of rainfall necessitates State intervention on a large scale for provision of alternative opportunities for employment, supply of foodgrains and other essentials at fair prices and initiation of protective and preventive works against recurrence of similar calamities in the future. The State has to step in when other natural calamities such as floods, cyclones and earthquakes cause extensive damage to crops and property. Even prior to Independence, it was one of the main tasks of the administrative machinery to tackle emergencies of this nature and consequently, rules and instructions for the guidance of field staff in administering programmes of relief came to be codified. Famine Codes are available in many of the States and some of them have been updated. These codes, despite many deficiencies, assured a reasonable measure of uniformity among the States in their approach to problems of relief. However, the practice, envisaged in these Codes, of keeping ready a list of works to be taken up for execution as relief programmes appears to have fallen into disuse in many States. The result is that in an emergency relief works are in many cases taken up on an *ad hoc* basis with inadequate attention to their long term utility. Also, one cannot but feel perturbed by the sharp increase in expenditure on relief particularly since 1966-67. As against an annual average of expenditure of Rs. 13.41 crores during the period of the Third Plan, expenditure under “64-Famine Relief” in State budgets rose to an average of Rs. 81.01 crores during the period of the three annual Plans. This rising trend gathered unprecedented momentum during the period of the Fourth Plan. The expenditure which stood at Rs. 151.87 crores in 1969-70 rose to an all time peak of Rs. 318 crores in 1972-73. Central assistance to the States for financing such expenditure has also registered an

equally disturbing increase as will be seen from Table 10 in Appendix VII. In fact Central assistance to some States for drought relief has far exceeded the assistance for the Plan.

3. In the light of the massive expenditure at present undertaken by many of the State Governments, the provisions made by Finance Commissions in their awards for famine relief have lost their significance. In terms of the policy as defined in September 1966, Central teams are to be deputed to make an on the spot assessment of the situation created by a natural calamity and to recommend ceilings of expenditure to be incurred on relief measures, loans for rehabilitation, repairs to public properties damaged in cyclones, floods or earthquakes. Of the various types of expenditure on natural calamities, expenditure on relief measures alone is shareable by the Central Government to the extent of 75 per cent in excess of the margin provided for by the Finance Commission, 50 per cent as loan and 25 per cent as grant. Of the remaining 25 per cent of the relief expenditure, the expenditure on loans to third parties and on repairs is expected to be met by the State Governments themselves. But if the ways and means position of the States is difficult, loans can be obtained from the Centre.

4. We have been given to understand that sometime last year, the concept and the scope of relief assistance as embodied in the policy enunciated in 1966 was significantly altered. In particular, the practice of imposing ceiling was given up towards the middle of 1972. It is not surprising that since then relief expenditure has reached alarming proportions. It is difficult to explain the striking increase in the magnitude of expenditure on drought relief programmes since 1966-67 purely in terms of the increasing severity of the natural calamities. It is our distinct impression that there has been a good deal of avoidable waste in the expenditure incurred in the name of drought relief and also that with better planning and organisation more enduring benefits could have been secured. It is possible that the constraint of resources for developmental programmes in the Plans has in a few cases led to pressures by the States on the Centre for larger assistance in the form of drought relief. While it could be argued that utilisation of relief funds on works of permanent value that should normally be accommodated within the Plan is in national interest, the distribution of Central assistance for drought relief, outside the framework of Central assistance for Plans, tends to set at naught the formula for distribution of Central assistance evolved according to the criteria approved by the National Development Council. The present system of assistance for natural calamities has

thus introduced serious distortions in the scheme of allocation of Central funds among the States and if continued any longer will accentuate inter-State jealousies and rivalries. The elaborate exercises, which are undertaken by the Finance Commissions and the Planning Commission, to settle the distribution of Central resources on a fair and rational basis among the States on an over-all assessment of the relative economic and financial position and needs of the States lose their relevance altogether, if Central assistance for purpose of drought relief determined on an *ad hoc* basis tends to assume large dimensions. We have no hesitation in urging that if the serious distortions and inequities caused in our scheme of federal finance by mounting expenditure on relief are to be corrected, whatever assistance is provided to a State for drought relief or flood control should be adjusted against the ceilings of Central assistance for the Plan. This should not cause great hardship to any State or impair its capacity to meet its genuine requirements of relief expenditure because we visualise very large increases in the outlays in Central and State Plans on programmes of development of drought prone areas. We are also providing for a substantial increase in the present margins under "64-Famine Relief" within the framework of our award.

5. The existing arrangements are also open to another serious objection. The Central teams entrusted with the task of assessing the requirements of relief are usually constituted at short notice and have to complete their assessment of the situation within a short period. Their visits to affected areas thus tend to be brief. As they are composed of representatives drawn from various Ministries who are pre-occupied with their own other work, the teams can at best make only a very broad judgment on the needs of the States in the light of the data provided by the State Governments themselves. The Central teams have no effective means of checking such data and their findings by and large tend to be of an impressionistic nature. There is also no satisfactory arrangement anywhere in the Central Government to keep close and critical watch on the implementation of the recommendations of the Central teams.

6. Expenditure on drought relief has been unusually high and has been escalating sharply since 1966. What is more disturbing is that a good deal of relief expenditure has been incurred on schemes formulated in desperate hurry which turn out to be therefore largely unproductive without any appreciable effect on the permanent improvement of the areas prone to drought and floods. It is possibly because of serious dissatisfaction with the present arrangements for financing of relief expenditure on the existing scale and pattern that the concept of a National Fund on a contributory basis has been posed to us for examination. We have given careful thought to the *pros* and *cons* of setting up of such a Fund and have also ascertained the views of the State Governments. It is not quite clear whether the Fund as envisaged is to be a passive accounting mechanism for the earmarking of resources for relief operations on a contributory basis or whether it is to be an active agency providing direction and guidance in the formulation, appraisal and execution

of relief programmes. The Fund, with its scope as enlarged to cover these aspects of relief programmes, would to an extent meet the need for a single focal point at the Centre for coordination of the present somewhat disjointed efforts of various Ministries in coping with the problems caused by natural calamities. The National Fund, with an administrative arm of its own may also be expected to promote more purposeful inter-ministerial cooperation on a systematic basis. It should also be able to acquire over a period of time the necessary expertise for collection of data, monitoring of relief measures and review of programmes of long term significance in areas known to be vulnerable to periodic ravages of droughts or floods. It is quite possible that the concept of a National Fund for relief to which different States contribute would carry with it a great deal of emotional appeal. It would serve to provide a rallying point for the expression of nationwide concern for victims of natural calamities. In other words, contributions to such a National Fund would underscore a sense of participation by all States in a common cause.

7. While the concept of a National Fund may thus seem to have some merits, we cannot ignore the practical difficulties of a serious nature which are bound to arise in the constitution and administration of the Fund. It is necessary to be clear about the scope and functions of a National Fund. If the word 'relief' is interpreted in its narrow sense as confined to provision of gratuitous relief to those affected by natural calamities, there would hardly be any need for setting up such a Fund, because even now the expenditure on gratuitous relief is relatively small. If the relief fund is at all to play an effective role, it should be vested with responsibilities for relief in the larger sense of the term so as to include provision of employment, rehabilitation of affected population through assistance in cash or kind, repairs of public properties and buildings or reconstruction of houses. It is obvious that some of these programmes can be financed only on a loan basis. This would mean that the Fund will also have to assume the role of a creditor. Thus, the fund will get involved in the screening of the proposals from the State Governments and in the assessment, both in qualitative and quantitative terms, of utilisation of funds by the State Government. Some of the programmes will lead to the establishment of a creditor-debtor relationship between the Fund and the State Governments and introduce an additional complication in our Federal financial structure. The Fund cannot also refrain from advising the State Governments on the scale and appropriateness of relief in various forms. The provision of relief is such a sensitive issue that it often gets politicised. It is doubtful if a Fund set up outside the Government would be able to deal successfully with issues which have political implications. Further, in the event of widespread natural calamities like flood or drought, the Central Government will naturally come under strong pressure to go all out and provide assistance to the affected States. The availability or otherwise of resources in the National Fund will then cease to be relevant in determining the assistance to be extended to the States. Thus the concept of a National Fund will break down completely when the country

is struck by serious calamities. At the same time, the States will come to look upon assistance from the National Fund at least to the extent of their contribution as legitimately due to them. Thus there is a risk of the Fund being depleted even in normal years, while in years of adversity it may prove wholly inadequate. The determination of contribution of individual States to the Fund will pose both conceptual and practical difficulties not dissimilar to those now met within the distribution of Central resources among the States. No formula, however skilfully devised, is likely to be acknowledged fair by all the States. It is also clear that whatever be the formula, some of the States will be called upon to contribute appreciably more to the pool than they are ever likely to draw from it. This new concept of a contributory fund will not therefore be relished by such States. In these circumstances, we apprehend that the question of States' contribution to the National Fund might well become yet another irritant in Centre-State relations.

8. One can conceive that annual appropriation to a fund of this nature may minimise dislocations of the budgetary position of the affected State Governments. However, from the point of view of the impact of the relief expenditure on the aggregate demand in the economy during any period, it is the expenditure actually incurred during that period, whether financed within or outside of the resources of the Fund, which is of significance. Therefore, in any given period, what is of importance from the view point of the inflationary impact of such expenditure is that it should be subject to the utmost possible restraint.

9. A majority of the States are also opposed to the setting up of a National Fund. Andhra Pradesh, Assam, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Meghalaya, Nagaland, Orissa, Tamil Nadu, Uttar Pradesh and West Bengal are opposed to the establishment of a National Fund. Mysore would favour the creation of a National Fund but only if no contribution is required from the State. Bihar, Himachal Pradesh, Kerala, Rajasthan, Tripura and Manipur support the proposal for a National Fund with an element of contribution from the States. But it should be recognised that some of these States would, in terms of our other recommendations, qualify for a grant under Article 275 and their contribution to the National Fund would, therefore, in effect come out of the Central resources. Punjab has no particular objection to the establishment of a National Fund and would be prepared to contribute, if established. It is clear that many of the States have reacted adversely to the establishment of a National Fund because it would entail a contribution from the State revenues and also, perhaps, some surrender of authority to an outside agency.

10. In the light of our analysis of the advantages and disadvantages of the establishment of a National Fund, and the views expressed by the State Governments, we have come to the conclusion that the establishment of a National Fund, fed by Central and State contributions, is neither feasible nor desirable.

11. At the same time we are convinced that the present arrangements for providing assistance to the States for meeting expenditure on relief operations in terms of the policy enunciated in 1966 need to be completely overhauled. The existing arrangements suffer from two serious defects. Firstly, the States have no incentive for economy in expenditure on relief or in maximising results for the expenditure incurred. They try to get as much as possible by way of Central assistance for drought relief, because in the overall scheme of fiscal transfers from Centre to States this is almost the only element for which no clear guidelines have been laid down for State-wise distribution and therefore in respect of which there is considerable room for exercise of discretion. Secondly, the schemes on which relief funds are utilised are not always integrated with the overall Plans for development of the areas prone to droughts or floods.

12. Alternative schemes for tackling effectively the problems of relief of distress and development of drought/flood prone areas should be designed to overcome these two basic defects of the existing system. We suggest that detailed programmes of both medium and long term significance for permanent improvement of the areas liable to drought and flood should be drawn up with the utmost urgency and these programmes fully integrated with the Plan. These schemes prepared in advance and arranged in a suitable order of priority can be taken up for implementation as soon as a natural calamity actually strikes a State or a region thereof. This arrangement would definitely produce better results than the present practice of formulating schemes in despatched hurry after the actual onset of the natural calamity in an attempt to absorb as much Central assistance as can be secured. As the programmes for the development of these areas would have been examined by the Planning Commission and the concerned administrative Ministries in advance as part of their general scrutiny of State Plans, there will be no need for State Governments to await the clearance of Central Government or its agencies before actually taking up the scheme for execution. While in normal years the schemes included in the Plan for development of drought/flood prone areas will be included according to the annual phasing visualised in the Plan, the pace of execution of such programmes should be suitably accelerated when the area is stricken by natural calamities. The additional funds needed for such acceleration of the programmes should be provided through advance release of Central assistance for the Five Year Plan. Such advance release of Central assistance for the Plan in a year in which a State is stricken by a natural calamity will not only meet its immediate needs but also expedite the process of development of drought affected areas. At the same time, the States would be put on notice from the beginning that any assistance which is thus secured by them would be subject to the overall ceiling of Central assistance for the Plan period as a whole. This should effectively deter them from inflating the expenditure. We, therefore, propose that the provisions needed for the development of drought prone areas should form a distinct part of

State and Central Plans. Likewise programmes of flood control should also form an integral part of the Plan.

13. The need of the hour is a massive time bound programme of action which aims at substantially reducing, if not completely eliminating, the vulnerability of the drought and flood prone areas to these calamities. Provisions are now available in the Central Plan for development of drought prone areas in selected districts. There is reason to fear that the needs of drought prone areas have not received the recognition due in our earlier Plans. However, in the Fourth Plan some provision was made in the Central Sector for the development of selected drought prone districts. The mounting scale of expenditure on provisions of relief lends urgency to the need for finding a permanent solution for the economic advancement of areas in which occurrence of drought or floods is endemic. We strongly urge that instead of incurring large scale expenditure on relief on an *ad hoc* basis on schemes of dubious value, provision ought to be made on a much larger scale for development of drought and flood prone areas in the Fifth Plan both in State and Central sectors.

14. We are, however, aware that States, which are constitutionally responsible for provision of relief, may often be called upon to deal with situations caused by localised failures of crops or distress caused by floods, cyclones and the like and other calamities. In our view, States should be enabled to tackle on their own any such situation without having to invoke Central assistance. We, therefore, feel that the provision of a reasonable margin in the forecasts of State expenditure should be considered as a legitimate charge on the revenue accounts of the States. We have carefully considered the basis on which such margins could be fixed. Of course, by far the most scientific basis for determination of the margins would be to assess the proneness of different areas in the States to occurrence of droughts or cyclones or other natural calamities with reference to meteorological and other data. But for all practical purposes, a reasonably satisfactory formula for assessment of the needs of the State would be the average level of expenditure as recorded in the past. As indicated already, expenditure on drought relief has arisen to dizzy heights in the last few years and it will neither be possible nor desirable to sustain expenditure at these levels without serious detriment to other programmes of development.

15. We have determined the provisions needed by the States for gratuitous and other relief on the basis of average of expenditure under "64-Famine Relief" over the period from 1956-57 to 1971-72 inclusive. We have left out expenditure incurred in 1972-73,

both because 1972-73 was clearly an abnormal year and also because the actuals of the year are yet to become available. The provision under "64-Famine Relief" in West Bengal, as pointed out by earlier Commissions, includes some element of expenditure which is not classifiable under this head. Some adjustments have, therefore, been made on this account. The provisions for Nagaland and Manipur have had to be fixed on an *ad hoc* basis.

16. Accordingly, we recommend the following provisions under "64-Famine Relief" for different States:

(Rs. crores)	
States	Annual Provisions
1. Andhra Pradesh	4.31
2. Assam	1.25
3. Bihar	4.61
4. Gujarat	4.55
5. Haryana	1.24
6. Himachal Pradesh	0.03
7. Jammu & Kashmir	0.35
8. Karnataka	1.91
9. Kerala	0.30
10. Madhya Pradesh	3.41
11. Maharashtra	4.17
12. Manipur	0.04
13. Meghalaya	0.04
14. Nagaland	0.02
15. Orissa	3.58
16. Punjab	0.33
17. Rajasthan	10.19
18. Tamil Nadu	1.52
19. Tripura	0.07
20. Uttar Pradesh	2.18
21. West Bengal	6.61
TOTAL	50.71

We have taken these figures into account in arriving at the grants, if any, needed by the States under Article 275 of the Constitution.