Chapter IX

Calamity Relief

9.1 Para 10 of our Terms of Reference requires us to review the scheme of Calamity Relief Fund (CRF) and to make appropriate recommendations thereon. The CRF has been established separately for each State on the basis of the recommendations of the Ninth Finance Commission. The earlier arrangement in this regard was provided at the behest of the previous Finance Commissions and was commonly called the 'margin money scheme'. The term was first used in the report of the Second Finance Commission, which had provided in its assessment of the revenue needs of each State a specified sum ranging from Rs.10 lakh to Rs.100 lakh, as a margin for meeting the expenditure on natural calamities. These sums were to be kept in a separate fund, the annual balance of which was to be invested in readily encashable securities. This arrangement was broadly continued by the Finance Commissions up to the Eighth Commission. The Sixth Finance Commission was specifically asked by the President, for the first time, to review the policy and arrangements in regard to financing of relief expenditure by the States. It recommended for continuation of the margin money arrangements and, at the same time, for systematic development of the drought and the flood prone areas through plan programmes. The terms of reference of all the subsequent Finance Commissions included this item. The Seventh and Eighth Finance Commissions too generally continued with the arrangements recommended by the earlier Commissions. The size of the margin money provided for the States increased gradually from Rs.6.15 crore per annum (Second Finance Commission) to Rs.240.75 crore per annum (Eighth Finance Commission).

9.2 The contribution of the Central Government in the calamity relief expenditure of the States, as evolved during the course of the Second to the Eighth Finance Commissions had included a share in the margin money, advance Plan assistance in the form of grants and loans, special central assistance as grants and loans, etc. The procedural arrangements for obtaining Central Government's assistance required submission of memorandum by the State to the Centre and visit of a Central Team to the State. The Ninth Finance Commission (NFC) mooted a near fundamental change in this approach, by recommending creation of a Calamity Relief Fund (CRF) for each State to which the Centre and the State were to contribute in a ratio of 75:25, and by doing away with different forms of Central assistance, requirement of the visits of the Central Team to States etc. To determine the size of the CRF for a State, the NFC considered the average of actual ceiling of expenditure approved for a State over the ten year period ending 1988-89. The total amount for the CRF for all States was worked out at Rs.804 crore per year. The Tenth Finance Commission re-determined the size of the fund for each State taking into account the average of the aggregate of ceilings of expenditure for the years 1983-84 to 89-90 and the amount of Calamity Relief Fund for the years 1990-91 to 1991-93. The amounts so worked out for all the States were adjusted for inflation up to 1994-95 and thereafter, at graduated rates with the same elasticity as for other non-plan revenue expenditure up to 1999-00. The amount thus worked out for all the States for the period 1995-00 was Rs.6304.27 crore.

9.3 The Tenth Finance Commission had also recommended the setting up of a separate Central fund - the National Fund for Calamity Relief (NFCR) - under the Ministry of Agriculture, to provide assistance to the States affected by natural calamity of rare severity. It held the view that if a calamity of rare severity occurs, it should be dealt with as a national calamity, requiring additional assistance and support from the Centre, beyond what is envisaged under the CRF scheme. Moreover, the national dimensions of such a calamity would entail assistance from other States too, both in terms of financial support and material help. The Commission, however, did not provide a definition of 'calamity of rare severity'. It fixed the size of the NFCR at Rs.700 crore, to be built over the period of 1995-00, to which Centre and the States would contribute in the ratio of 75:25.

9.4 We have received a variety of suggestions and views of Central Ministries on the continuance, or otherwise, of the Scheme of CRF with or without modifications in its size, ratio of contribution and related operational issues. Ministry of Finance have suggested that the quantum of CRF for each State may be determined on the basis of average actual expenditure on natural calamities and not on the average amount of the CRF in previous years. Ministry of Agriculture had in the earlier memoranda suggested the freezing of CRF at the existing level and augmentation of NFCR. In a subsequent note it was stated that the system of CRF and NFCR be dispensed with and instead the State Government should be allocated adequate funds to take care of the immediate requirements for providing relief. This, in effect, means that the Central Government should continue to extend support for relief operations, albeit of immediate nature, and the funds may be made available to the States on the basis of the recommendation of the Finance Commission without any rigors of control over the investment and expenditure. We are unable to agree to this suggestion of the Ministry of Agriculture in so far as it relates to CRF. We are of the view that funds allocated by the Central Government should be used only for relief operations, and should, therefore, be kept in a separate fund where there is a possibility of augmenting it through suitable investments. There is, thus, ample justification for continuing with the CRF.

9.5 There is also a general consensus among the States on the continuance of CRF with augmentation of the fund and some modifications. Andhra Pradesh has suggested that the size of CRF for each State should be determined after taking into account the actual expenditure incurred by the State on relief, the State's proneness to cyclone, drought, flood etc., tax remissions extended and the magnitude of losses suffered by the State due to the calamity. Arunachal Pradesh has suggested that the corpus of CRF should be enhanced five times. Assam and Bihar have suggested that in determining the size of the fund, considerations such as average actual expenditure on relief measures in the past should be dispensed with, as very often resource constraints prevent a backward State from meeting the full requirements of administering relief. Assam has suggested that the size of the State's CRF be raised to Rs.200 crore. Bihar and Gujarat have suggested that there should be a suitable increase every year to account for inflation. Gujarat has further suggested that the occurrence of natural calamities in quick succession should also be taken into account while determining the size of CRF. Himachal Pradesh wants its annual entitlement to be at least 25 per cent of the average annual damages assessed since 1995-96. Jammu & Kashmir, Mizoram and Tamil Nadu have stated that the major head 2245 - Relief on account of natural calamities (or the erstwhile '64 - Famine Relief') was not the only head whereunder the relief expenditure was booked and, therefore, the size of the CRF should be determined after considering all such expenditure booked under various heads. Karnataka has suggested that in determining the size of CRF, the proportion of a State's unirrigated area should be considered and also that the fund should be enhanced substantially. Kerala has recommended an increase in the CRF by 90 per cent. Madhya Pradesh, on the other hand, has suggested that contribution to the CRF should be made at the rate of 1 per cent of the gross tax receipts of the Centre and horizontal distribution should be based on intensity, regularity and the duration of relief required. Rajasthan is of the view that CRF should be determined on the basis of past expenditure with adequate adjustment for inflation. Uttar Pradesh has emphasised the need for taking into consideration the actual relief expenditure and the inflation factor. Goa, Haryana, Maharashtra, Nagaland, Orissa, Punjab, Sikkim and Tripura have sought substantial step up in the corpus of CRF without indicating any specific criteria for assessment.

9.6 A careful consideration of different suggestions put forward by the States shows that their main emphasis is to raise the corpus substantially and for this purpose to take into account the expenditure incurred on calamity relief under different heads of account. However, it is seen from the expenditure data of the States that it is very difficult to distinguish between the expenditure incurred for calamity relief and other normal expenditure under various heads of account. States are expected to ensure the booking of expenditure on gratuitous relief, supply of fodder, drinking water, veterinary care, housing, etc. on account of natural calamities in various sub-heads under the major head 2245. We, therefore, do not find it feasible to consider the expenditure booked under various major heads of accounts for fixing the corpus. We are also unable to accept some of the other criteria suggested by the States, namely, State's proneness to natural calamities, magnitude of losses suffered by a State during a calamity, occurrence of natural calamities in quick succession, etc., as it is difficult to assess them on a uniform basis across the States. All these factors are, however, reasonably captured in the expenditure incurred by a State on relief in any year. We are, therefore, of the view that the most appropriate and objective manner of assessing the relief expenditure is to take into account the expenditure booked under the major head 2245 only. We do, however, share States' concern with regard to the factor of inflation. We have, therefore, taken into account the average annual expenditure booked under the major head 2245 during the period 1987-88 to 1998-99 at 1998-99 prices after fully adjusting for inflation on the basis of consumer price index for industrial workers. Expenditure on natural calamities widely vary from year to year and expenditure over a short period may not reflect the requirements in future. We consider that a period of 12 years would adequately capture the recent trends in the occurrence of natural calamities in various States. The amount so worked out has been projected up to 1999-00 on the basis of estimated inflation and provision for each year up to 2004-05 has been made assuming the current rate of inflation. However, where the average expenditure works out to be less, the allocation for the year 2000-01 has been maintained at the level of 1999-00, to ensure that no State gets less than what it was getting earlier.

9.7 The existing scheme of CRF provides for contribution of 25 per cent by the States and 75 per cent by the Centre. Ministry of Agriculture has favoured continuance of this ratio. Many States have, however, represented that the share of States in the contribution to the CRF be reduced. Andhra Pradesh, Arunachal Pradesh, Bihar, Gujarat, Haryana, Karnataka, Kerala, Orissa and Tamil Nadu have suggested that the contribution of the States should be reduced to 10 per cent, while Tripura has suggested that it should be kept at 15 per cent. Assam, Himachal Pradesh, Madhya Pradesh, Mizoram and Nagaland are of the view that the entire fund should be provided by the Centre as grant. We have considered these suggestions. It is the primary responsibility of the States to incur necessary expenditure on the immediate relief whenever a natural calamity occurs. The role of the Centre is to provide supplementary assistance to the States as it may not be possible for a State to immediately come forward with sufficient funds to meet natural calamities which occur suddenly and with intensity. Raising Centre's share to 85 or 90 per cent may also lead to inflated demands on the CRF. Lastly, the financial constraints of the Centre would require that this burden should be shared by the States too, to a significant extent. Considering all these factors, we recommend that share of the States in the CRF should be retained at 25 per cent.

9.8 Assam and Bihar have stated that the past expenditure alone should not determine future allocations since many weak States could not spend adequately for relief due to paucity of funds. We have identified six States, namely, Assam, Bihar, Orissa, Madhya Pradesh, Uttar Pradesh and West Bengal in this category. These States belong to the low income group and face the wrath of recurring natural calamities year after year. In order to provide additional assistance to such States, we propose to strengthen the size of CRF of these States by an additional provision of ten per cent of the aggregate size of the CRF. This additional amount is allocated among these six States in the same ratio in which these States have their own CRF. The amount thus worked out for all States for the period of our report is Rs.11007.59 crore. This includes the Centre's share of Rs.8255.69 crore, and the States' share of Rs.2751.90 crore, worked out in the ratio of 75:25. The State-wise distribution of CRF giving the Centre and States' share is indicated at Annexures IX 1 to IX 3.

9.9 Another important issue relates to the nature and types of calamities which should be eligible for relief expenditure from the major head 2245. The Second Finance Commission had suggested that expenditure under this head should be available for all other natural calamities too, besides drought, famine and flood. There was no further deliberation on this aspect in the reports of the Third, Fourth and the Fifth Finance Commissions. The Sixth Commission too did not define 'calamity' but, by way of examples, talked of cyclone, drought, earthquake and flood. The Seventh Finance Commission made a distinction between drought on the one hand and cyclone, flood and earthquake on the other hand, on the basis of suddenness and intensity of impact. For the expenditure related to drought, it recommended that the Centre should provide assistance to the affected State as advance Plan assistance and if such expenditure exceeded 5 per cent of the State's Plan outlay, the excess amount be provided to the State as grant-cum-loan (50:50). As regards the relief and restoration works relating to cyclone, flood and other calamities of a sudden nature, it recommended that 75 per cent of the expenditure incurred by the State in excess of the margin, should be provided by the Centre as non-Plan grant and the balance 25 per cent be met by the State, in order to discourage wasteful expenditure. The Eighth Finance Commission further added hailstorm and fire to the list but continued with this distinction. The Ninth Finance Commission recommended that all calamities covered by the existing schemes relating to relief assistance should continue to be covered but the distinction between drought on the one hand and cyclone, flood, fire, etc., on the other hand, be done away with. The Tenth Finance Commission did not make any specific recommendation regarding the nature or type of calamities to be covered by the CRF scheme. It, however, recommended that the Ministry of Agriculture should set up a committee comprising experts and representatives of States to list out the items that could be charged to the CRF. The latest scheme notified by the Ministry of Finance in July, 1995, provides that CRF would cover all natural calamities such as cyclone, drought, fire, flood, etc.The Ministry of Agriculture have emphasised in their memorandum to us that calamities arising out of heavy rains, land-slides, avalanche, hailstorms and pest attacks should also be included in the list of natural calamities eligible for relief expenditure; but fire, heat/cold wave and epidemics should be excluded. Assam has suggested that coverage of the CRF scheme may be enlarged so as to include various types of calamities caused by industrial disaster and epidemics. Karnataka has suggested that severe fluctuations in output and prices of several agricultural products should be considered and, if required, a separate fund should be created for the purpose. Kerala has argued for inclusion of coastal erosion in the list. Madhya Pradesh has suggested that the cost of supply of safe drinking water in times of stress should be included in the list. Punjab is of the view that calamities caused by locust/pest and water logging should also be identified as natural calamities.

9.10 We have examined the suggestions made by the Ministry of Agriculture and the States. It is indeed very difficult to draw a distinction between one natural calamity and another, with a view to limit the use of the CRF for only a few natural calamities and exclude others. In a country where three-fourths of the population is either directly or indirectly dependent on agriculture for its sustenance, any calamity that affects the agricultural productivity or production is bound to cause distress and qualify for relief through State intervention. At the same time, we feel that if this fund is used for all and sundry occurrences, there will be very little available, if at all, when a really difficult and widespread situation of distress surfaces. We are, therefore, of the view that only the natural calamities of cyclone, drought, earthquake, fire, flood and hailstorm should be eligible for relief expenditure from the CRF. As regards providing relief to the people affected by man-made and other disasters, the CRF should not be used and the concerned units from which it emanates should be made to pay for it.

9.11 States have drawn our attention to the instructions issued by the Ministry of Finance for the maintenance of the CRF outside the general revenues and Public Account of the State. The Second Finance Commission, while initiating the practice of margin money for relief expenditure under '64 - Famine Relief', had suggested that each State should invest the unspent balance of this fund in readily marketable securities, to be drawn upon for future relief requirements. This arrangement was endorsed by the Third, Fourth, Fifth, Sixth and the Seventh Finance Commissions. However, each of these Commissions had also noted that this arrangement did not work as the States used it for their ways and means requirements. The Eighth Finance Commission while recommending the contribution of the Centre at 50 per cent of the margin money for each State also required that the unspent balance of the margin money contribution of the State as well as of the Centre need not be invested in any securities but should remain notionally carried forward to the subsequent years, to be released in the year of need. The Ninth Finance Commission, which originated the concept of CRF, had recommended that this fund should be separate from the general revenues of the States and should be kept in a nationalised bank administered by a committee headed by the Chief Secretary of the State. The Ministry of Finance laid down a more elaborate pattern of investment to be made from the CRF which included Government of India securities (15 per cent), 182 days Treasury Bills and Public Sector Banks (25 per cent each), State Co-operative Banks (15 per cent), State

Government Securities and Public Sector Undertaking bonds/units (10 per cent each). A number of States had raised objections to this arrangement before the Tenth Finance Commission. The TFC recommended that the Ministry of Finance should, in consultation with the States, modify the existing instructions relating to the investment of the CRF money so as to provide flexibility in the choice of avenues for investment subject to ensuring security and liquidity. Accordingly, Ministry of Finance issued orders in October, 1995 that investment of the fund should be carried out by a branch of Reserve Bank of India or, in its absence at the State headquarters, by a branch of State Bank of India or a nationalised bank which conducts the State Government business. The Ministry's orders also prescribed the revised investment pattern which included interest earning deposits with Public Sector Banks (30 per cent), auctioned Treasury Bills (25 per cent), interest earning deposits with State Co-operative Banks (15 per cent), Government of India securities of varying maturities, State Government securities and Public Sector Undertaking, Unit Trust of India, Mutual Fund Bonds/Units (10 per cent each). However, the C&AG has reported that even now most of the States do not follow the prescribed investment norms and often use this fund for managing their ways and means requirements. Some States have given suggestions in regard to investment to be made from this fund. Kerala and Rajasthan have suggested that deposits in nationalised banks should be one of the avenues for investing the fund. Tamil Nadu has suggested that the pattern of investment of CRF should be left entirely to the States. Uttar Pradesh has preferred that States may be permitted to deposit the amount of CRF in the form of certificates of deposit for a period of 91 days in order to earn interest while having adequate liquidity. Some States have also stated that when a State was in a situation of revenue deficits and had to borrow funds at high rates of interest, there was no justification for keeping the fund in a bank or investing it on securities and bonds carrying lower rates of interest. While there is some merit in the views expressed by the State Governments, it has to be realised that the provision of grants for calamity relief is in addition to the normal anticipated non-Plan revenue expenditure and is meant only for meeting unforeseen expenditure arising out of natural calamities. We are, therefore, of the view that the CRF should be kept separately outside the Public Account of the State and invested in a manner approved by the Central Government. Where, however, for some reasons, it is not possible to keep it in the manner approved by the Central Government, it should be kept in a Public Account, on which the State Government should pay interest at a rate not less than the market rate as indicated by the Reserve Bank of India.

9.12 Some State Governments have suggested that the list of items on which expenditure from CRF can be incurred should be expanded to include works of capital nature. Andhra Pradesh has suggested that in severe drought conditions, norms may be relaxed to allow for expenditure on capital works such as digging of borewells, installation of pumpsets, etc. Haryana is of the view that restriction on expenditure for such capital works which may reduce the intensity and frequency of natural calamities in future years should be removed. Haryana has also pointed out that the norms of relief fixed by the Government of India are too inadequate compared to the actual requirements of the State. Karnataka has suggested that the Finance Commission should itself lay down the rules for utilisation of CRF and not leave it for regulation by the Ministry of Finance. Kerala has suggested that norms of assistance for loss due to natural calamities should be based on the prevailing prices of the commodities and wage rates of labourers in the State. Ministry of Agriculture has, on the other hand, suggested that States should be advised to strictly adhere to the guidelines of Government of India in respect of the scales and pattern of expenditure. According to the Ministry, expenditure from the CRF for repair/reconstruction of damaged public utilities should be discouraged and that such expenditure should be made from normal annual budget. In our view, there are two issues. The first relates to the items approved by the Expert Committee as eligible for expenditure from the CRF. The Tenth Finance Commission had recommended the constitution of such a Committee to draw up a list of items, the expenditure on which would be chargeable to the CRF. Accordingly, the Expert Committee was constituted and it identified the list of such items, in mid-1995. It is generally noticed that when a natural calamity occurs, there is always a pressure on the State Government to incur expenditure on many more items, not included in the approved list, as has been observed by the C&AG too. This tendency needs to be checked. We do hope and trust that this list should be prepared after due consultation with each State, and local needs and requirements are duly taken care of. We further suggest that, apart from having a list of items eligible for expenditure from the CRF on an all-India basis, State-specific needs and practices should also find a place. A Committee of experts may be set up to review these items afresh. The Committee should have representatives from the State Governments as earlier. The State-specific list should be finalised in consultation with the representatives of the concerned State Government, and in case, the representative of a State Government is not a member of the Committee, he may be either co-opted for this limited purpose or formal consultation with the respective State Government may be done.

9.13 In regard to the amount to be incurred on each approved item of expenditure, we endorse the arrangements recommended by the Tenth Finance Commission. The norms for amount to be incurred on each approved item of expenditure is fixed by the State Level Committee. These are communicated to the Union Ministry of Agriculture which modifies them only when they are significantly high. We feel that there is no need to make any change in this arrangement. In times of natural calamity there is general tendency to exceed the approved limits on various items of expenditure due to local pressure. This needs to be discouraged and in case any State Government exceeds the amount prescribed, the excess expenditure should be borne from the normal budget of the State Government and not from the CRF.

9.14 Many States have suggested that the expenditure on works of capital nature which have the potential of preventing natural calamity or reducing its severity should be permitted to be charged to the CRF. This is linked with the preparation of a long-term strategy for preventing the occurrence of the natural calamity. A number of programmes for preventing droughts, floods etc. have been launched during the last five decades. These ought to have reduced the severity of impact and frequency of occurrence of these calamities. We have indeed come across several instances where the implementation of projects relating to watershed development, rain water harvesting, augmentation and preservation of sub-soil aquifer, etc., have resulted in considerable mitigation in the severity of the drought. Similarly, construction of nala-bunds and check-dams, coupled with appropriate afforestation measures, have reduced the impact of floods. There is a need for devising medium as well as long-term strategies in every part of the country to reduce the frequency of occurrences of the natural calamities and their impact on the area and population. In our view, this task needs to be addressed by the Planning Commission, which in consultation with the State Governments and the concerned Ministries of the Government of India should be able to identify works of capital nature to prevent the recurrence of specific calamities. These works may be financed under the plan.

9.15 A related issue is the restoration of works of capital nature damaged during a natural calamity, viz. roads, bridges, power houses and other public works. The amount required for such purposes is sometimes huge, and, therefore, it becomes difficult to provide for this expenditure from the limited corpus available in the CRF. We suggest that the expenditure on restoration of damaged capital works should ordinarily be met from the normal budgetary heads, except when it is to be incurred as part of providing immediate relief such as restoration of drinking water sources or provision of shelters etc. or restoration of communication links for facilitating relief operations. The expenditure from the CRF should be done only for providing immediate relief to the affected population, and should, by its very nature, be of short duration.

9.16 Another issue relates to release of money by the Central Government to the CRF and monitoring of expenditure. Some States have stated that there is undue delay in the release of funds, and undue insistence on the production of utilisation certificates. Since the amount released by the Central Government has to be credited to the CRF, unless required for meeting the expenditure on an on-going calamity, the releases should be done in a systematic manner on due dates. In our view, the amount due to a State in a year should be released in two instalments - on 1st May and on 1st November, respectively. Before an instalment is released, the State Government should give a certificate indicating that the amount received earlier has been credited to the CRF, accompanied by a statement giving the up-to-date expenditure and the balance amount available in the CRF. This statement itself should be treated as utilisation certificate, as in the scheme of CRF the actual expenditure is incurred only at the time of occurrence of a natural calamity. We further suggest that if in a particular year, the amount required to be spent on the natural calamity is more than the sum available in the CRF, the State should be able to draw 25 per cent of the funds due to the State in the following year from the Centre to be adjusted against the dues of the subsequent year. Any balance remaining in the CRF at the end of a five-year plan period, should be used as a resource for the next plan.

9.17 The Seventh Finance Commission, while suggesting norms and limits for Central share in the expenditure of the States in respect of droughts on the one hand, and cyclones, floods etc. on the other, had recommended that the Centre should, in case the calamity is of rare severity, provide special assistance to the affected State over and above its prescribed share. This recommendation was continued by the Eighth Finance Commission. The Ninth Finance Commission expected that if any region faced a calamity of such dimension and severity as to warrant its handling at national level, the Centre would take appropriate action and incur necessary expenditure, as the situation demanded. The Commission, however, did not recommend any norms or guidelines for classifying a natural calamity as one of rare severity. It also did not recommend any additional fund for this purpose. Consequently, the Government of India did not release any special fund during 1990-95 to any State to meet the calamities of rare severity, though some of the States did face such situations, for example, the earthquake in Latur (Maharashtra), Kandla in Gujarat, Jabalpur in Madhya Pradesh, the devastating cyclone in Andhra Pradesh etc.

9.18 The Tenth Finance Commission considered the issue of calamity of rare severity. The Commission recommended that a 'National Fund for Calamity Relief' should be created to which Centre and States contribute in the ratio of 3:1. This Fund should be managed by a National Calamity Relief Committee (NCRC) in which both Centre and States should be represented. The NCRC should be chaired by the Union Minister of Agriculture and have members including the Deputy Chairman, Planning Commission and some State Chief Ministers. However, the Commission did not specify norms for identifying calamities of rare severity on the ground that any definition would bristle with insurmountable difficulties and was likely to be counter-productive. It felt that a calamity of rare severity would necessarily have to be assessed on a case-by-case basis by taking into account, inter-alia, the intensity and magnitude of calamity, level of relief assistance needed, capacity of the State to tackle the problem, the alternatives and flexibility available within the plans to provide succour and relief etc.

9.19 Ministry of Agriculture have recommended that there is a need to lay down broad guidelines for declaring a natural calamity as one of rare severity. They have stated that States in the past have been presenting cases for assistance from NFCR in a routine fashion by projecting any calamity as one of rare severity and that whenever the corpus of

CRF got exhausted, the States normally sought additional assistance from the NFCR even in the event of calamities of minor nature. As a result, as many as 70 memoranda were received by the Central Government from 23 States during the first three years of the award period of TFC, i.e. 1995-98, seeking a total assistance of Rs.24000 crore from the NFCR while the total corpus of NFCR for the five-year period was barely Rs.700 crore. Further, in many cases, funds released from the NFCR were not spent even in a year or so, after the date of release. Ministry of Agriculture are of the view that there should be a time limit for utilization of funds given from the NFCR and unspent amounts should either be returned to the NFCR or adjusted against the contribution of the Centre in the CRF. In a subsequent note submitted they have favoured the discontinuance of the NFCR. States in general have suggested that the NFCR should continue with substantially larger fund and with clear guidelines for identifying calamities of rare severity, etc.

9.20 We are struck by two significant aspects in the operation of NFCR during the period of four years for which information is available. The first relates to a definition or a view of a calamity of rare severity. The Tenth Finance Commission indicated some of the parameters for forming a view, i.e. intensity and magnitude of the calamity, level of relief assistance needed and capability of the State to tackle the problem. However, it also stated that the matter would have to be judged on a case-by-case basis. The guidelines issued by the Ministry of Finance on 24th October, 1995 empower the NCRC to decide whether a calamity is to be treated as one of rare severity to qualify for relief from the NFCR. In practice, however, it has meant a reversion to the pre-1990 situation. In other words, whenever a State is not in a position to meet the expenditure on relief from the amount available in the CRF, a request followed by a memorandum is made to the Central Government to provide funds from the NFCR. A Central Team is then deputed to make an on-the-spot assessment. The report of the Central Team is considered by an Inter-Ministerial Group (IMG) which in turn makes recommendations to the NCRC. The NCRC considers the report of the Central Team and recommendations of the IMG and then takes a view. The long-drawn procedure often involves delay, sometimes unconscionably long, in release of funds. We also came across occasions when the NCRC had bypassed the prescribed procedures, or went beyond the report of the Central Team or the recommendations of the IMG. There have also been occasions when the recommendations made by the Central Teams and the IMG for providing relief were either not accepted or were modified and the amount of relief was reduced.

9.21 The second important aspect relates to the corpus of the NFCR. The NFCR was to have a corpus of Rs.700 crore to be built over a period of five years with contributions from the Central Government and the State Governments in the ratio of 75:25. The entire corpus is reported to have been exhausted in the first three years - i.e. during 1995-98, and inevitably had to be supplemented. A calamity of rare severity is conceptually of such a nature that the intensity and magnitude cannot be anticipated and provided for in advance through the CRF or regular budgetary mechanism. The extent of funds required to meet such a calamity would only be a guesswork and whatever amount is provided in the NFCR may, in a given situation, not be adequate. The Central Government's responsibility does not get restricted to the availability of the amount in the Fund. Additional financial support from the Central Government becomes necessary on a case-to-case basis. The fixing of a ceiling on the corpus, therefore, becomes meaningless, except that it gets some contribution from the State Governments. Past experience has shown occasions when the Central Government had to step in on its own to provide physical and financial support without following the procedure of the visit of a Central Team, IMG recommendations or NCRC decisions. In view of this situation, we feel that the existence of such a fund at the Centre would only lead to more and more representations from the States for assistance even when a calamity could be met from the State's own resources. It only increases the procedural work and does not serve the purpose for which it was established. We, therefore, recommend the discontinuation of this Fund in its present form, as it has not resulted in making funds readily available for meeting the calamity of rare severity but has eroded the discipline and economy in expenditure. The Ministry of Agriculture have also made the suggestion for discontinuing it in a later note sent to us.

9.22 This does not, however, mean that the calamity of rare severity should be left to be attended by the States from their own resources alone. The super cyclone in Orissa (October, 1999) and the drought prevailing currently in some States, are a pointer to the fact that a State faced with a severe natural calamity will not be able to provide relief to the affected area and population all alone and will depend on the assistance from other States and the Central Government. In a situation like this, the decisions will necessarily have to be made on an emergent basis without waiting for an assessment of the damage by a Central team followed by confabulation in an Inter-Ministerial Group and decision by NCRC. There is, therefore, a need to develop a system in which it should be possible to take suo motu cognizance of the occurrence of calamities of rare severity by the Central Government without waiting for any memorandum from the State Government or for the deputation of a Central team for getting an on-the-spot assessment of the damage and of the extent of relief required. In our view, this task can be entrusted to an independent body of experts who should monitor the occurrences of natural calamity on a regular basis in all the States. For this purpose, a National Centre for Calamity Management (NCCM) may be established under the Ministry of Agriculture to monitor the natural calamities relating to cyclone, drought, earthquake, fire, flood and hailstorm. This Centre should monitor such occurrences on a regular basis and assess their impact on the area and population. The damage done to the capital assets and other infrastructure should be done on a continuous basis. The Centre should also assess whether the State will be in a position to provide relief in a specific case of calamity of severe nature from the CRF and its own resources. It should then make a recommendation to the Central Government on its own as to whether the calamity is of a severe nature and, therefore, eligible for assistance from the Central Government and other State Governments. On the basis of such a recommendation, the Central Government should be able to take a view on the manner and extent of assistance which needs to be provided to the State. In order to avoid extra burden on the Central budget and also to limit such expenditure only for calamities of rare nature and of extraordinarily severe intensity, any assistance provided by the Centre to the States in this regard, should be financed by levy of a special surcharge on the Central taxes for a limited period. A surcharge can also instil a feeling of national participation for a national cause. Collection from such surcharge should be kept in a separate fund, to be known as National Calamity Contingency Fund (NCCF), created in the public account of the Government of India. The Government of India should contribute an initial core amount of Rs.500 crore to this fund so that funds for initial operation are readily available. However, drawals from the fund should be accompanied by imposition of the special surcharge proposed by us so that it is immediately recouped. The proceeds from the special surcharge be utilised to finance the expenditure on natural calamity. Any balance left from the collection of the surcharge, after meeting the exigency for which it was collected, should be credited to the fund and not treated as a resource for meeting the budgetary expenditure. In order to ensure that there is no delay in the flow of funds to the States for administration of relief, a legislation enabling the Central Government to levy surcharge may be enacted.

9.23 The National Centre should also take up studies on the recurrence of various types of natural calamities in individual States and suggest measures that need to be taken to prevent them in the short, medium and long terms. These may be given due consideration by the Planning Commission at the time of finalisation of plans. This Centre should also keep in readiness an inventory of items needed for providing relief at the time of natural calamity and locate the places/centres where these could be kept readily available. The National Centre should provide training to the State cadres identified for deployment for calamity relief duties, on an annual basis for updating their knowledge and preparedness. It should undertake documentation in terms of relief manuals, accounting procedures, case studies etc. It should also undertake evaluation of the expenditure incurred out of CRF as well as out of Central assistance which may help in evolving future course of action on this subject.

9.24 It has been suggested to us that a comprehensive insurance scheme should be evolved to cover the financial burden of relief expenditure incurred at the time of occurrence of a natural calamity. Ministry of Agriculture have stated that a comprehensive crop insurance scheme, called the Rashtriya Krishi Bima Yojana, covering failure of certain crops, is already in operation. The scheme provides compulsory insurance coverage for crop loans taken by farmers from financial institutions as a result of natural calamities, pests and diseases. It is available to non-loanee farmers also, on an optional basis. The Ministry are of the view that this scheme should be implemented by all the States, failing which no assistance should be given to the agricultural sector in the State at the time of natural calamities. Ministry of Finance have suggested adoption of an insurance fund approach to the entire scheme of calamity relief to a State, with a limit on the amount which could be drawn by the State as entitlement and should be related to the State's contribution. Any assistance beyond the agreed limits on entitlement should be only in the form of ways and means assistance. Tamil Nadu has suggested that a National Crop Insurance Policy should be evolved under a simplified system wherein each State would determine the amount of cover they would need, based on their past experience. A consortium of insurance companies can be asked to develop scientific criteria for assessing likelihood of damages each year. The quantum of required relief and the premium can be worked out in such a manner that in the long-run, the expenditure is met by payments through insurance cover. The premium amount can be shared between the Centre and the States in the ratio of 90:10.

9.25 We have examined the possibility of evolving an insurance scheme to cover the expenditure on relief incurred at the time of a natural calamity. In this regard, we held discussions with the Special Secretary (Insurance), Ministry of Finance and the Chairman, General Insurance Corporation. They informed us that a scheme for floating Calamity Relief Bonds on the pattern of Japan and the U.S.A., with the objective of using it for providing relief on the occurrence of a natural calamity was under consideration. The details and the financial implications of this scheme were still being worked out. They further stated that a crop insurance scheme was already in operation in some States and for some crops. The scope of this scheme was being further extended to cover more crops. However, the crop insurance will be able to provide financial assistance only to the extent of the amount guaranteed under the scheme to the insurers. It does not provide for any assistance to non-farmers, destitutes, aged, or for cattle, etc., nor does it take care of the requirements of food, fodder and drinking water at the time of a calamity.

9.26 The Ninth Finance Commission was required to examine the feasibility of establishing a national insurance fund to which the States may contribute a percentage of their revenue receipts. The Commission had noted that a natural calamity, by its very nature and magnitude, posed problems which no agency outside the government could tackle exclusively and adequately. The process of getting the loss assessed by an external agency was bound to be complicated and time consuming which would defeat the very purpose, that is, of providing timely succour to the affected people. Besides, the largest group of sufferers in a natural calamity are the poor and the weak who have hardly any assets to insure. The Ninth Finance Commission, therefore, found that the concept of an insurance fund for disaster relief was neither viable nor practicable. We are also of the view that any insurance cover in which the premium is paid fully by the Centre and States may not reduce the financial burden of the Centre and States, as compared to a fund created at the Government level and used for meeting expenditure on calamity relief. However, we concede that the crop insurance scheme will help individual farmers, especially at the time of natural calamities, to recoup their losses. This scheme deserves to be strengthened. But it would be a supplementary measure to what is done by the Government for providing relief at the time of natural calamity.

9.27 The lack of availability of trained manpower to manage various types of natural calamities has been a major handicap in providing timely relief to the affected area and population. The suddenness and intensity of the natural calamity often leaves the administration stunned. Frequency of occurrence of natural calamities in different regions of the country has drawn our attention to the measures required for disaster preparedness. The country is exposed to various types of natural calamities because of its geographical location, geological factors, behaviour of monsoon, and long coastal exposure. Recently, the country faced a super cyclone in Orissa which exposed the country's unpreparedness in management of severe disasters. The fury of the cyclone was such that it took nearly a week to understand the gravity of its impact. Adequate preparations for management of a disaster is an essential concomitant for ensuring speedy administration of relief. Every major State needs to have trained manpower to cope with various types of natural calamities. In our view, a core multi- disciplinary group of about 200-300 persons should be created in each State by drawing persons from different cadres. This group should be given training in diverse fields such as communication, medical and public health, sanitation, housing, etc. so that the country can have a set of about 3000-4000 trained personnel at any point of time. During normal times these persons can continue to be in their respective cadre/field and discharge their usual duties and, in times of natural calamities, they may be drawn out for such special duties. An honorarium as determined by the Government of India from time to time may be paid to each such person as an incentive to participate in such a Scheme. They may be provided training every year so that their knowledge and preparedness is updated and they know each other, facilitating coordination and team spirit at the time of a crisis. They can be deployed in any place in the country where their services are required in the event of a natural calamity. The expenditure on their training should be met from the CRF.

9.28 Natural calamities of one type or the other have been occurring at a rather regular frequency in the country. Relief is administered by the States from their own resources and, at times, supplemented by the Central Government. Documentation of these occurrences and their handling by various agencies is not done on a regular and systematic manner by any State or by the Central Government. We recommend that every State should be required to prepare and send to the Central Government an annual report recording the various types of calamities which required the stepping in of the State for providing relief. The report should, inter alia, detail the causes, as perceived, the assessment of damages to area and the population, the nature of relief provided, the sources from which it was drawn including the support made available by the Central Government, other State Governments, and other donors/agencies, and lessons for the future including the remedial measures which need to be taken. This report should be sent by every State Government to the Ministry of Agriculture positively by 30th September every year. Even if the report is nil, it should still be sent. The Central Government's contribution to the CRF of a State due on 1st November, as indicated earlier, should not be released until this report is received by the Ministry. Based on the State-specific reports and evaluation reports of the NCCM, the Ministry of Agriculture should prepare an Annual Report on Natural Calamities and their Management, latest by 31st December of every year. The report should be released to the public.

9.29 To sum up:

(a) The scheme of Calamity Relief Fund (CRF) be continued with contributions from the Centre and the States in the ratio of 75:25.

(b) The CRF should be used for meeting the expenditure for providing immediate relief to the victims of cyclone, drought, earthquake, fire, flood and hailstorm.

(c) Expenditure on restoration of infrastructure and other capital assets, except those which are intrinsically connected with relief operations and connectivity with the affected area and population should be met from the plan funds on priority.

(d) Medium and long-term measures be devised by the concerned Ministries of the Government of India, the State Governments and the Planning Commission to reduce, and if possible, eliminate, the occurrences of these calamities by undertaking developmental works.

(e) The CRF should be kept out of the Public Account of the State and should be invested in a manner approved by the Ministry of Finance. If for some reasons, it is not possible to keep the Fund in a nationalised bank or invest in a manner approved by the Ministry of Finance, it may be kept in the Public Account of the State, on which interest should be payable by the State Government at a rate which is not less than the market rate of interest as indicated by the Reserve Bank of India.

(f) The balance in the Fund at the end of the five-year plan period, may be made available to the State for being used as a resource for the next plan.

(g) The State level Committee constituted under the existing scheme may continue to function and take all decisions related to the financing of relief expenditure subject to general guidelines issued by the Ministry of Agriculture.

(h) The Union Ministry of Agriculture will continue to be the nodal Ministry for coordinating relief works, and for arranging physical and financial support including the assistance of the Union Ministries of Defence, Railways etc.

(i) A Committee of Experts should be constituted to review the list of items approved for incurring expenditure from the CRF, drawn up by the earlier Committee. The Committee should have representatives from the State Governments. Apart from the general list of items applicable to all States, State specific list may also be drawn up in consultation with the representative of the concerned State Governments. A representative of the State Government, not already represented in the Committee, may be co-opted for this limited purpose.

(j) The existing arrangement for fixing the norms of expenditure on each approved item may continue. In case the norm is exceeded, the additional expenditure may be met from the budget of the State Government and not from the CRF.

(k) The release of the funds from the Centre to the CRF of each State may be done in two instalments, viz. on 1st of May and 1st of November, each year. The instalment due on 1st May should be released only after receiving from the State Government a certificate indicating that the amount received during the preceding financial year has been credited to the CRF, accompanied by a statement giving the updated expenditure and the balance amount available in the CRF. This statement itself should be treated as utilisation certification.

(l) The Accountants General of the States should ensure that only the expenditure on approved items as per norms is met out of the CRF.

(m) The Scheme of NFCR should be discontinued, in view of the difficulty in evolving an unambiguous definition of calamity of rare nature, and the difficulty in providing adequate financial assistance to the States from the limited amount available in the Fund.

(n) A National Centre for Calamity Management (NCCM) under the Ministry of Agriculture be established to monitor all types of natural calamities, including calamities of rare severity, without any specific reference from the Central or the State Governments. This Centre should be empowered to make recommendation to the Central Government as to whether a calamity is of such severe nature that would call for financial assistance to the affected State over and above what is available in the CRF or other plan/non-plan sources.

(o) Any financial assistance provided by the Central Government to the States in this regard, should be recouped by levy of a special surcharge on Central taxes. Collections from such surcharge/cess should be kept in a separate fund created in the public account of the Central Government, to which it should contribute Rs.500 crore as the initial core amount. Outgo from this fund should be recouped by levy of the surcharge.

(p) This National Centre should also develop expertise for providing training to the States' manpower on a regular basis, keep an inventory of physical resources available at various places for meeting the calamities, and undertake monitoring and documentation.

(q) Every State should develop an inter-disciplinary cadre under the Relief Commissioner comprising 200 to 300 persons who could be deployed for relief works on the occurrence of a natural calamity within the State or in any other part of the country.

(r) Every State should prepare an Annual Report on natural calamities relating to the preceding financial year, and submit it to the Union Ministry of Agriculture by 30th September every year. The Centre's contribution to the CRF of a State, due on 1st November, will be released only after this report has been received.

(s) The Union Ministry of Agriculture should bring out a Report on the Natural Calamities and their Management, by 31st December every year.