

State floods: Avoidable disasters

Better fiscal efficiency by states can mitigate such risks

Acuite Ratings believes that the increasing risks of human and economic losses due to extreme weather events and natural catastrophes can be addressed through efficient utilisation of funds earmarked for infrastructure creation and capacity building by state governments. A study conducted by Acuite on state finances reveals that states which have a poor track record of utilisation of capital grants and other funds for various developmental schemes witnessed larger human and economic losses in the recent floods taking place in some regions of India. The data available on two states – Bihar and Assam – which have been significantly impacted by floods in July 2019, indicate that the average fund utilisation for various grants and capital schemes have been fairly low as compared to states such as Gujarat and Orissa. In Acuite's opinion, the key challenge in our federal governance mechanism is not so much of the quantum of funds or grants but of their utilisation and quality of the expenditure.

Climate change and environmental damages have radically increased the incidence of extreme weather conditions in India and across the world. In India, almost every year we witness flood or drought in at least 3-4 states leading to significant losses of life, property and livelihood. While any natural calamity is not under human control, surely there are ways for effective mitigation through creation of proper disaster management plans and adequate water management infrastructure (dams etc.).

In Bihar, flash floods caused by heavy rains in the catchment areas of the rivers and in adjoining Nepal affected 12 districts with heavy impact in the district of Sitamarhi and Madhubani. Reports states that around 100 lives have been lost and the damage to crops and property has been extensive. In Assam, the death toll is estimated to be around 60 with 24 districts and 1.5 lakh hectares of crop land been impacted by the floods, not to mention the damage to the Kaziranga National Park.

Acuite notes that a major part of the impact has been in districts such as Baksa, Barpeta, Cachar, Hailakandi and Moregaon in Assam along with Araria, Darbhanga, Katihar, Purnia and Kishanganj in Bihar, which are categorised as India's 250 most backward districts. Until the delinking of the Backward Regions Grant Fund (BRGF) from direct central sponsorship, these districts have collectively received around Rs. 2600 Cr over an eight-year period (FY07 to FY14) from the Government of India. The fund allocations under the BGRF scheme were provided under the heads of capacity building and development grants, focusing on the creation of basic infrastructure and capacity development at the panchayat level. In this time period, however, these state governments could on an average utilise just 54 per cent of the aggregate allocation in

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this BGRF. While utilisation levels of funds under development grants was below average at best, capacity building fund release was at a dismal 35 per cent on average among effected states.

As per the most recent CAG report on state finances (tabled on November 2018), the state of Bihar has not been able to utilise Rs. 41,353 Cr out of total grant/ appropriations amounting to Rs. 1.69 lakh Cr. This implies that the state was unable to spend 24 per cent of the provisions under various heads distributed among revenue, capital and loans and advances categories/ expenditures. Interestingly, Rs. 10,789 Cr were unutilised for 31 grants under the capital category. Under these heads, the fund under-utilisation level of Disaster Management Department (39ⁱ) and Planning and Development Department (35) stand out in particular with 67 per cent and 55 per cent, respectively. Literally, the state Government managed to spend just Rs. 594 Cr on disaster management against a provision of Rs. 1804 Cr in the fiscal year (FY17). With regards to planning and development, under which Rs. 1036 Cr was spent as against a provision of Rs. 2327 Cr. Even in the supposedly important departments such as Rural Development (42), the un-utilisation levels were to the tune of 43 per cent, i.e. just Rs. 5,809 Cr were spent as against the provision of Rs. 10,278 Cr for rural development. Since the epicenter of the floods lay in the northern rural districts of Bihar, efficient and higher utilisation of these available funds could have mitigated the impact of the disaster.

Even in Assam, the situation is no different. As per the recent CAG report, it is reported that the state could not utilise Rs. 24,891 Cr or 30 per cent of provisions in the specified timeframe i.e. the state spent only Rs. 58,178 Cr as against a provision of Rs. 83,069 Cr. As regards capital expenditure provisions, the state managed to spend just Rs. 5,502 Cr or 46 per cent of grants/ appropriations in this category as against a provision of Rs. 11,877 Cr for the fiscal year. Among grants that remained un-utilised over Rs. 200 Cr, the heads under the departments of 'Forestry and Wildlife' and 'Rural Development – Panchayat' (56) are prominent which have recorded a fund utilisation of 57 per cent and 33 per cent, respectively. This lack of efficient fund utilisation may have a direct bearing on the devastation of wildlife at the Kaziranga National Park, not to mention loss of human life and property. Among important grant heads, 'Water Supply & Sanitation' and 'Road & Bridges' recorded a fund utilisation level of 52 per cent and 60 per cent respectively, while 'Water Resources' recorded it at just 24% per cent.

CAG's probe into the persistent underutilised provisions revealed that much of it was due to lack of timely approvals. When one compares these states with the better performing peers, the differences are significant. Going by the same CAG report series on state finances, it is revealed that Gujarat utilised 85 per cent in the considered timeframe, reflecting Gujarat's superior fiscal management. The benefit of better capital expenditure is reflected by the state's persistent under-utilisation under its 'Relief on Account of Natural Calamity' head over a five-year period. Even fiscally weaker states

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such as Orissa has seen a better track record having utilised 95 per cent of the funds under capital expenditure.

Acuité, therefore, believes that proper planning and efficient utilisation of capital expenditure funds and grants by states hold the key to better management of natural disasters. The difference in such fiscal efficiency among states is clearly reflected in much greater incidence of economic losses for states like Bihar and Assam as compared to Orissa and Gujarat.

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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ⁱ Parenthesis denotes the assigned number of the respective Grant head