Study Report

EVALUATION OF STATE FINANCES WITH REFERENCE TO STATE OF ODISHA

(REPORT SUBMITTED TO THE FOURTEENTH FINANCE COMMISSION)

NABAKRUSHNA CHOUDHURY CENTRE FOR DEVELOPMENT STUDIES, ODISHA

BHUBANESWAR

Preface

Evaluation of State Finances with respect to Odisha presents a critical analysis of the financial health of the state, Odisha during the period 2002-03 to 2011-12. This report covers a whole range of issues pertaining to state finance: the revenue receipts and expenditures, deficits, debt, the fiscal decentralization to local bodies, reforms under JNNURM, performance of State Public Enterprises and its impact on the financial health of the state, impact of Power Sector Reforms on state's fiscal health, managing Contingent Liabilities, Subsidies etc., besides dealing with the progress in the implementation of reforms on public expenditure and financial management in the state. In the study, our objective has been not only to provide an assessment of the current financial status of the state government but also to suggest policy options from a longer term perspective.

The report is the outcome of the task entrusted to Nabakrushna Choudhury Centre for Development Studies, Odisha by the Fourteenth Finance Commission constituted to recommend the principles for the devolution of resources between the Union and the States. The study is carried out during the last six months-from 15th April 2013 to 14th October 2013 on the Terms of Reference decided by the Commission and the MOU signed between the Commission and the Centre. In this Context we take this opportunity to convey our sincere gratitude to the Fourteenth Finance Commission for assigning the study to NCDS.

The report is prepared by the core team consisting of Prof. R.K.Panda, Director NCDS as Lead Researcher, Dr. Shibalal Meher, faculty member of NCDS, Member and Dr. Amarendra Das, faculty member, Department of A& A Economics, Utkal University, Member with the Expert Consultation of Prof. Baidyanath Misra, Chairman First State Finance Commission, Odisha. We sincerely record our deep sense of gratitude to Prof. Baidyanath Misra, Chairman of the First State Finance Commission, Odisha for his intellectual input and going through the draft report and giving his valued comments.

The study would not have been possible without the support and cooperation of the Finance Department, Government of Odisha. In this context, our sincere thanks are to Dr. D.K. Jena, Additional Secretary, Finance Department, Government of Odisha who has all along taken keen interest in providing us various government documents including official publications and discussing with us on certain issues as and when required. We thank Shradha Agarwalla for helping us in computation and analysis of data. Finally we also record our sincere thanks to all our colleagues, administrative staff and all those who have helped us directly or indirectly in preparing this report.

Raj Kishore Panda

Director and Lead Researcher, NCDS

Terms of Reference

The terms of reference of the study broadly covers the following:

1. The study should provide an analysis of State Finances of Odisha over a period of 10 years starting from 1st April 2002. The study should cover the following
    i. Estimation of revenue capacities of State and measures to improve the tax-GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State.
    ii. Analysis of the State's own non-tax revenues and suggestions to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.
    iii. Expenditure pattern and trends separately for Non-Plan and Plan, Revenue and Capital, and major components of expenditure there under. Measures to enhance allocative and technical efficiency in expenditures during last 5 years. Suggestions for improving efficiency in public spending.
    iv. Analysis of deficits – Fiscal and Revenue along with Balance of Current Revenues for Plan financing.
    v. The level of debt-GSDP ratio and the use of debt and composition of the State's debt in terms of market borrowing, Central government debt, liabilities in public account and borrowings from agencies such as NABARD, LIC etc.
    vi. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.
    vii. Analysis of the State's transfers to urban and rural local bodies in the State. Major decentralization initiatives and reforms undertaken under JNNURM conditionalities.
    viii. Impact of State Public Enterprises finances on State's financial health and measures taken to improve their performance.
    ix. Public Expenditure and Financial Management (PEFM) Reforms implemented in the State.
    x. Impact of Power Sector Reforms on State's fiscal health.
    xi. Analysis of contingent liabilities of the State.
    xii. Subsidies given by the State, its targeting and evaluation.

Executive Summary

The summary of the findings of the study are as follow:

1. Revenue receipts of Odisha as a percentage of GSDP have increased from 15.40 per cent in 2002-03 to 18.65 per cent in 2011-12. While the own revenue receipts of the state as a percentage of GSDP has increased from 7.03 per cent to 9.21 per cent, revenue transfer from centre to state which includes state's share in central taxes and grants-in-aid, as a percentage of GSDP remained more or less constant during the study period (2002-03 to 2011-12). Share of own tax revenue in total own revenue receipts has declined from 75 per cent in 2002-03 to 68 per cent in 2011-12, while the share of own non tax revenue has increased from 25 per cent to 32 per cent during that period. Own tax revenue as a percentage of GSDP (own tax /GSDP) in Odisha has increased from 5.28 per cent in 2002-03 to 6.23 per cent in 2011-12. Nonetheless, Odisha's tax-GSDP ratio remains much lower compared to other major general category states, except Bihar, Jharkhand and West Bengal. The state government needs to raise its revenue generating efforts further to increase the tax-GSDP ratio.

2. State's total revenue has grown at a greater proportion than that of the GSDP during the period between 2002-03 and 2011-12 as revenue buoyancy is observed to be more than unity. However, state's own revenue is more responsive to GSDP compared to the total revenue of the state. The buoyancy of grants-in-aid is higher than that of total revenue of the state. There is wide fluctuation in the year to year revenue buoyancy during the period under study due to volatility in the growth rate of revenue receipts. Revenue buoyancy of the state which was lowest at 0.58 in 2003-04 increased to 1.45 in 2004-05 before it declined to 0.81 and 0.76 in 2008-09 and 2009-10 respectively. Further the revenue buoyancy increased to 1.34 in 2010-11 and 1.91 in 2011-12. The State's Own Revenue, however, behaved in a slightly different manner. While the buoyancy of state's own revenue was lowest at 0.37 during 2007-08, it increased to 1.18 in 2008-09 before it came down to 0.94 during 2009-10. Subsequently it increased to 1.60 and 2.22 in 2010-11 and 2011-12 respectively. It is also observed that the buoyancy of own revenue remained higher than buoyancy of total revenue after 2007-08, indicating that state's own revenue has become more responsive to GSDP than that of the revenue transfer from central government after 2007-08.

3. State's own tax revenue has grown proportionately with the GSDP over the period from 2002-03 to 2011-12 leaving aside year wise buoyancy. However, revenue from individual taxes has shown different buoyancy in different years. This necessitates efforts for higher consistency in realizing revenue from individual taxes.

4. Sales tax, which is the most important source of tax revenue for the state, is found to be elastic. This shows that even if no measures were taken by the state for additional mobilisation in the successive years, the revenue from this tax would have grown at least at the same rate as the GSDP. The other tax revenue, which is elastic, is the land revenue. Excise duty, which is buoyant, is not elastic. However, the overall tax revenue is marginally less than elastic, indicating that the state's taxes as a whole lack built-in-flexibility. In view of this, there is need for higher tax efforts by the state.

5. Odisha's aggregate own tax effort is poor compared to other non-special category states. With an estimated annual taxable capacity of Rs. 9842.91 crore, the State has raised an average Rs. 9389.95 crore. Its tax effort is much lower than the average tax effort of major non-special category States of India. At the disaggregated level, Odisha has performed miserably in raising sales tax, stamps duty & Registration fee, and state excise. Its sales tax effort is lower than average sales tax effort of all major non-special category States in India. With an estimated taxable capacity of Rs 6286.97 crore, the State has been able to raise Rs 5672.97 crore from sales tax. The State has not even able to raise half of its estimated taxable capacity of stamps duty and registration fee and state excise. With an estimated taxable capacity of Rs. 907.64 crore the state has raised only Rs. 423.81 crore in case of stamps duty and registration fee, while the state has raised Rs. 867.79 crore out of the estimated capacity of Rs. 1245.48 crore in case of excise duty. However, Odisha's tax effort performance of motor vehicles tax is remarkable. With an estimated taxable capacity of Rs. 492.85 crore the state has raised Rs. 621.08 crore. In case of land revenue Odisha has also raised more revenue than the taxable capacity. With an estimated taxable capacity of Rs 101.89 crore, Odisha has raised Rs. 343.87 crore form land revenue. The state needs to make more effort for raising tax revenue from three important sources, viz. sales tax, stamps duty and registration fee, and excise duty.

6. Non-tax revenue as a percentage of GSDP has increased from 1.75 per cent to 2.99 per cent during the period under study. It has recorded an annual compound growth rate of 23.03 per cent, while exhibiting buoyancy of more than 1 over the period indicating that the total own non-tax revenue responded more than proportionately to the growth of GSDP. However, the two sources of non-tax revenues, *i.e.* interest receipts, and profits and dividends, can hardly be relied upon for augmenting the non-tax revenue due to wide fluctuations noticed during the period under study. The major source of non-tax revenue is mining royalty having 71 per cent of share in total non-tax revenue during 2011-12 with significant rate of cost recovery, followed by major and medium irrigation with 5 per cent of the share in total own non-tax revenue. Nevertheless, the reporting of rampant illegal mining activities indicates towards a huge loss of revenue to the state exchequer. Therefore, judicious steps should be taken to improve the regulation of minerals and augment the mineral revenue.

7. So far as Public Sector Undertakings in the state are concerned, in majority cases no dividend is received. Only six public sector undertakings have contributed dividends to the government during 2002-03 to 2011-12 with Odisha Mining Corporation (OMC) and Odisha Power Generation Corporation (OPGC) being the two major contributors. However, the state has not received any dividends from OPGC since 2007-08. The dividends and profits exhibit growth rate of only 8.39 per cent per annum during the period 2002-03 to 2011-12. The share of profits and dividends in State's ONTR has declined from 15.84 per cent in 2002-03 to 4.44 per cent in 2011-12.

8. Recovery of operational cost in case of most of the social and economic services is not encouraging due to lower user charges. While the recovery rate in case of mining royalty and forest and wild life is more than 100 per cent, it is much less in case of other sources of non-tax revenue except major and medium irrigation where the recovery rate is 74 per cent during 2011-12. The effort of the state government in raising the operational cost of major and medium irrigation is encouraging as there is significant increase since 2010-11. Within social services,

the rate of operational cost recovery is very low in case of education and health. While this is understandable in a poor state like Odisha, there is still scope for increasing revenue from these sources as all the targeted groups are not poor. User charges can be determined on the basis of economic status of different groups and this should be increased in every year by a certain percentage. Further, declining recovery rate in case of water supply and sanitation could lead to wasteful use of scarce resource. Therefore, the State should levy higher user charges for the provision of this public service. It should be determined according to the economic status of the user so that at least the operational cost is met.

9. Total expenditure as a percentage of GSDP has decreased from 20.86 per cent in 2002-03 to 18.42 per cent in 2011-12. Total expenditure as a percentage of GSDP decreased to 16.24 per cent in 2007-08 and then onwards increased gradually and reached at 18.42 per cent in 2011-12. Revenue expenditure as a percentage of GSDP has also declined steadily from 18.27 percentages in 2002-03 to 13.71 percent in 2007-08, and in the subsequent years it has increased and reached at 16.05 per cent in 2011-12. Capital expenditure (outlay) as a per cent of GSDP which was at 1.96 in 2002-03 declined to 1.22 per cent in 2005-06 and in the subsequent years increased marginally and reached at 2.55 per cent in 2008-09 and again it has declined steadily in the subsequent years. Higher growth of capital expenditure is essential for growth of the economy. However, the share of capital expenditure still remains at low level and hence there is a need to increase capital outlay substantially in order to accelerate economic growth.

10. The plan expenditure of the state has grown at a significantly higher rate than the growth of total expenditure. The annual average growth rate of plan expenditure was 21.06 per cent against 15.35 per cent growth of total expenditure during the period 2002-03 to 2011-12. Due to the higher growth of plan expenditure its share in total expenditure increased from 24 per cent in 2002-03 to about 36 per cent in 2011-12. The non-plan expenditure as a proportion of GSDP, on the other hand, has declined from 15.77 per cent in 2002-03 to 11.87 per cent in 2011-12. Its annual growth rate was 12.98 per cent- lower than the growth rate of overall expenditure.

11. Expenditure on general services as a percentage of GSDP has declined from 8.80 per cent in 2002-03 to 5.18 percent in 2011-12. On the other hand, the combined share of social services and economic services, representing developmental expenditure, as a percentage of GSDP has increased from 8.70 per cent in 2004-05 to 12.65 per cent in 2011-12. The increase in the percentage of expenditure on social and economic services is in right direction so as to enhancing the quality of asset base both physical and human in the context of accelerating the pace of economic growth in the state.

12. Share of expenditure on salaries in revenue receipts has declined from 45.20 per cent in 2002-03 to 22.02 per cent in 2011-12. However, the amount spent during 2011-12 on salaries is still higher than the assessment made by ThFC. Interest rate as a proportion of revenue receipts has declined significantly from 34.20 per cent in 2002-03 to 6.40 per cent in 2011-12, and remained lower than the projection made in MTFP and ThFC. Subsidy as a proportion of revenue receipts has increased significantly from 0.50 per cent in 2002-03 to 4.33 per cent in 2011-12.

13. Expenditure allocation for general services in total expenditure has declined sharply from 35.05 per cent in 2007-08 to 28.12 per cent in 2011-12, while it has increased for social services from 33.61 per cent in 2007-08 to 37.69 per cent in 2011-12 and for economic services from 27.60 per cent in 2007-08 to 30.90 per cent in 2011-12. This shows the improvement in the allocative efficiency of the state's expenditure. Allocation of expenditure for social services as a percentage of GSDP was 6.64 per cent in 2011-12. However, as against the Education Commission's and Ramamoorthy Committee's recommendations of spending 6 per cent of state income on education, Odisha had spent only 3.15 per cent of GSDP on education during 2011-12. Similarly, against the recommendation of ICSSR and ICMR panel for spending 6 per cent of income on health, Odisha had spent only 0.61 per cent of GSDP on health during 2011-12. These two components are major indicators of human development and thus the allocation to these sectors needs to be enhanced. At the same time the technical/operational efficiency of these two sectors are very low with cost recovery of 3.92 per cent of non plan revenue expenditure in case of health sector and 0.44 per cent in case of education. This needs to be improved.

14. The Government of Odisha has been witnessing revenue surplus from the year 2005-06. The revenue surplus has remained above 2 per cent since 2006-07, except during 2009-10 when it was only 0.70 per cent. Fiscal deficit of the state has remained below two percent of GSDP from the year 2004-05 onwards. The state has recorded fiscal surplus in the years 2006-07, 2007-08 and 2011-12. Starting from the year 2004-05 the state has been recording primary surplus. Primary surplus as a percentage of GSDP varied from 0.13 per cent in 2002-03 to 4.02 per cent in 2005-06. During 2011-12 the share of primary surplus as a percentage of GSDP was 1.48 per cent.

15. Total public debt of the state as a percentage of GSDP has gone down substantially from 41.56 per cent in the year 2002-03 to 11.40 percent in 2011-12. Similarly, the aggregate public debt and outstanding liabilities as a percentage of GSDP has gone down significantly from 61.82 percent in 2002-03 to 19.76 percent in 2011-12. This is much below the target set by 12th Finance Commission at 28% of GSDP and 25 per cent target set by the 13th Finance Commission for all the states in aggregate.

16. The share of internal debt (which includes Market Loans, WMA from the RBI, Bonds, Loans from Financial Institutions, Special Securities issued to National Small Saving Funds and Other Loans) as a percentage of total public debt and other liabilities (PDOL) increased from 36.14 per cent during 2002-03 to 46.65 percent in 2005-06 and subsequently declined to 40.83 percent during 2011-12. The share of central government loan (which includes Non-Plan Loans, Loans for State Plan Schemes, Loans for Central Plan Schemes, Loans for Centrally Sponsored Plan Schemes and Pre 84-85 Loans) in the total PDOL has declined steadily from 31.08 percent in 2002-03 to only 17.14 percent in 2011-12. The state government is now relying more upon the small scale savings and provident funds (SSPF) to raise funds for the functioning of the government. The share of SSPF in the total PDOL has gone up from 24.69 percent in 2002-03 to 32.90 percent in 2011-12 showing almost eight percentage points rise. The share of other obligations in the total PDOL declined from 8.08 percent in the year 2002-03 to 5.22 percent in 2005-06 and has been showing a rising trend in the subsequent years to record 9.13 percent in 2011-12.

17. The share of market loan in the total public debt has gone down from 29.13 percent in 2008-09 to 20.77 percent in 2011-12. Similarly, the share of bonds has declined from 3.06 percent in 2008-09 to 1.79 percent in 2011-12. The government of Odisha is no more relying upon the Ways and Means Advance from the Reserve Bank of India.

18. Capital outlay as a percentage of total expenditure went up from 5.17 percent in 2002-03 to 14.03 percent in 2008-09 and declined in the subsequent years to reach the level of 10.68 percent in 2011-12. The state government which ought to invest the surplus resources in order to augment the productive capacity of the state is not doing so; rather it has been investing the money with RBI in low yielding financial assets. Investment of surplus cash by the state government which includes Investments held in the Cash Balance-Investment Account and Investments of Earmarked Funds have gone up from 19.18 crore in 2002-03 to 11,906.74 crore in 2011-12.

19. The Orissa Fiscal Responsibility and Budget Management Act was assented to by the Governor on the 11th of May 2005 and was published for general information as Orissa Act 6 of 2005. Subsequently, on 11th August 2005, the Finance Department, Government of Odisha notified the Orissa Fiscal Responsibility and Budget Management Rules, 2005. The state government further amended the FRBM Act (2005) in the year 2012 and notified the Odisha Fiscal Responsibility and Budget Management (Amendment) Act, 2011 on 1st February, 2012. In this amendment the government made the provision that “after commencement of the Odisha, Fiscal Responsibility and Budget Management (Amendment) Act, 2011, the revenue deficit shall be maintained at zero for the financial year, 2011-12 and also for subsequent financial years. Similarly, the amendment made the provision for containing the fiscal deficit within three per cent of the estimated Gross State Domestic Product (GSDP)" from the financial year, 2011-12 and onwards. It also declared that the interest payment as a percentage of revenue receipt was to be limited to 15 percent.

20. The state government has over-complied with the FRBM targets imposed by its own legislation and the MTFP roadmap drawn by the 13th Finance Commission.

21. The 73rd constitutional amendment enlists 29 subjects to be transferred to the PRIs. Out of 29 subjects the state government has transferred 21 subjects of 11 Departments to the PRIs in the light of decisions of the Cabinet during 2003. The Chief Secretary in his letter bearing No.6888/PS dt.4.7.2003 addressed to 11 Departments communicated the decision of the Government for implementation of the same in letter and spirit. The Third State Finance Commission in its report has pointed out that various departments have not implemented the decisions of the state government. Some Departments have issued instructions to field level functionaries contradictory to the decision of Government.

22. The Third State Finance Commission, which submitted its final report on 27th January, 2010 recommended for larger devolution of funds to these bodies to enable them to provide public services and undertake local development and recommended to transfer 15 per cent of the average Gross Tax Revenue of the state calculated at 896.17 crore in favour of PRIs and ULBs per annum. Thus in five years, i.e. from 2010-11 to 2014-15, the allocation to be devolved to the local bodies would amount to 4480.85 crore. Out of this total fund the TSFC recommended that

25% of the amount earmarked for devolution may be transferred to the ULBs and 75% to the RLBs.

23. The government of Odisha in its budget 2013-14 has announced to transfer funds to the Local Bodies as follows: 1) A sum of Rs. 747.91 crore has been provided as grant-in-aid to P.R. Institutions on the recommendation of the 13th Finance Commission which is 16% in excess than the current years' provision. 2) Rs. 706.44 crore have been provided in the budget towards assistance to Panchayati Raj Institutions as per the recommendation of the 3rd State Finance Commission. 3) Rs. 158.25 crore have been provided as grants to ULBs under 13th Finance Commission Award. 4) Assignment of share from Entry Tax to ULBs has been enhanced from rs. 307.34 crore in 2012-13 to Rs. 500.00 crore in 2013-14.

24. The JNNURM wing of the ministry of Urban Development, Government of India has also released the calibrated score of the reforms undertaken by the Odisha government and two cities namely Bhubaneswar and Puri. Overall, the state has scored 74.8 per cent in both mandatory and optional reforms undertaken by the state government, and ULBs in Bhubaneswar and Puri.

25. Between 2006-07 and 2011-12, 26 to 29 SPEs have operated and out of which maximum number of PSUs have recorded profit and 4 to 8 PSUs have recorded loss. If we take into account the aggregate profit and loss of SPEs then there is net profit to the state exchequer. SPEs like Orissa Mining Corporation, Orissa State Cashew Dev. Corporation, Orissa Construction Corporation, Orissa Power Generation Corporation, Orissa State Road Transport Corporation, Idco, Idcol Ferro Chrome & Alloys Limited have recorded profit during 2006-07 to 2011-12. Other firms have recorded loss at least in one financial year. Many of the recently profit making firms, however, recorded loss in the cumulative profit and loss statement. OMC has been the largest profit contributor to the state exchequer. In aggregate SPEs have remained as net revenue contributor to the state exchequer. The share of net profit of SPEs in total revenue receipts (TRR) of the state went up from 4.06 percent in 2006-07 to 11.50 percent in 2007-08 and started falling from 2009-10 onwards. In the year 2011-12 the net profit of SPEs in TRR was only 1.73 percent.

26. In order to ensure timely spending and maintaining even the pace of expenditure of budgeted outlays, the government introduced cash management system in 10 key Departments through Monthly Expenditure Plan (MEP) and Quarterly Expenditure Allocation (QEA) in the financial year 2010-11. In addition to those 10 Departments, five more Departments namely Fisheries & ARD, Forest & Environment, ST & SC Development and Minorities & Backward Classes Welfare, Industries and Energy Departments were brought under the fold of Cash Management System during 2011-12. The concerned Departments are given full operational flexibility to spend the budgeted outlay as per the quarterly targets with the stipulation to limit the expenditure in the 4th quarter and in the month of March within 40 per cent and 15 per cent respectively.

27. In spite of the policy decisions on cash management system various government departments have not been able to adhere to the ideal practices. The CAG report for the year 2011-12 has pointed out that that the policy of state government on cash management has not been implemented as desired by many departments. Only seven out of 15 departments spent 60 per cent of the allocations by the end of the third quarter while the rest eight failed to do so during 2011-12. Further, six out of eight departments, spent less than 50 per cent up to December 2011.

Similarly, nine out of 15 departments failed to adhere to the norms of spending limit within 15 per cent of the total allocation during the month of March 2012.

28. The impact of power sector reform on State's fiscal health can be summerised as follows:1) State Government realized Rs.159 crore by divesting 51 per cent of its stake in the distribution companies which has been utilized to reduce the liabilities of GRIDCO and around Rs.600 crore by divesting its stake in OPGC. 2) State Government received Rs.356 crore by selling TTPS (Talcher Thermal Power Station) to NTPC, which was adjusted against erstwhile OSEB's overdue payments to NTPC. 3) Collection of electricity duties increased from Rs. 121.35 crore in 1995-96 to Rs. 458.06 crore in 2010-11. 4) As a result of withdrawal of budgetary support to the power sector from 1996-97 together with disinvestment and other fiscal measures the State's consolidated fund has been enriched and Odisha has been converted from a revenue deficit state to a revenue surplus state.

29. There has been continuous fall in the burden of guarantees given by the state. The maximum amount of guarantee as a percentage of revenue receipts has fallen from 155.06 per cent in 2002-03 to 51.07 per cent in 2011-12. Similarly, the outstanding guarantee as a percentage of revenue receipts has fallen from almost 100.46 per cent in 2002-03 to 5.92 in 2009-10 and 12.12 per cent in 2011-12. Along with the amount of guarantee, the number of organizations who were given guarantees has fallen from 172 in 2002-03 to 161 in 2011-12.

30. The total subsidy of the State Government has increased from Rs. 42 crore in 2002-03 to Rs. 1744 crore in 2011-12. There is a sudden jump in the subsidy from Rs. 148 crore in 2007-08 to Rs. 743 crore during 2008-09. Economic service sector has received the major share of subsidy. During 2011-12, the subsidy to this sector was 74 per cent against 26 per cent subsidy to social sector. There was no subsidy for social service sector from 2002-03 to 2004-05 and it remained below 10 per cent from 2005-06 to 2009-10, except during 2006-07. Thereafter the share of subsidy to this sector increased rapidly. It increased to 18.36 per cent in 2010-11 and to 26.27 per cent in 2011-12. On the other hand, the economic service sector received the entire subsidy from 2002-03 to 2004-05 and then its share decreased with the increase in subsidy to social sector. During 2011-12, the economic service sector still has the lion's share in the total subsidy and food subsidy having overwhelming component within it.

31. Even though the subsidy has increased over the years, the total amount of subsidy as a percentage of GSDP has remained below 1 per cent. Over the period from 2002-03 to 2011-12, the total subsidy as a proportion of GSDP has increased from 0.08 per cent to 0.81 per cent. The share of subsidy in GSDP in case of economic service sector has remained at 0.60 per cent (with agriculture and allied at 0.56 per cent) and social service sector at 0.21 per cent during 2011-12. Food subsidy has the highest share of 0.45 per cent in GSDP during 2011-12.

32. In targeting food subsidy, both inclusion and exclusion errors are observed. However, exclusion error is found to be significantly more than inclusion error, indicating that the percentage of poor who ought to be included but are excluded from the PDS is much more than coverage of the non-poor who ought to be excluded but are included. In order to eliminate exclusion and inclusion errors, the State Government has taken up technology based solution for creation of database of PDS beneficiary through digitization of ration cards.

CONTENTS

LIST OF TABLES

LIST OF CHARTS

ABBREVIATIONS

ACIR	American Advisory Commission on Inter-Governmental Relations
AIIMS	All India Institute for Medical Sciences
ARD	Animal Resource Development
AT&C	Aggregate Technical and Commercial
BE	Budget Estimates
BDA	Bhubaneswar Development Authority
BSUP	Basic Services to the Urban Poor
CAA&A	Controller of Aid, Accounts and Audit
CAPEX	Capital Expenditure
CAG	Comptroller and Auditor General of India
DAs:	Development Authorities
DFID	Department for International Development
DCRF	Debt Consolidation and Relief Facility
DISCOMs	Distribution Companies
DPE	Department of Public Enterprises
DSS	Debt Swap Scheme
DTP	Director Town Planning
ESI	Employees' State Insurance
EPF	Employee Provident Fund
EWS	Economically Weaker Section
FC	Finance commission
FIs	Financial Institutions
FRBM	Fiscal Responsibility and Budget Management

FRF	Fiscal Reform Facility
GDP	Gross Domestic Product
GIS	Geographic Information System
GoI	Government of India
GoO	Government of Odisha
GP	Gram Panchayat
GRIDCO	Grid Corporation of Odisha
GSDP	Gross State Domestic Product
H & UD	Housing & Urban Development
HUDCO	Housing & Urban Development Corporation
ICMR	Indian Council of Medical Research
ICSSR	Indian Council of Social science Research
IDCO	Infrastructure Development Corporation
IDCOL	Industrial Development Corporation of Odisha Limited
IIT:	Indian Institute of Technology
IMR	Infant Mortality Rate
IPICOL	Industrial Promotion & Investment Corporation Ltd
IFC	International Finance Corporation
IPO	Initial Public Offering
IT	Information Technology
JNNURM:	Jawaharlal Nehru National Urban Renewal Mission
KFW	Kreditanstalt Für Wiederaufbau
LIC	Life Insurance Corporation
LIG	Low Income Group
MARKFED	Marketing Federation

MC	Municipal Corporation
MEP	Monthly Expenditure Plan
MIS	Management Information System
MMR	Maternal Mortality Rate
MoU	Memorandum of Understanding
MPCE	Monthly Per Capita Expenditure
MTFP	Medium Term Fiscal Plan
NAC	Notified Area Council
NABARD	National Bank for Agriculture and Rural Development
NFMMI	Non-ferrous Mining & Metallurgical Industries
NHAI	National Highway Authority of India
NISER	National Institute for Science Education and Research
NMMP	National Mission Mode Project
NPRE	Non-Plan Revenue Expenditure
NTR	Non Tax Revenue
NTPC	National Thermal Power Corporation
OCAC	Odisha Computer Application Centre
OERC	Odisha Electricity Regulatory Commission
O & M	Operation & Maintenance
OLA	Odisha Legislative Assembly
OMC	Odisha Mining Corporation
ONTR	Own Non-Tax Revenue
OTR	Own Tax Revenue
OPGC	Odisha Power Generation Corporation
ORHDC	Odisha Rural Housing Development Corporation

OSEB	Orissa State Electricity Board
OSFDC	Odisha State Finance Development Corporation
OSFC	Odisha State Financial Corporation
OSHB :	Odisha State Housing Board
OSRFS	Odisha State Renewal Fund Society
OTS	One Time Settlement
OUIDF	Odisha Urban Infrastructure Development Fund
OWS&SB	Odisha Water Supply and Sewerage Board
PEFM	Public Expenditure and Financial Management
PDOL	Public Debt and Other Liabilities
PHEO	Public health Engineering Organization
PPP	Public Private Partnership
PRIs	Panchayat Raj Institutions
PSUs	Public Sector Undertakings
PSEs	Public Sector Enterprises
PWD	Public Work Department
QEA	Quarterly Expenditure Allocation
RBI	Reserve Bank of India
RDM	Revenue and Disaster Management
RE	Revenue Expenditure
RTS	Representative Tax System
SCBs	Statutory Corporation and Boards
SEBs	State Electricity Boards
SIC	State Implementation Consultant
SPE	State Public Enterprises

SPVs	Special Purpose vehicles
SSPF	Small Saving and Provident Funds
SSNSSF	Securities issued to National Small Saving Funds
ToR	Terms of Reference
TSFC	Third State Finance Commission
ThFC	Thirteenth Finance Commission
TRR	Total Revenue Receipts
TTPS	Talcher Thermal Power Station
TwFC	Twelfth Finance Commission
ULBs	Urban Local Bodies
ULCRA	Urban Land Ceiling and Regulation
VAT	Value Added Tax
VRS	Voluntary Retirement Scheme
WIPRO	Western India Products
WMA	Ways and Means Advances

CHAPTER ONE

INTRODUCTION

1.1 Profile of the State

Odisha, situated on the eastern coast of the country, is having the geographical area of 1.56 lakh square kilometres and a population of 4.19 crore (as per census 2011). The State is accounting for about 4.75 percent of the geographical area and about 3.6 percent of the total population of the country. The state economy presents an overwhelming rural scenario with 83 per cent of the population living in villages and more than 60 per cent of work force drawing their livelihood sustenance from agriculture. Agriculture being the predominant sector of the state economy is at its lower level of development in terms of cropping pattern, use of modern technology, yield rate and thus remains very much un-remunerative. Industrial development has not taken place appreciably and its contribution to state's GSDP and providing employment has remained low. In recent years, however the state has been able to achieve higher growth in GSDP, yet poverty, unemployment, hunger and malnutrition continue to be very high in the state. Nearly 33 per cent of the state's population are below the poverty line (2011-12). Unemployment rate both rural and urban is higher in the state over the all-India average. The state ranks 12 (in ascending order) among the major 17 states in the India State Hunger Index,2008. More than 50 per cent children below the age five are malnourished. Disparities across regions continue to be high and have grown over time. The Southern, Northern and Western Regions with higher concentration of tribal population are at a lower level of infrastructural (physical and human) development as compared to Coastal Plains. What is crucially important to accelerate the pace of economic growth of the state economy and reduce poverty and related disadvantages is the rapid infrastructural development and higher doses of investment in the social sectors like health, education, and sanitation. The real challenge is thus to mobilize resources for investment in these critical sectors.

1.2 State's Fiscal Position

The revenue surplus of Rs.27.98 crore of Odisha government recorded in 1981-82 disappeared in the following two decades due to rapid growth in revenue expenditure without the commensurating rise in the revenue collection. Revenue expenditure of the state as a percentage of the GSDP rose almost two fold from 10.29 per cent in 1981-82 to 19.11 per cent in 2001-02. Revenue receipt, during this period, saw only a moderate rise from 10.79 percent of GSDP in 1981-82 to 13.63 percent in 2001-02.The mismatch between the expenditure behavior and revenue collection effort of the state government led to continuous borrowing and cumulative debt burden to ring the fiscal imbalance warning bell. The fiscal scenario of the state became so precarious that the State had to depend on Ways and Means Advance/ Overdraft from RBI for over 300 days in a year from 2000-2001 to 2002-03 to meet the day today expenditure obligations. The debt stock as percentage of the total revenue receipt which was 206% in 1980-81 increased to 308 % in 1999-2000 and 335% in 2003-04 (Budget Speech 2005-06, GoO). At the beginning of the financial year 2003-04, the debt burden of the State was as high as 329% of State's total revenue and more than 63% of the State Gross Domestic Product. On account of unsustainable debt burden, 34% of the State's total revenue was being used towards expenditure on payment of interest. Hence, under these circumstances, the state government sought assistance for Socio-Economic Development from Government of India, the World Bank and Department for International Development (DFID). Since nearly 50% of this assistance would come in the shape of grant, this would help in reduction of expenditure on payment of interest (Budget speech of the finance minister 2004-05, Government of Odisha). The increased diversion of borrowed funds to meet the revenue expenditure, reduction in the capital component of the expenditure and mounting debt burden were the prominent symptoms of serious illness of the fiscal system of the State. The fiscal health of the state deteriorated so much in 1998-99 and 1999-2000 that the then Congress Government was compelled to sign an Memorandum of Understanding (MoU) with Govt. of India on 15th April, 1999 in order to overcome the over draft situation, because without signing an agreement, Govt. of India was not prepared to help the State Govt. to clear the overdraft which had reached Rs.232.45 crore. As per the terms and conditions of the MoU, the State Govt. was required to reduce revenue expenditure and increase the revenue receipt within a specified time schedule (Budget Speech 2005-06, GoO). After assuming power by the BJD-BJP coalition Govt., a white paper analyzing the fiscal condition of the State was presented in the Odisha Legislative Assembly in March, 2001. This was followed up by State Government signing a MoU with Govt. of India on 11th October 2001 in accordance with the recommendation of 11th Finance Commission. As per the stipulation contained in the MoU, the State Govt. is committed to take a number of revenue generation and expenditure compression measures. This was followed by Government of Odisha signing an MOU with Government of India on 11th October 2004. In accordance with the stipulations of the MOU, the reform agenda focused on two broad areas; (i) Fiscal Stabilisation and (ii) Fiscal Empowerment.

(i) Fiscal Stabilisation: In order to bring stability in the financial management, the prime task was to reduce the deficit to sustainable level. This prudent fiscal management aimed at creating savings by raising revenue receipts in excess of revenue expenditure. This government savings should be used to finance capital expenditure. Even use of borrowed funds for productive purposes is instrumental for direct revenue yielding activities or indirect productive uses can only create necessary returns by way of tax or non-tax revenue, which can be used for debt servicing.

(ii) Fiscal Empowerment: In addition to this, what was important was Fiscal Empowerment; that is shifting to a fiscal stance that makes the state more effective agent of development. This calls for expenditure restructuring, expenditure management and simultaneous comprehensive revenue reforms and mobilisation.

The MOU signed between the Government of India and Odisha outlined the medium term strategies towards fiscal consolidation, in other words the GOI incentivized the reform, in the following manner:

(i) Through FRF (Fiscal Reform Facility): It is based on the recommendation of the 11th Finance Commission. The Eleventh Finance Commission recommended that if the state improves the ratio of revenue deficit to revenue receipt by 5% p.a. the state would be entitled to receive, Fiscal Incentive Grant. The state government achieved improvement in the ratio of revenue deficit to 7.5% p.a. on an average during the period from 2000-01 to 2003-04. On this basis, the state government did receive an Incentive grant of Rs. 315.35 core by 2005-06 (2000-2006) (Das, 2008). The budget speech of the finance minister Mr Prafulla Ghadei for the fiscal year 2004-05 reveals that Odisha took a number of reform measures for bringing about fiscal discipline and undertaking reform oriented programmes. The Government of India and Planning Commission appreciated the reform initiatives taken by the State Government and government of Odisha received Fiscal Incentive Grant of Rs.77.95 crore, Rs.47.53 crore and 87.35 crore for 2000-01, 2001-02 and 2002-03 respectively for its fiscal performance.

(ii) To reduce the interest burden of the state, the Central Government introduced a Debt Swap Scheme (DSS). All loans from the centre to the state bearing interest rates in excess of 13 % were swapped with market borrowings and small savings.

(iii) The third incentive was in the form of imparting good management and governance practices to the fiscal managers through training on the areas of cash, Debt and Pension Management.

As a result of all such fiscal measures the revenue expenditure of the state as a percentage of GSDP declined to 13.71 percent in 2007-08 and in the subsequent years it has increased to 16 per cent in 2012-13, which is still lower as compared to the level of 2001-02. On the other hand revenue receipt of the state as a percentage of GSDP has gone up to 18.65 percent in 2011-12 and has shown a moderate slow down in 2012-13 and it has remained at 16.94 percent. Such rising trend in the revenue receipt and contraction in the revenue expenditure led the state government to record a revenue surplus of 481.2 crores in 2005-06. In the subsequent years the state has been consistently recording revenue surplus.

1.3 Present Fiscal Position

The overall financial position of Odisha from 2002-03 to 2011-12 is summarized in Table 1.1. It may be seen that fiscal imbalance has been corrected through elimination of revenue deficit in 2005-06. The surplus in revenue account since 2005-06 has been maintained till 2011-12. Fiscal Deficit could also be contained within 3 percent of GSDP. Debt-GSDP ratio came down significantly from 56.08 per cent in 2002-03 to 19.67 per cent in 2011-12. Tax-GSDP ratio remained at 5 to 6 per cent during 2002-03 to 2010-11 and increased to 6.23 per cent in 2011-12. The improved fiscal performance enabled the State Government to avail of debt write-off to the extent of Rs. 1527.60 crore under Debt Consolidation & Relief Facility recommended by the Twelfth Finance Commission.

The Thirteenth Finance Commission (ThFC) recommended that every State needs to amend the FRBM Act and work out a fiscal reform path to make credible progress towards fiscal consolidation. Keeping in line with the recommendations of the ThFC, the State Government obtained amendment (February, 2012) to the States ‘Fiscal Responsibility and Budget Management (FRBM) Act, 2005 which laid down the following fiscal targets (CAG, 2012):

- Revenue deficit during 2011-12 and onwards to be maintained at Zero.

- Fiscal deficit to be contained within three per cent of the Gross State Domestic Product (GSDP) from 2011-12 and onwards.
- In order to bring the debt stock to a sustainable level, interest payment as a percentage to revenue receipt to be limited to 15 per cent.

Keeping the above in view, this report provides a broad perspective of the finances of the State Government of Odisha during 2002-03 to 2011-12 and analyses critical changes in the major fiscal aggregates.

Table 1.1: Financial Position of the State Government (Rs. Crore)

Sl. No.	Items	2002- 03	2003- 04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1	Revenue Receipts	8438.77	9440.24	11850.19	14084.72	18032.62	21967.19	24610.01	26430.21	33276.16	40267.02
2	Tax Revenue	5677.42	6629.42	8154.26	9879.03	12285.48	14702.59	16275.16	17500.99	21689.53	25671.86
	(Out of which State's share in Union Tax)	2805.58	3327.68	3977.66	4876.75	6220.42	7846.5	8279.96	8518.65	10496.86	12229.13
3	Non-Tax Revenue	2761.35	2810.82	3695.93	4205.69	5747.14	7264.6	8334.85	8929.22	11586.63	14595.16
	(Out of which Grant-in-aid from Centre)	1800.17	1716.28	2350.41	2673.78	3159.02	4611.02	5158.7	5717.02	6806.25	8152.2
4	Capital Receipts	11659.61	13165.12	5979.22	2442.56	2331.71	862.2	1387.87	2006.49	2301.42	1485.83
5	Recoveries of Loans	177.19	273.07	416.95	347.6	285.82	355.3	236.21	356.36	33.82	132.08
7	Borrowings and other liabilities	11482.42	12892.06	5562.27	2094.96	2045.89	506.9	1151.66	1650.13	2267.60	1353.75
	(Out of which W & M Adv. &overdraft	6722.53	7012.9	1450.46	0	0	0	0	0	0	0
8	Total Receipts (1 + 4)	20098.38	22605.36	17829.41	16527.28	20364.33	22829.38	25997.88	28436.7	35577.58	41752.85
	(a) Total Receipts without W&M Adv.	13375.85	15592.46	16378.95	16527.28	20364.33	22829.38	25997.88	28436.7	35577.58	41752.85
9	Non-Plan Expenditure (10 + 11)	17994.58	19071.77	14324.98	12652.71	15141.19	15798.45	17739.86	21639.1	24296.47	27947.56
10	On Revenue Account (Out of which)	8444.02	9217.58	10416.44	11490.77	13045.44	13634.19	15883.24	19676.5	21975.28	24940.47
	(a) Interest Payments	2885.58	2860.28	3332.02	3697.1	3188.43	3169.48	2889.81	3044.17	3061.53	2576.43
11	On Capital Account (Out of which)	9550.56	9854.19	3908.54	1179.72	2095.75	2164.26	1856.62	1962.6	2321.19	3007.09
	(a) Debt Repayment	1834.61	2278.87	2252.67	1037.59	1850.74	1844.97	1492.61	1488.69	2083.59	2327.76
	(b) W & M Adv. and overdraft to RBI	7517.16	7461.3	1450.46	0	0	0	0	0	0	0
	(c) Capital Outlay	81.26	48.05	54.04	74.94	111.59	187.22	208.54	391.12	128.59	60.66
	(d) Loans & Advance	117.52	1212.39	151.37	49.42	133.42	132.07	155.47	82.79	109.01	618.67
12	Plan Expenditure (13 + 14)	2789.19	3954.52	3011.28	3093.66	4204.8	7045.88	8933	8901.54	11754.85	14157.53
13	On Revenue Account	1570.66	1643.58	1956.04	2112.75	2726.58	4089.08	5306.88	5615.09	7392.67	9719.76
14	On Capital Account (Out of which	1218.53	2310.94	1055.24	980.91	1478.22	2956.8	3626.12	3286.45	4362.18	4437.77
	(a) Capital Outlay	992.82	804.90	1001.51	963.13	1339.86	2656.19	3570.62	3256.76	4156.51	4435.43

	(b) Loans & Advance	225.71	1506.04	53.73	17.78	138.36	300.61	55.5	29.69	205.67	2.34
15	Total Expenditure (9 + 12)	20783.77	23026.29	17336.26	15746.36	19345.99	22844.33	26922.86	30540.64	36051.32	42105.1
	(a) Total Exp. without W&M Adv. & Overdraft to RBI)	13266.61	15564.99	15885.8	15746.36	19345.99	22844.33	26922.86	30540.64	36051.32	42105.1
16	Revenue Expenditure (10 + 13)	10014.68	10861.16	12372.49	13603.52	15772.02	17723.27	21190.12	25291.59	29367.94	34660.24
17	Capital Expenditure (11 + 14)	10769.09	12165.13	4963.78	2142.84	3573.97	5121.06	5732.74	5249.05	6683.38	7444.86
	(a) Capital Expenditure without W&M Adv. and overdraft to RBI (11a+11c+14a)	3251.93	4703.83	3513.32	2142.84	3573.97	5121.06	5732.74	5249.05	6683.38	7444.86
	(b) Capital Outlay without W&M Adv. and overdraft to RBI(11c+14a)	1074.08	852.95	1055.55	1038.06	1451.47	2843.41	3779.17	3647.88	4285.1	4496.09
18	Revenue Deficit(-)/ Surplus(+) (1-16)	-1575.91	-1420.92	-522.3	481.2	2260.6	4243.92	3419.89	1138.62	3908.21	5606.78
19	Fiscal Deficit(-)/ Surplus(+)	-2816.04	-3572.81	-1365.99	-276.46	823.19	1323.13	-584.03	-2265.38	-657.76	621.76
20	Primary Deficit(-)/ Surplus(+)	69.54	712.53	1966.03	3420.65	4011.62	4492.61	2305.78	778.79	2403.77	3198.19
21	GSDP at current prices	54801.11	66100.14	77729.43	85096.49	101839.5	129274.5	148490.7	162946.4	194464.8	215899.4
22	As percentage of GSDP										
	(a) Revenue Deficit(-)/ Surplus(+)	-2.88	-2.15	-0.67	0.57	2.22	3.28	2.30	0.70	2.01	2.60
	(b) Fiscal Deficit(-)/ Surplus(+)	-5.14	-5.41	-1.76	-0.32	0.81	1.02	-0.39	-1.39	-0.34	0.29
	(c) Primary Deficit)-)/ Surplus(+)	0.13	1.08	2.53	4.02	3.94	3.48	1.55	0.48	1.24	1.48
	(d) Debt Stock	50.73	47.86	43.81	42.84	36.58	28.09	24.53	23.15	20.13	17.87
	(e) Capital Outlay	1.96	1.29	1.36	1.22	1.43	2.20	2.55	2.24	2.20	2.08
	(f) Own Tax	5.28	5.01	5.37	5.88	5.96	5.30	5.38	5.51	5.76	6.23

Source: Finance Accounts of relevant years, Govt. of Odisha
Note: GSDP data used are of 2004-05 series.

1.4 Data Source

The study has used secondary data from different published sources like Finance Accounts, Budget Documents, Economic Survey, CAG Report, Reports of Public Enterprises, and Reports of the Odisha Electricity Regulatory Commission. In order to assess the extent of fiscal decentralization in the state, various recommendations of the State Finance Commissions and action thereof have been taken into consideration. Besides, consultation has been made with the Chairmen of the State Finance Commissions and officials involved in the preparation of state budget for enriching the report.

1.5 Analytical Tools Used

Simple techniques like ratio, percentage, graph etc. have been used to show changes in the fiscal parameters of the state over the period. Annual compound growth has been estimated by using semi-log growth model. Besides, regression techniques have been used to estimate the buoyancy, elasticity and revenue capacity.

CHAPTER TWO

REVENUE RECEIPTS AND TAX REVENUE

ToR 1.i requires us to estimate the revenue capacities of State and analyse the measures undertaken to improve the tax-GSDP ratio during last five years and suggest measures for enhancing the revenue productivity of the tax system in the State.

Before estimating the revenue capacities of the state the composition and trends of revenue growth in Odisha are presented below.

2.1 Composition, Trends and Growth in Revenue Receipts

Revenue Receipts of the State Government consist of own revenue, central tax transfers and grants-in-aid from Government of India (GoI). Table 2.1 depicts the composition of revenue receipts of the state government. It is observed that 49 per cent of revenue came from State's own resources during 2011-12 and the balance was from GoI in the form of State's share of taxes and grants-in-aid. While the share of own revenue has increased from 45.42 per cent in 2002-03 to 49.38 per cent in 2011-12, the share of central tax transfer has declined over time and that of central grants has remained more or less constant. Share of central transfer through tax devolution in State's total revenue receipt has declined from 33.25 percent in 2002-03 to 30.37 percent in 2011-12, but the share of grants-in-aid from centre to the state in the total revenue receipts of the state declined significantly from 21.33 per cent in 2002-03 to 17.52 per cent in 2006-07 and then increased in the subsequent years with some fluctuation.

Total revenue receipts of the State show a progressive increase from Rs. 8438.77 crore in 2002-03 to Rs. 40267.02 crore in 2011-12 (Table 2.1), registering a high annual compound growth rate of 19.12 per cent over the period 2002-03 to 2011-12 (Table 2.2). However, there is high fluctuation in year wise growth of revenue during this period ranging from 7.40 per cent in 2009-10 to 28.03 per cent in 2006-07. The growth rates in different years have remained higher than the overall growth of revenue receipts during 2002-03 to 2011-12, except in 2003-04, 2005-06, 2008-09 and 2009-10. The lower growth of revenue in 2008-09 and 2009-10 was due to the significant fall in shared tax as an impact of global recession. The State's Own Revenue, however, behaved in a slightly different manner. Its growth rate remained higher than the growth rate of shared tax in each and every year after 2007-08, which could be due to more mobilization of non-tax revenue. The trends of revenue receipts over the period 2002-12 are shown in Chart 2.1.

The trends in revenue receipts as percentage of GSDP are presented in Table 2.3. The revenue receipts as a percentage of GSDP has increased from 15.40 per cent in 2002-03 to 18.65 per cent in 2011-12. While the own revenue relative to GSDP has increased from 6.99 per cent to 9.21

per cent during the same period, percentage of shared tax and grants-in-aid to GSDP remained more or less constant.

Table 2.1: Composition of Revenue Receipts of the State Government (Rs in Crore)

Year	Total Revenue Receipts	Own Revenue	Shared Tax	Grants from Centre
2002-03	8438.76 (100.00)	3833.01 (45.42)	2805.58 (33.25)	1800.17 (21.33)
2003-04	9440.24 (100.00)	4396.28 (46.57)	3327.68 (35.25)	1716.28 (18.18)
2004-05	11850.19 (100.00)	5522.12 (46.60)	3977.66 (33.57)	2350.41 (19.83)
2005-06	14084.71 (100.00)	6534.18 (46.39)	4876.75 (34.62)	2673.78 (18.98)
2006-07	18032.62 (100.00)	8653.18 (47.99)	6220. 42 (34.50)	3159.02 (17.52)
2007-08	21967.19 (100.00)	9509.67 (43.29)	7846.80 (35.72)	4611.02 (20.99)
2008-09	24610.01 (100.00)	11171.35 (45.39)	8279.96 (33.65)	5158.70 (20.96)
2009-10	26430.21 (100.00)	12194.52 (46.14)	8518.66 (32.23)	5717.02 (21.63)
2010-11	33276.16 (100.00)	15973.03 (48.00)	10496.87 (31.54)	6806.25 (20.45)
2011-12	40267.02 (100.00)	19885.73 (49.38)	12229.13 (30.37)	8152.19 (20.25)

Note: Figures in the parentheses indicate percentage share of total receipts
Source: Finance Accounts, Govt. of Odisha.

Table 2.2: Annual Growth of Revenue Receipts and GSDP (%)

Year	Total Revenue Receipts	Own Revenue	Shared Tax	Grants from Centre	GSDP
2002-03	19.73	21.35	5.92	45.10	5.99
2003-04	11.87	14.70	18.61	-4.66	20.62
2004-05	25.53	25.61	19.53	36.95	17.59
2005-06	18.86	18.33	22.60	13.76	9.48
2006-07	28.03	32.43	27.55	18.15	19.68
2007-08	21.82	9.90	26.14	45.96	26.94
2008-09	12.03	17.50	5.52	11.88	14.86
2009-10	7.40	9.20	2.88	10.82	9.74
2010-11	25.90	31.00	23.22	19.05	19.34
2011-12	21.01	24.50	16.50	19.78	11.02
2002-12	19.12	19.67	17.76	19.95	16.68

Note: (a) The growth rates in different years are percentage change over the previous year.
(b) The growth rates during 2002-03 to 2011-12 are calculated by using the semi-log model

Chart 2.1: Trends in Revenue Receipts (Rs. Crore)

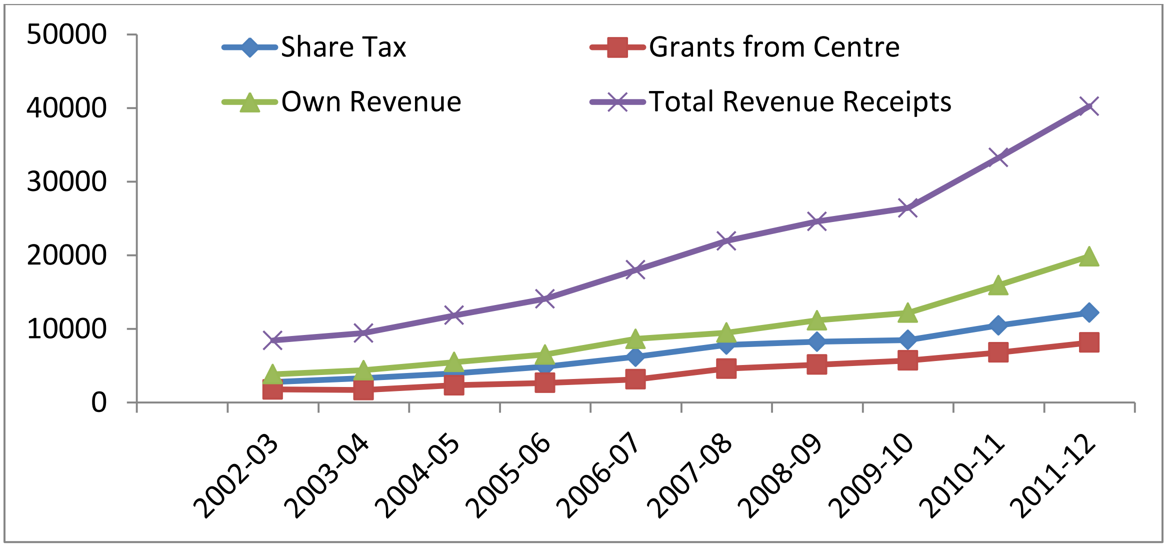


Table 2.3: Components of Revenue Receipts as a percentage of GSDP

Year	GSDP (Rs. Crore)	Revenue Receipts/GSDP (%)	Own Revenue/GSDP (%)	Shared Tax/GSDP (%)	Grants from Centre/GSDP (%)
2002-03	54801.11	15.40	6.99	5.12	3.28
2003-04	66100.14	14.28	6.65	5.03	2.60
2004-05	77729.43	15.25	7.10	5.12	3.02
2005-06	85096.49	16.55	7.68	5.73	3.14
2006-07	101839.47	17.71	8.50	6.11	3.10
2007-08	129274.45	16.99	7.36	6.07	3.57
2008-09	148490.71	16.57	7.52	5.58	3.47
2009-10	162946.43	16.22	7.48	5.23	3.51
2010-11	194464.79	17.11	8.21	5.40	3.50
2011-12	215899.44	18.65	9.21	5.66	3.78

Revenue buoyancy (change in revenue - automatic and discretionary - due to change in GSDP) with respect to GSDP can be seen from Table 2.4. It is revealed from the table that buoyancy of total revenue is more than unity over the period 2002-03 to 2011-12, indicating that total revenue of the state grows more than proportionately to the growth of GSDP. However, state's own revenue is more responsive to GSDP compared to the total revenue of the state. On the other hand, while shared tax is just buoyant the buoyancy of grants-in-aid is higher than that of total revenue of the state. It is, however, observed that there is wide fluctuation in the year to year revenue buoyancy during the period under study due to fluctuation in the growth rate of revenue receipts. The lower growth rate of revenue receipts during 2003-04, 2008-09 and 2009-10 pushed the revenue buoyancy down. Revenue buoyancy which was the lowest at 0.58 in 2003-04 increased to 1.45 in 2004-05. Further, the lower revenue buoyancy of 0.81 and 0.76 in 2008-09 and 2009-10 respectively increased to 1.34 in 2010-11 and subsequently to 1.91 in 2011-12. The

State's Own Revenue, however, behaved in a slightly different manner. While the buoyancy was lowest at 0.37 during 2007-08, it increased to 1.18 in 2008-09 though came down to 0.94 during 2009-10. It is also observed that the buoyancy of own revenue remained higher than buoyancy of total revenue after 2007-08, indicating that state's own revenue has become more responsive to GSDP than total revenue after 2007-08. On the other hand, shared tax and grants-in-aid have become less responsive to GSDP than the State's own revenue, which could be due to global recession.

Table 2.4: Year wise Buoyancy of Revenue with respect to GSDP

Year	Buoyancy of Total Revenue with respect to GSDP	Buoyancy of Own Revenue with respect to GSDP	Buoyancy of Shared Tax with respect to GSDP	Buoyancy of Grants with respect to GSDP
2002-03	3.29	3.56	0.99	7.53
2003-04	0.58	0.71	0.90	-0.23
2004-05	1.45	1.46	1.11	2.10
2005-06	1.99	1.93	2.38	1.45
2006-07	1.42	1.65	1.40	0.92
2007-08	0.81	0.37	0.97	1.71
2008-09	0.81	1.18	0.37	0.80
2009-10	0.76	0.94	0.30	1.11
2010-11	1.34	1.60	1.20	0.98
2011-12	1.91	2.22	1.50	1.79
2002-03 to 2011-12	1.12	1.15	1.06	1.18

Note: Buoyancy for 2002-03 to 2011-12 has been calculated by regressing revenue on GSDP.

2.2 State's Own Revenue

The State's own revenue comprised revenue receipts from its own tax and non-tax sources. Table 2.5 presents the composition of own revenue receipts of the State Government, while Chart 2.2 depicts the trends in the tax and non tax revenues. It is observed from the chart that there is increasing trend in both tax and non-tax revenue (in absolute amount) over the period 2002-03 to 2011-12. However, in percentage terms the share of tax revenue in total own revenue has declined from 75 per cent in 2002-03 to 68 per cent in 2011-12, while the share of non tax revenue has increased from 25 per cent to 32 per cent during that period. Thus, the importance of non-tax revenue has increased over time in the State.

Chart 2.2: Trends in Own Revenue (Rs. in Crore)

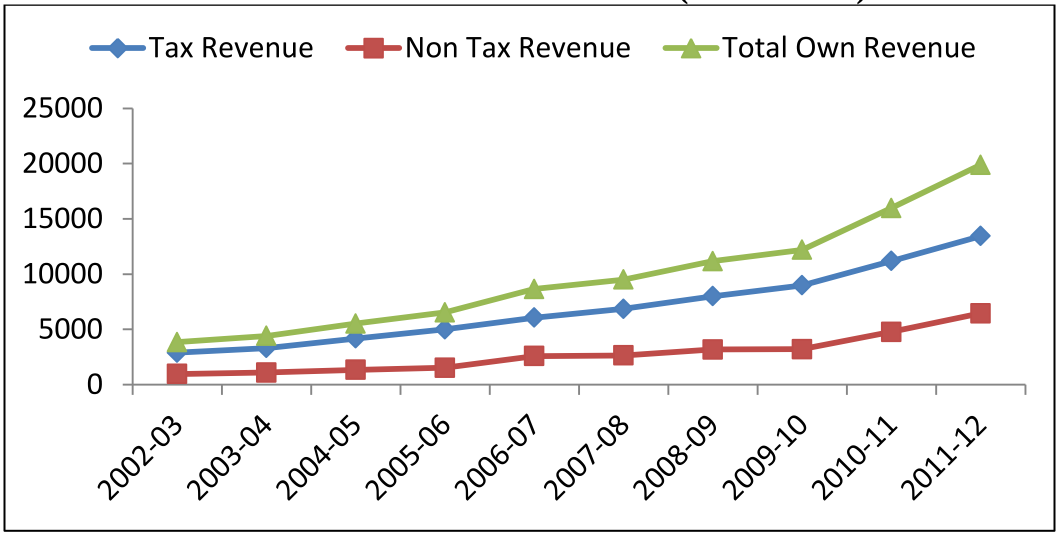


Table 2.5: Composition of Own Revenue of the State Government

(Rs. in Crore)

Year	Tax Revenue	Non Tax Revenue	Total Own Revenue
2002-03	2871.84 (74.92)	961.17 (25.08)	3833.01 (100.00)
2003-04	3301.74 (75.10)	1094.54 (24.90)	4396.28 (100.00)
2004-05	4176.6 (75.63)	1345.52 (24.37)	5522.12 (100.00)
2005-06	5002.28 (76.56)	1531.90 (23.44)	6534.18 (100.00)
2006-07	6065.06 (70.09)	2588.12 (29.91)	8653.18 (100.00)
2007-08	6856.09 (72.10)	2653.58 (27.90)	9509.67 (100.00)
2008-09	7995.20 (71.57)	3176.15 (28.43)	11171.35 (100.00)
2009-10	8982.32 (73.66)	3212.20 (26.34)	12194.52 (100.00)
2010-11	11192.66 (70.07)	4780.37 (29.93)	15973.03 (100.00)
2011-12	13442.77 (67.59)	6446.96 (32.41)	19885.73 (100.00)

Note: Figures in the parentheses indicate percentage share of total own revenue
Source: Finance Accounts, Govt. of Odisha.

2.3 Own Tax Revenue

The gross collection in respect of State's major taxes and duties during the years 2002-03 to 2011-12 is presented in Table 2.6. Sales tax is the main source of tax revenue of the State Government during the period 2002-12. Its share has increased from 55.90 per cent in 2002-03 to

60.98 per cent in 2011-12. The other important sources of tax revenue are taxes on goods and passenger and state excise, which remain around 10 per cent each. The share of taxes on vehicles has been declining continuously from 8.96 per cent in 2002-03 to 5.86 per cent in 2011-12. While the share of taxes and duties on electricity has declined after a peak of 7.06 per cent in 2005-06, the share of land revenue has been fluctuating around 3 to 4 per cent.

Own tax revenue has made a progressive increase from Rs. 2871.84 crore in 2002-03 to Rs. 13442.77 crore in 2011-12 (Table 2.6) with an annual compound growth rate of 18.30 per cent (Table 2.7). The taxes which have more than average annual growth of total taxes are land revenue (23.59 per cent), state excise (21.90 per cent) and sales tax (19.40 per cent). The taxes other than these have lower than the average annual growth of total taxes. The sluggish tax revenue is stamps and registration with an annual compound growth rate of 8.14 per cent. While the taxes on goods and passengers grow at the annual compound growth of 16.41 per cent, the taxes on vehicles and profession taxes grow at the rate of 13.76 per cent, and electricity duty grows at the rate of 12.46 per cent during this period. The trends of different tax revenues over the period 2002-12 are shown in Chart 2.3. It is observed from the chart that only sales tax has shown distinctly increasing trend over the period and this is due to its built-in-flexibility on business turnover. The trends of all other taxes are not distinctly visible as their individual shares are very small.

The trends in Own Tax Revenue (OTR) relative to GSDP are presented in Table 2.8. The percentage of OTR with respect to GSDP (or tax-GSDP ratio) in Odisha has increased from 5.24 per cent in 2002-03 to 6.23 per cent in 2011-12. Sales tax as a percentage of GSDP has increased to 3.80 per cent in 2011-12 from 2.93 per cent in 2002-03. The other tax revenues have very low tax-GSDP ratio, i.e., less than one per cent. However, OTR as percentage of GSDP has remained much lower as compared to many other major general category states (Table 2.9). Except Bihar, Jharkhand and West Bengal, all other states have more tax-GSDP ratio than Odisha.

Chart 2.3: Trends in Own Tax Revenue (Rs. Crore)

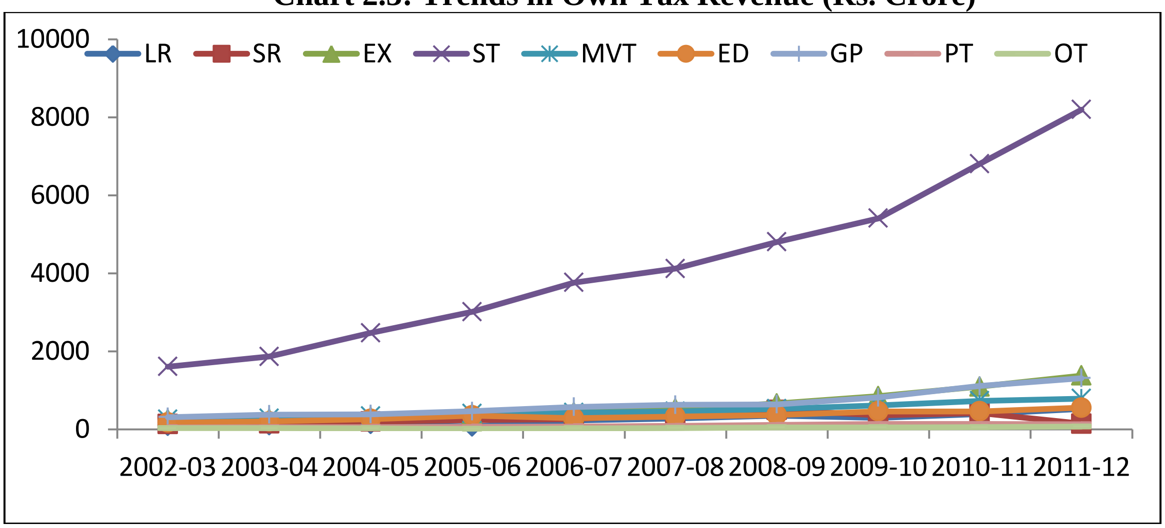


Table 2.6: Tax Revenue of the State Government (Rs. in Crore)

Year	Land Revenue	Stamps & Registration	State Excise	Sales Tax/ VAT	Taxes on Vehicles	Taxes and Duties on Electricity	Taxes on Goods & passengers	Profession Taxes	Other taxes	Total taxes
2002-03	82.16 (2.86)	135.86 (4.73)	246.06 (8.57)	1605.22 (55.90)	257.35 (8.96)	172.17 (6.00)	313.07 (10.90)	46.61 (1.62)	13.34 (0.46)	2871.84 (100.00)
2003-04	103.27 (3.13)	153.08 (4.64)	256.37 (7.76)	1863.97 (56.45)	280.03 (8.48)	200.43 (6.07)	377.19 (11.42)	52.62 (1.59)	14.77 (0.45)	3301.74 (100.00)
2004-05	131.59 (3.15)	197.87 (4.74)	306.61 (7.34)	2471.39 (59.17)	338.11 (8.10)	261.89 (6.27)	384.93 (9.22)	59.07 (1.41)	25.13 (0.60)	4176.60 (100.00)
2005-06	69.62 (1.39)	236.06 (4.72)	389.33 (7.78)	3011.73 (60.21)	405.85 (8.11)	353.13 (7.06)	463.34 (9.26)	66.46 (1.33)	6.76 (0.14)	5002.28 (100.00)
2006-07	226.38 (3.73)	260.49 (4.29)	430.07 (7.09)	3764.82 (62.07)	426.54 (7.03)	282.58 (4.66)	574.00 (9.46)	73.60 (1.21)	26.20 (0.43)	6065.06 (100.00)
2007-08	276.15 (4.03)	404.76 (5.90)	524.93 (7.66)	4118.43 (60.07)	459.42 (6.70)	327.46 (4.78)	626.90 (9.14)	86.44 (1.26)	31.29 (0.46)	6856.09 (100.00)
2008-09	348.79 (4.36)	495.66 (6.20)	660.07 (8.26)	4803.34 (60.08)	524.43 (6.56)	365.03 (4.57)	638.32 (7.98)	112.07 (1.40)	47.17 (0.59)	7995.20 (100.00)
2009-10	292.17 (3.25)	359.96 (4.01)	849.05 (9.45)	5408.76 (60.22)	611.23 (6.80)	459.96 (5.12)	815.25 (9.08)	135.55 (1.51)	50.39 (0.56)	8982.32 (100.00)
2010-11	390.66 (3.49)	415.82 (3.72)	1094.26 (9.78)	6806.80 (60.81)	727.58 (6.50)	458.06 (4.09)	1111.37 (9.93)	133.28 (1.19)	54.83 (0.49)	11192.66 (100.00)
2011-12	521.47 (3.88)	142.01 (1.06)	1379.00 (10.26)	8196.85 (60.98)	787.99 (5.86)	551.65 (4.10)	1312.36 (9.76)	126.93 (0.94)	68.39 (0.51)	13442.77 (100.00)

Note: Figures in the parentheses indicate percentage share of total taxes
Source: Finance Accounts, Govt. of Odisha.

Table 2.7: Annual Growth of Own Tax Revenue (%)

Year	Land Revenue	Stamps & Registration	State Excise	Sales Tax	Taxes on Vehicles	Taxes and Duties on Electricity	Taxes on Goods & passengers	Profession Taxes	Other taxes	Total taxes
2002-03	-2.75	23.78	24.62	14.47	18.94	24.21	25.70	16.93	-51.74	16.42
2003-04	25.69	12.67	4.19	16.12	8.81	20.48	16.41	12.89	67.42	14.97
2004-05	27.43	29.27	19.59	32.59	20.74	2.05	30.67	12.26	71.11	26.50
2005-06	-47.10	19.30	26.98	21.86	20.04	20.37	34.84	12.51	-73.40	19.77
2006-07	225.17	10.35	10.46	25.01	5.10	23.88	-19.98	10.74	287.57	21.25
2007-08	21.99	55.39	22.06	9.39	7.71	9.22	15.88	17.45	19.44	13.04
2008-09	26.30	22.46	25.74	16.63	14.15	1.82	11.48	29.65	50.73	16.61
2009-10	-16.23	-27.38	28.63	12.60	16.55	27.72	26.01	20.95	6.84	12.35
2010-11	33.71	15.52	28.88	25.85	19.04	36.32	-0.41	-1.67	8.81	24.61
2011-12	33.48	19.80	26.02	20.42	8.30	18.08	20.43	-4.76	24.72	20.10
2002-12	23.59	8.14	21.9	19.4	13.24	12.46	16.41	13.76	22.46	18.3

Note: (a) The growth rates in different years are percentage change over the previous year.
(b) The growth rates during 2002-03 to 2011-12 are calculated by using the semi-log model

Table 2.8: Trends in Major Tax Revenues relative to GSDP (%)

Year	Land Revenue/ GSDP	Stamps & Registration/ GSDP	State Excise/ GSDP	Sales Tax/ GSDP	Taxes on Vehicles/ GSDP	Taxes and Duties on Electricity/ GSDP	Taxes on Goods & passengers/ GSDP	Total Taxes/ GSDP
2002-03	0.15	0.25	0.45	2.93	0.47	0.31	0.57	5.24
2003-04	0.16	0.23	0.39	2.82	0.42	0.30	0.57	5.00
2004-05	0.17	0.25	0.39	3.18	0.43	0.34	0.50	5.37
2005-06	0.08	0.28	0.46	3.54	0.48	0.41	0.54	5.88
2006-07	0.22	0.26	0.42	3.70	0.42	0.28	0.56	5.96
2007-08	0.21	0.31	0.41	3.19	0.36	0.25	0.48	5.30
2008-09	0.23	0.33	0.44	3.23	0.35	0.25	0.43	5.38
2009-10	0.18	0.22	0.52	3.32	0.38	0.28	0.50	5.51
2010-11	0.20	0.21	0.56	3.50	0.37	0.24	0.57	5.74
2011-12	0.24	0.07	0.64	3.80	0.36	0.26	0.61	6.23

Table 2.9: Own Tax Revenue as percentage of GSDP among major non-special category States during 2010-11

Sl. No.	States	OTR/ GSDP
1	Andhra Pradesh	7.66
2	Bihar	4.53
3	Chhatisgarh	7.66
4	Gujarat	7.08
5	Haryana	6.36
6	Jharkhand	5.59
7	Karnataka	9.50
8	Kerala	7.84
9	Madhya Pradesh	8.24
10	Maharashtra	7.29
11	Odisha	5.74
12	Punjab	7.34
13	Rajasthan	6.41
14	Tamilnadu	8.73
15	Uttar Pradesh	6.95
16	West Bengal	4.46

2.4 Tax Capacity and Effort to raise Revenue through Taxation

The revenue capacity/potential of Odisha's overall tax system and its major individual taxes have been estimated by using regression approach (for detailed methodology see Annexure 2.1). The analysis of estimated tax capacity and relative efforts of Odisha compared to other major non-special category States has been presented in the following.

2.4.1 Sales Tax/VAT:

The bulk of the own tax revenue is raised through sales tax and therefore, the tax effort in this area practically determines the overall tax effort of the State. Odisha's performance in raising sales tax revenue is however poor. Its sales tax effort is lower than average sales tax effort of all major non-special category States in India (Annexure 2.2). With an estimated taxable capacity of Rs 6286.97 crore, the State has been able to raise Rs 5672.97 crore from sales tax. It is interesting to observe that all other poor income states, except Bihar, have higher sales tax effort than Odisha, though some high income states (Haryana, Maharashtra and West Bengal) lag behind Odisha. Hence, Odisha needs more effort to raise sales tax revenue in order to increase the revenue.

2.4.2 Stamps Duty and Registration Fee:

Odisha has a miserable performance in raising stamps duty and registration fee. The State has not even able to raise half of its estimated taxable capacity of stamps duty and registration fee. With an estimated taxable capacity of Rs. 907.64 crore the state has been able to raise Rs. 423.81 crore (Annexure 2.3). It is interesting to observe that the tax effort of Odisha in raising the stamps duty and registration fee is the lowest among the major non-special category States in India. Therefore, Odisha needs to increase its tax effort for stamps duty and registration fee as it is an important source of tax revenue in the State.

2.4 3 Motor Vehicles Tax

Odisha's performance in tax effort of motor vehicles tax is remarkable. With an estimated taxable capacity of Rs. 492.85 crore the State has raised Rs. 621.08 crore (Annexure 2.4). The State's tax effort is more than average of all major non-special category states. Its performance is much better compared to other low income states (except Rajasthan) and high income states. However, state's taxable capacity is very low compared to other states and this needs to be raised sizeably.

2.4.4 Excise Duty

Odisha has a miserable performance in raising excise duty. With an estimated taxable capacity of Rs. 1245.48 crore the state has been able to raise Rs. 867.79 crore (Annexure 2.5). It is interesting to observe that the tax effort of Odisha in raising the excise duty is one of the lowest among the major non-special category States in India, except West Bengal, Jharkhand and Gujarat. Therefore, Odisha needs to increase its tax effort for excise duty as it is an important source of tax revenue in the State.

2.4.5 Electricity Duty

Odisha has raised more revenue than the taxable capacity of electricity duty. With an estimated taxable capacity of Rs 323.87 crore, Odisha has raised Rs. 427.68 crore form electricity duty (Annexure 2.6). Its performance is much better compared to many states in India. Its better performance could be due to the impact of reform in power sector in the state. However, its taxable capacity is low due to low power consumption in the State and can be increased by taking steps to increase power consumption in the State.

2.4.6 Land Revenue

Odisha has raised more revenue than the taxable capacity of land revenue. With an estimated taxable capacity of Rs 101.89 crore, Odisha has raised Rs. 343.87 crore form land revenue (Annexure 2.7). Its performance is much better compared to all other States except Chhattisgarh, Gujarat and West Bengal. However, its taxable capacity is one of the lowest and the revenue from this source can be increased by increasing its taxable capacity.

2.4.7 Other Taxes

Odisha has raised more revenue from other taxes including goods and passenger tax, professional tax and others than the estimated taxable capacity (Annexure 2.8). Its performance is much better compared to all other States except Bihar, Karnataka and Madhya Pradesh. However, its taxable capacity of these taxes is one of the lowest, next only to Chhattisgarh and Jharkhand.

2.4.8 Total Own Tax

Odisha's aggregate own tax effort is poor. With an estimated taxable capacity of Rs. 9842.91 crore, the State has raised Rs. 9389.95 crore (Annexure 2.9). Its tax effort is much lower than the average tax effort of major non-special category States of India. Except Bihar and West Bengal, its tax effort is lowest among these States. Therefore, Odisha needs to make more effort to increase its own tax revenue. The State has a low tax effort in as many as three categories of taxes, viz. Sales Tax, Stamps duty and Registration fee, and State Excise duty. These three taxes have a share of more than 70 per cent of total own tax revenue in the State. Odisha's performance over time has deteriorated if we compare with the study of Meher (2012), which has used the data for the average of the three-year period 2003-04 to 2005-2006.

2.5 Productivity of Tax Revenue and Measures taken to improve Tax-GSDP Ratio

The relative composition of tax revenue has implications for revenue growth and stability when it is considered that taxes may be primarily mobilized to finance government expenditures, both current and capital. High revenue productivity is usually considered as one of the criteria of a good tax system. This productivity is traditionally measured by the concepts of tax buoyancy and tax elasticity. The revenue productivity of Odisha's overall tax system and of individual taxes have been evaluated on the basis of estimates of tax buoyancy and elasticity.

Table 2.10 presents the year wise buoyancy of own tax revenues from 2002-03 to 2011-12. The table shows that except during 2003-04 and 2007-08 the annual buoyancy of total own tax revenue is more than unity, indicating that the total tax revenue of the state responds more than proportionately to the growth of GSDP in these years. Almost all the tax revenues grow less than proportionately to the growth of GSDP in 2003-04 and 2007-08, except stamps and registration fee during 2007-08 and land revenue during 2003-04, which grow more than proportionately to the growth of GSDP. The buoyancy of land revenue is found to be more than unity in almost all years, except 2002-03 and 2007-08.

There is significant growth of land revenue compared to GSDP during 2006-07, but due to decline in land revenue during 2002-03, 2005-06 and 2009-10, there is negative buoyancy. State excise and sales tax show buoyancies of more than unity in almost all the years except 2003-04 and 2007-08. Besides, State excise shows buoyancy of less than unity during 2006-07. Taxes on vehicles and duties on electricity show buoyancy of less than unity in most of the years, while taxes on stamps and registration show wild fluctuation in the buoyancy and taxes on goods and passengers show buoyancy of less than unity during four years. In short, the there is varying productivity of different tax revenues in the state during the different years from 2002-03 to 2011-12.

Table 2.11 shows the buoyancy of own tax revenues over the period 2002-03 to 2011-12. It is revealed from the table that buoyancy of state's total own tax revenue has remained marginally above unity over the period from 2002-03 to 2011-12, indicating that the total own tax revenue responds proportionately to the growth of GSDP. It is also observed from the table that the buoyancy of total own tax revenue is mostly influenced by the buoyancy of sales tax, state excise duties and land revenue. These three taxes have buoyancies of more than unity, indicating that they respond more than proportionately to the growth of GSDP during the period under study. The buoyancies of all other taxes, except stamps duty and registration fee, are less than unity during the pooled period from 2002-03 to 2011-12 indicating that these taxes have less than proportionate growth of GSDP. In other words, these taxes have low productivity. Hence, there is a need to increase productivity of these taxes in Odisha.

Table 2.10: Year wise Buoyancy of Major Tax Revenues with respect to GSDP

Year	Land Revenue	Stamps & Registration	State Excise	Sales Tax	Taxes on Vehicles	Taxes and Duties on Electricity	Taxes on Goods & passengers	Total Taxes
2002-03	-0.46	3.97	4.11	2.42	3.16	4.29	4.04	2.74
2003-04	1.25	0.61	0.2	0.78	0.43	0.8	0.99	0.73
2004-05	1.56	1.66	1.11	1.85	1.18	1.74	0.12	1.51
2005-06	-4.97	2.04	2.85	2.31	2.11	3.68	2.15	2.09
2006-07	11.44	0.53	0.53	1.27	0.26	-1.02	1.21	1.08
2007-08	0.82	2.06	0.82	0.35	0.29	0.59	0.34	0.48
2008-09	1.77	1.51	1.73	1.12	0.95	0.77	0.12	1.12
2009-10	-1.67	-2.81	2.94	1.29	1.7	2.67	2.85	1.27
2010-11	1.74	0.8	1.49	1.34	0.98	-0.02	1.88	1.27
2011-12	3.04	1.8	2.36	1.85	0.75	1.85	1.64	1.82

Table 2.11: Buoyancy of State's Own Tax Revenue (2002-03 to 2011-12)

Revenue heads	GSDP	R2	F
Land Revenue	1.392* (7.058)	.862	49.818*
Stamps & Registration	0.555 (1.820)	.293	3.313
Sales Tax/ VAT	1.135* (20.911)	.982	437.253*
Excise Duty	1.262* (15.484)	.968	239.760*
Motor Vehicles Tax	0.797* (17.247)	.974	297.468*
Electricity Duty	0.746* (7.985)	.889	63.754*
Goods & Passenger Tax	0.978* (12.400)	.951	153.754*
Profession Tax	0.839* (13.551)	.958	183.634*
Total Tax	1.083* (25.881)	.988	669.826*

Note: (a) Figures in the parentheses are t-values
(b) * indicates 1% level of significance

However, the tax revenues might have grown not due to the GSDP but because of rise in prices. As the GSDP at current prices is inflated by the rise in price, the tax may be more responsive to price than the real GSDP. An ideal tax system is such that it responds more than proportionately to the growth of real GSDP. In order to find the differential impact Table 2.12 presents the partial buoyancy of tax with respect to real GSDP and price separately. The table shows that the tax system as a whole exhibited a buoyancy of more than unity with respect to real GSDP but is insignificant to the change in price level indicating that it has no inflation-induced gain. Similar is the case for sales tax and stamps and registration fee. But the excise duty and goods and passenger tax show buoyancy of more than unity with respect to price indicating that the state has an inflation-induced gain in these taxes. The land revenue, motor vehicles tax and electricity duty are not buoyant either with respect to real GSDP or price.

Table 2.12: Partial Buoyancy of State's Own Tax Revenue (2002-03 to 2011-12)

Revenue heads	Real GSDP	Implicit Price Index	R2	F
Land Revenue	1.253 (0.675)	1.564 (0.690)	.861	21.595*
Stamps & Registration	4.889** (2.097)	-4.746 (-1.667)	.529	3.936***
Sales Tax/ VAT	1.703* (3.709)	0.444 (.792)	.985	235.739*
Excise Duty	-0.132 (-0.241)	2.973* (4.428)	.983	205.865*
Motor Vehicles Tax	0.765 (1.772)	0.840 (1.593)	.974	131.231*
Electricity Duty	1.280 (1.508)	0.096 (.093)	.895	29.937*
Goods & Passenger Tax	0.012 (0.018)	2.165** (2.752)	.963	89.872*
Profession Tax	0.855 (1.256)	0.812(0.990)	.955	74.746*
Total Tax	1.401** (3.285)	0.694 (1.454)	.991	369.339*

Note: (a) Figures in the parentheses are t-values
(b) * indicates 1% level of significance
** indicates 5% level of significance
*** indicates 10% level of significance

The buoyancy of tax revenue discussed above is not only due to the automatic response of the tax revenues to the growth of GSDP but also due to the additional mobilization of tax revenues by taking different measures. The estimated additional mobilization of tax revenues from 2002-03 to 201-12 by the state government can be seen from Table 2.13. It can be observed that the state has made effort to mobilize additional tax in each and every year. However, the state has not taken effort to mobilize additional tax for all the sources of tax revenue in each year. The different measures taken by the state in mobilizing additional tax revenues has been presented in Annexure 2.10. It can be seen that the state has taken measures for excise duty in all the five years from 2007-08. However, it has not taken any measure for mobilizing additional revenue from land revenue and stamps duty and registration fee. While the measures for mobilization of additional revenue is taken for only one year in case of motor vehicles tax, electricity duty and goods and passengers tax, the measures have been taken for two years in case of sales tax. Therefore, the measures taken by the state in mobilizing additional revenue is not adequate for raising tax-GSDP ratio. The state needs to take more measures for all the tax revenues to improve the tax-GSDP ratio.

Table 2.13: Estimated Additional Mobilisation from Tax Revenue by State Government

(Rs. in Crore)

Year	Land Revenue	Stamps & Registra tion	State Excise	Sales Tax/ VAT	Taxes on Vehicles	Taxes and Duties on Electricity	Taxes on Goods & passengers /entry tax	Profes sion Tax	Other Taxes	Total Taxes
2002-03	6.00	4.05	6.15	-	-	-	-	-	0.02	16.2
2003-04	3.13	-	-	-	-	-	25.0	-	0.01	28.13
2004-05	6.55	13.79	16.55	-	-	-	-	0.80	-	37.69
2005-06	-	7.08	14.73	30.89	-	17.65	-	0.35	-	70.7
2006-07	6.78	-	20.84	-	-	-	-	0.12	0.03	27.74
2007-08	-	-	58.70	-		-	-	-	-	58.70
2008-09	-	-	133.18	20.0	-	-	-	-	-	153.18
2009-10	-	-	92.11	-	-	-	-	-	-	92.11
2010-11	-	-	195.95	-	30.0	20.0	-	-	0.50	245.95
2011-12	-	-	250.46	444.0	-	-	61.08	-	-	755.54

In order to find out the automatic response of tax revenues to the growth of GSDP, we have calculated the elasticity of tax revenues (Annexure 2.11). The results are presented in Table 2.14. Except sales tax and land revenue none of the taxes are found to be elastic. Sales tax, which is the most important source of tax revenue, would have grown at least at the same rate as the GSDP even if there had been no measures taken by the state for additional mobilisation in the successive years. This is also true for land revenue. The excise duty, which is buoyant, is not elastic. The state has taken much effort to make excise duty buoyant. It is found that the overall tax revenue is marginally less than elastic, indicating that the state's taxes as a whole lack built-in-flexibility. Therefore, there is need for mobilization of additional tax revenue through change in tax parameters. However, the extent of tax mobilization in case of the state is not encouraging. The extent of tax mobilization through changing tax parameters differs from tax to tax. The impact of discretionary measures can be seen from the difference between the buoyancy and elasticity coefficients presented in Table 2.15. It is found that the highest impact of discretionary changes comes from excise duty. The effort made through other taxes is much less. The state needs to make much more effort in these taxes so that the tax productivity can be increased.

Table 2.14: Elasticity of States Own Tax Revenue (2002-03 to 2011-12)

	GSDP	t-value	R2	F
Land Revenue	1.319	6.653*	.847	44.257*
Stamps & Registration	0.484	1.637	.251	2.681
Sales Tax/ VAT	1.104	21.565*	.983	465.043*
Excise Duty	0.541	12.534*	.952	157.096*
Motor Vehicles Tax	0.772	17.969*	.976	322.877*
Electricity Duty	0.677	7.476*	.875	55.890*
Goods & Passenger Tax	0.938	12.052*	.948	145.248*
Profession Tax	0.825	13.284*	.957	176.474*
Total Tax	0.990	26.899*	.989	723.576*

Table 2.15: Comparison of Buoyancy and Elasticity of State's Tax Revenue (2002-03 to 2011-12)

	Buoyancy	Elasticity	Difference
Land Revenue	1.392	1.319	0.073
Stamps & Registration	0.555	0.484	0.071
Sales Tax/ VAT	1.135	1.104	0.031
Excise Duty	1.262	0.541	0.721
Motor Vehicles Tax	0.797	0.772	0.025
Electricity Duty	0.746	0.677	0.069
Goods & Passenger Tax	0.978	0.938	0.040
Profession Tax	0.839	0.825	0.014
Total Tax	1.083	0.990	0.093

2.6 Suggestion for improving Tax-GSDP Ratio

The foregoing analysis reveals that the state has performed moderately well in raising own revenue compared to the central transfer during the period from 2002-03 to 2011-12. Within the own revenue, performance in raising non-tax revenue is found better compared to the tax revenue. The effort of the state in raising tax-GSDP ratio is however relatively less compared to other major states in India. Odisha has performed miserably in raising sales tax, stamps duty & registration fee, and state excise. It has raised much less than the estimated capacities of these taxes. More over the state has not taken impressive measures to mobilize additional tax revenue during the last five years (from 2007-08 to 2011-12) under study. Except excise duty, measures taken for other taxes are minimal. However, the effort taken towards higher collection of excise duty is much less compared to other major states. The state's efforts in raising revenue from stamps duty and registration fee, motor vehicles tax and electricity duty are also not adequate. While the poor mobilization of revenue from stamp duty and registration fee might be because of rampart under-quoting of land price during sale deeds, the lower revenue collection from motor vehicles might be due to lack of effort by the state government in mobilizing more revenue. The inadequate revenue collection from electricity duty might be due to lack of revision of rate during last five years (from 2007-08 to 2011-12).

Sales tax, which is the only broad-based tax and main component of state's own tax revenue, has built-in-flexibility. As a result, the revenue from sales tax has grown automatically with the growth of GSDP. It is learnt that the state has taken a few piecemeal measures like disallowing input credit on some goods and services during 2008-09, introducing a new Act for realization of arrears and imposing VAT on non-manufactured tobacco and increasing VAT on some tobacco products during 2011-12 for raising revenue from sales tax during the last five years. Since no deliberate effort has been taken in getting more revenue from this tax either in the way of revision of rate, or imposition of taxes in new areas during the last five years the state needs to devise ways in these and other ways to garner more revenue from this source. Due to irregular effort for raising sales tax, the state's tax-GSDP ratio remains lower compared to the many other major states in India. The state should therefore give more importance to this tax for increasing own tax revenue and needs to take adequate measures like rationalization of tax rates, broadening of base, realization of arrears, providing adequate staff, and other relevant measures. Enumeration of business enterprises, compulsory registration of all business enterprises, at least in urban areas (NACs, Municipality and Municipal Corporations) and frequent inspection by the vigilance department can go a long way to increase the revenue mobilization from VAT.

In order to raise revenue from stamps duty and registration fee the state should take different measures as suggested by the Expert Committee (2011) like compulsory registration of different kinds of long term lease deeds for long term payments, mortgage documents, advertisement to mass media, assignment of copyright, power of Attorney on the basis of the value of the property, comprehensive amendment of the existing legislation for ownership of Apartments, bringing all conversion of agricultural land under the ambit of Stamp and Registration Act on a longer lease of land value, etc.

The state has not taken steps for mobilizing additional resources from motor vehicle tax during last five years, except revising the rates of annual tax during 2010-11. The state therefore needs to take measures like levying additional tax on luxury vehicles, recovery of arrears, green tax for transport vehicles crossing the age of 15 years, etc. so as to increase the yield from motor vehicles tax (Expert Committee, 2011).

In order to increase the revenue from electricity duty, the state has enhanced the upper ceiling of non-captive electricity duty during 2010-11. It is pertinent to mention here that the state has embarked upon reform in power sector since 1996, and it is expected that yield from this tax should increase over the years. However, the state has not been revising electricity duty since 2007-08. A nominal increase in the rate of electricity duty from the consumers can fetch additional resources to the state government. Besides, the state is facing the problem of high AT&C loss (43.24 per cent during 2010-11), which needs to be reduced drastically in order to get more revenue from electricity duty. The OERC has been giving targets to the distribution companies to reduce the AT&C loss. But the achievement is not satisfactory. After reform, the State Government has remained away from investing funds in generation, transmission and distribution in order to reduce fiscal deficit, though recently (2010-11) it has decided to invest for improving the distribution system.

.

CHAPTER THREE

OWN NON-TAX REVENUE

TOR 1.ii requires us to analyse State's own non-tax revenues and provide suggestions to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.

3. 1 Composition and Trends in State's Own Non-tax Revenue

Non-tax revenue is one of the constituents of the revenue receipts of Odisha. During 2002-03 to 2011-12, State's own non-tax revenue (ONTR) increased considerably from Rs. 961.17 crore to 6446.96 crore (Table 3.1). Its share in total own revenue has increased from 24.95 per cent in 2002-03 to 32.41 per cent in 2011-12. Non-tax revenue as a percentage of GSDP, which is an indicator of the efficiency in mobilization of revenue, has increased from 1.75 per cent to 2.99 per cent during the period. It has recorded an annual compound growth rate of 23.03 per cent, while exhibiting buoyancy of more than 1 over the period.

Table 3.1: Trends in Own Non-Tax Revenue (ONTR)

Year	Non Tax Revenue (Rs. Crore)	Share in Total Own Revenue (%)	% of GSDP	Buoyancy of Own Non-Tax Revenue with respect to GSDP	Year wise Growth (%)
2002-03	961.17	24.95	1.75	6.50	38.95
2003-04	1094.54	24.83	1.66	0.67	13.88
2004-05	1345.52	24.38	1.73	1.30	22.93
2005-06	1531.90	23.45	1.80	1.46	13.85
2006-07	2588.12	29.91	2.54	3.50	68.95
2007-08	2653.58	27.90	2.05	0.09	2.53
2008-09	3176.15	28.43	2.14	1.32	19.69
2009-10	3212.20	26.34	1.97	0.12	1.14
2010-11	4780.37	29.93	2.46	2.52	48.82
2011-12	6446.96	32.41	2.99	3.16	34.86

Note: (a) Buoyancy during 2002-03 to 2011-12 is 1.325

(b) Annual compound growth rate during 2002-03 to 2011-12 is 23.03 per cent.

Source: Finance Accounts, Govt. of Odisha.

Revenue from interests, dividends and profits, general services, economic services and social services forms key constituents of the ONTR of Odisha. It is observed from Table 3.1 that while State's ONTR as per cent of total own revenue as well as GSDP has increased over the years; this increase can be attributed to the significant rate of growth of components of ONTR, particularly, revenue earned from economic services. For an overall analysis of State's ONTR, these sources are analysed below in detail in respect of their contribution to revenue.

3.1.1 Interest Receipts

The interest receipts component of State's ONTR is often misleading in nature as it merely denotes book transfers and that too internal transfer from other Government departments. Apart from being so, interest receipts grew only at 17.22 per cent per annum and therefore create sluggishness in the growth of non-tax revenue in the State. Their contribution to the State's ONTR initially increased from 7.92 per cent in 2002-03 to 21.50 per cent in 2007-08 and then went down to 8.95 per cent in 2011-12 (Table 3.2). The decline in interest receipts after 2007-08 could be due to declining loan and advances by the State Government.

3.1.2 Dividends and Profits

Revenue from dividends and profits arise from the State Government's investment in the shares of co-operative institutions, statutory corporations, Government companies and other joint stock companies. However, in majority of cases no dividend is received due to non-availability of surpluses or due to losses or due to reinvestment. The dividends and profits exhibit growth rate of only 8.39 per cent per annum during the period 2002-03 to 2011-12. Its share to State's ONTR declined from 15.84 per cent in 2002-03 to 4.44 per cent in 2011-12 and has remained less than 8 per cent since 2004-05 (Table 3.2). The dividends are received mostly from the departmental public undertakings and there are very insignificant receipts from non-departmental commercial enterprises. Among the departmental public undertakings, Odisha Mining Corporation (OMC) and Odisha Power Generation Corporation (OPGC) are the two major contributors of total dividends & profits of the State Government. While OPGC has contributed dividends up to 2006-07, OMC has discontributed dividends during 2009-10 and 2010-11 (Table 3.3). Odisha State Financial Corporation (OSFC) has shown dividends only in 2004-05 and 2009-10 and contributed to the State exchequer during these two years. On the other hand, significant contributions from Cooperative Societies (Rs. 100.69 crore) are observed only in 2010-11 against Rs. 0.44 crore from departmental undertakings.

3.1.3 Recoveries from Services

The above two sources of non-tax revenues, *i.e.* interest receipts, and profits and dividends can hardly be relied upon for the growth of non-tax revenue due to wide fluctuations noticed during the years under study. Other components of State's ONTR are recoveries from services rendered by the Government, which may be broadly grouped as (1) general services, (2) social services, and (3) economic services. About four-fifths of the State's ONTR accrues from these services during 2011-12. The share of these services has shown a rising trend during the period 2002-03 to 2011-12. Among these three services, the share of economic services has remained highest, while social services have contributed the least.

Table 3.2: Own Non-Tax Revenue and its Composition (Rs. in Crores)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009 - 10	2010 - 11	2011-12	Annual Growth (%)
1. Interest receipts	**76.09 (7.92)**	**164.38 (15.02)**	**249.04 (18.51)**	**298.02 (19.45)**	**398.43 (15.39)**	**570.39 (21.50)**	**654.67 (20.61)**	**379.23 (11.81)**	**260.84 (5.46)**	**576.38 (8.94)**	**17.22**
2. Dividends & Profits (Out of which)	**152.22 (15.84)**	**138.06 (12.61)**	**69.15 (5.14)**	**120.59 (7.87)**	**49.39 (1.91)**	**140.93 (5.31)**	**252.85 (7.96)**	**250.79 (7.81)**	**101.58 (2.12)**	**286.23 (4.44)**	**8.39**
(a) From Public Undertakings	*NA*	*137.80 (12.59)*	*68.85 (5.12)*	*120.16 (7.84)*	*48.76 (1.88)*	*140.42 (5.29)*	*252.82 (7.96)*	*250.24 (7.79)*	*0.44 (0.01)*	*286.11 (4.44)*	*-14.10*
(b) From Other investments	*NA*	*0.26 (0.02)*	*0.30 (0.02)*	*0.43 (0.03)*	*0.63 (0.02)*	*0.51 (0.02)*	*0.03 (0.00)*	*0.55 (0.02)*	*101.14 (2.12)*	*0.12 (0.00)*	*21.90*
3. General Services (Out of which)	**60.08 (6.25)**	**56.2 (5.13)**	**119.61 (8.89)**	**63.56 (4.15)**	**858.79 (33.18)**	**497.96 (18.77)**	**491.38 (15.47)**	**182.73 (5.69)**	**552.4 (11.56)**	**205.97 (3.20)**	**23.59**
(a) Public Works	*13.69 (1.42)*	*15.06 (1.38)*	*17.05 (1.27)*	*18.23 (1.19)*	*24.96 (0.96)*	*31.61 (1.19)*	*38.30 (1.21)*	*41.99 (1.31)*	*48.79 (1.02)*	*47.16 (0.73)*	*17.22*
4. Social Services (Out of which)	**75.42 (7.85)**	**64.63 (5.90)**	**72.26 (5.37)**	**100.69 (6.57)**	**106.19 (4.10)**	**119.23 (4.49)**	**114.22 (3.60)**	**111.04 (3.46)**	**128.52 (2.69)**	**149.33 (2.32)**	**8.64**
(a) Education$	*24.31 (2.53)*	*12.00 (1.10)*	*15.76 (1.17)*	*42.99 (2.81)*	*41.94 (1.62)*	*41.95 (1.58)*	*10.65 (0.34)*	*14.88 (0.46)*	*25.98 (0.54)*	*21.18 (0.33)*	*-0.23*
*(b) Health**	*11.29 (1.17)*	*7.55 (0.69)*	*13.04 (0.97)*	*9.33 (0.61)*	*13.14 (0.51)*	*14.54 (0.55)*	*32.36 (1.02)*	*13.06 (0.41)*	*19.87 (0.42)*	*37.20 (0.58)*	*13.76*
(c) Water Supply and Sanitation	*23.29 (2.42)*	*24.16 (2.21)*	*25.20 (1.87)*	*29.33 (1.91)*	*32.10 (1.24)*	*40.17 (1.51)*	*48.74 (1.53)*	*54.87 (1.71)*	*53.98 (1.13)*	*56.67 (0.88)*	*12.46*
(d) Housing	*12.45 (1.29)*	*12.17 (1.11)*	*12.25 (0.91)*	*11.90 (0.78)*	*12.00 (0.46)*	*12.10 (0.46)*	*12.17 (0.38)*	*11.88 (0.37)*	*12.24 (0.26)*	*12.66 (0.20)*	*0.00*
5. Economic Services (out of which)	**597.34 (62.15)**	**671.28 (61.33)**	**835.46 (62.09)**	**949.03 (61.95)**	**1175.31 (45.41)**	**1325.05 (49.93)**	**1663.03 (52.36)**	**2288.41 (71.24)**	**3737.04 (78.17)**	**5225.05 (81.10)**	**26.18**
(a) Forest and Wild Life	*97.04 (10.10)*	*48.64 (4.44)*	*84.72 (6.30)*	*59.13 (3.86)*	*130.63 (5.05)*	*82.66 (3.12)*	*139.29 (4.39)*	*109.03 (3.39)*	*157.68 (3.30)*	*192.39 (2.98)*	*11.43*
(b) Major & Medium Irrigation	*22.53 (2.34)*	*32.29 (2.95)*	*36.42 (2.71)*	*39.02 (2.55)*	*49.75 (1.92)*	*43.73 (1.65)*	*47.41 (1.49)*	*65.46 (2.04)*	*133.70 (2.80)*	*322.99 (5.01)*	*25.31*
(c) Minor Irrigation	*1.98 (0.21)*	*3.78 (0.34)*	*3.81 (0.28)*	*4.81 (0.31)*	*4.46 (0.17)*	*4.96 (0.19)*	*5.32 (0.17)*	*4.40 (0.14)*	*9.11 (0.19)*	*9.86 (0.15)*	*14.02*
(d) Non-ferrous Mining & Metallurgical Industries	*443.58 (46.15)*	*552.06 (50.44)*	*670.52 (49.83)*	*805.03 (52.55)*	*936.60 (36.19)*	*1126.06 (42.44)*	*1380.60 (43.47)*	*2020.76 (62.91)*	*3329.25 (69.64)*	*4571.57 (70.91)*	*28.23*
Total Own Non Tax revenue	**961.17 (100.00)**	**1094.54 (100.00)**	**1345.52 (100.00)**	**1531.90 (100.00)**	**2588.12 (100.00)**	**2653.58 (100.00)**	**3176.15 (100.00)**	**3212.20 (100.00)**	**4780.37 (100.00)**	**6446.96 (100.00)**	**23.03**

$: Also includes sports, art and culture

*: Includes medical, public health and family welfare

Table 3.3: Receipts from Dividends and Profits of Departmental and Other Undertakings (Rs. in Crores)

Dividends & Profits	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
(A) Dividends from public undertakings	**NA**	**137.80**	**68.85**	**120.16**	**48.76**	**140.42**	**252.82**	**250.24**	**0.44**	**286.11**
Orissa Mining Corporation Limited, Bhubaneswar	**NA**	1.00	11.00	60.00	20.01	140.00	252.51	0.00	0.00	285.00
Orissa State Financial Corporation, Cuttack.	**NA**	0.00	31.25	0.00	0.00	0.00	0.00	250.00	0.00	0.00
Orissa State Warehousing Corporation, Bhubaneswar	**NA**	0.43	0.03	0.00	0.00	0.11	0.00	0.11	0.13	0.14
Orissa Power Generation Corporation Limited	**NA**	136.37	26.25	60.00	28.75	0.00	0.00	0.00	0.00	0.00
Industrial Development Corporation of Orissa bbsr	**NA**	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.31	0.49
Orissa State Cashew Development Corporation Limited	**NA**	0.00	0.31	0.16	0.00	0.31	0.31	0.13	0.00	0.48
(B) Dividends from other investments		**0.26**	**0.30**	**0.43**	**0.63**	**0.51**	**0.03**	**0.55**	**101.14**	**0.12**
Central Co-Operative Bank	**NA**	0.02	0.03	0.01	0.20	0.07	0.02	0.55	0.39	0.12
Service Co-operatives	**NA**	0.00	0.27	0.42	0.43	0.44	0.01	0.00	0.00	0.00
Orissa Co-op. Land Development Bank	**NA**	0.24	0.00	0.00	0.00	0.00	0.00	0.00	100.29	0.00
Orissa State Cashew Development Corporation Limited	**NA**	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.46	0.00
Total Dividends (A+B)	**152.22**	**138.06**	**69.15**	**120.59**	**49.39**	**140.93**	**252.85**	**250.79**	**101.58**	**286.23**

Table 3.4: Own Non-Tax Revenue as percentage of GSDP

Year	Interest Receipts	Dividends & Profits	General Services	Social Services	Economic Services	Total Own Non-tax Revenue
2002-03	0.14	0.28	0.11	0.14	1.09	1.75
2003-04	0.25	0.21	0.09	0.10	1.02	1.66
2004-05	0.32	0.09	0.15	0.09	1.07	1.73
2005-06	0.35	0.14	0.07	0.12	1.12	1.80
2006-07	0.39	0.05	0.84	0.10	1.15	2.54
2007-08	0.44	0.11	0.39	0.09	1.02	2.05
2008-09	0.44	0.17	0.33	0.08	1.12	2.14
2009-10	0.23	0.15	0.11	0.07	1.40	1.97
2010-11	0.13	0.05	0.28	0.07	1.92	2.46
2011-12	0.27	0.13	0.10	0.07	2.42	2.98

While economic services have exhibited an upward trend with respect to State's ONTR since 2007-08, social services have exhibited downward trend with respect to State's ONTR after 2007-08. On the other hand, general services have shown considerable fluctuations. Economic services, which were contributing about 62.15 per cent to State's ONTR in 2002-03, had fallen considerably in 2006-07 to 45.41 per cent (Table 3.2). However, this share reverted and reached at 81.10 per cent in 2011-12. It has grown at the annual compound growth of 26.18 per cent during the period as compared to the growth of social services of 8.64 per cent and general services of 23.59 per cent. The general services have however been the least consistent, followed by economic services and social services. As per cent to GSDP, while social services have shown a decline during the period from 0.14 per cent to 0.10 per cent, economic services have shown an increase from 1.75 per cent to 2.42 per cent and general services have shown fluctuation between 0.07 to 0.84 per cent (Table 3.4).

3.1.4 Components of General Services

Receipts from general services originate from (a) public service commission, (b) police, (c) jails, (d) supplies and disposals, (e) stationary and printing, (f) public works, (g) other administrative services, (h) contribution and recoveries towards pension and other retirement benefits, and (i) other miscellaneous general services.

Amongst the major components of general services, public works is an important source of non-tax revenue. Its share in total ONTR has declined from 1.42 per cent in 2002-03 to 0.73 per cent in 2011-12. It has grown with an annual rate of 17.22 per cent during the period (Table 3.2).

3.1.5 Components of Social Services

The major items that fall under social services are: (a) education, sports, arts and culture, (b) medical, public health, and family welfare, (c) water supply and sanitation, (d) housing, (e) urban development, and (h) other social services.

Amongst these components of social services, initially the share of revenue from education, sports, arts and culture as per cent to own non-tax revenue was the highest. However, it declined at the annual compound rate of 0.23 per cent (Table 3.2). By the end of the period under consideration revenue from water supply and sanitation becomes the chief contributor. It has grown at the annual compound rate of 12.46 per cent. The revenue from medical, public health and family welfare was the fast growing component of social services, with an annual compound growth rate of 13.76 per cent. All these components constitute the major portion of receipts from social services.

It is observed from Table 3.2 that the share of revenue from these services has a declining trend. While the share of receipts from education, sports, arts and culture has declined from 2.53 per cent in 2002-03 to 0.33 per cent in 2011-12, that of medical, public health, and family welfare has declined from 1.17 per cent to 0.58 per cent, water supply and sanitation from 2.42 per cent to 0.88 per cent, and housing from 1.29 per cent to 0.20 per cent. The decline in the share of different components of social services is due to very slow growth or no change in the amount of revenue on the one hand, and due to fast growing economic services on the other.

3.1.5 Components of Economic Services

The revenue from economic services comprises receipts from (a) crop husbandry, (b) animal husbandry, (c) fisheries, (d) forestry and wild life, (e) co-operation, (f) other agricultural and rural programmes, (g) major and medium irrigation, (h) minor irrigation, (i) village and small scale industries, (j) industries, (k) plantations, (l) power, (m) petroleum, (n) ports and light houses, (0) road transport, (p) tourism, and (q) others.

Amongst the major constituents of economic services, the share of non-ferrous mining & metallurgical industries (NFMMI) was the highest during 2011-12. Its share in total ONTR has increased from 46.15 per cent in 2002-03 to 70.91 per cent in 2011-12 with a significant annual growth rate of 28.23 per cent (Table 3.2). Nevertheless, there was larger scope for the state to augment the revenue collection from this source. This is evidenced from the fact that the year to year growth rate of mineral revenue from NFMMI remains lower than the growth in the value of output in the mining and quarrying sector (Table 3.5). Resultantly, the buoyancy of revenue from NFMMI with respect to the value of output in mining and quarrying sector remains below one. This implies that one percentage growth in the value of output in M&Q sector has not led to one percentage growth in the revenue coming from NFMMI. The revenue buoyancy of NFMMI from the year 2010-11 however, has increased. The share of NFMMI in total ONTR is followed by major and medium irrigation with a share of 5.01 per cent in 2011-12 up from 2.34 per cent in 2002-03 and a growth rate of 25.31 per cent per annum. On the other hand, revenue from forestry and wildlife has shown a declining trend. Its share in total ONTR has declined from 10.10 per cent in 2002-03 to 2.98 per cent in 2011-12 due to slower growth rate observed during the period. These three components together constitute more than 97 percent of economic services and near about 80 per cent of total own non-tax revenue. Minor irrigation has a share of less than 1 per cent of ONTR throughout the period under study.

Table 3.5
Growth in Mineral Production and Non-tax revenue collection from Non-ferrous Mining and Metallurgical Industries

Year	Value of Output in Mining and Quarrying sector #	Non-tax revenue from Non-ferrous Mining and Metallurgical Industries*	Growth rate of Mining and quarrying	growth rate of mineral revenue	Revenue Buoyancy of NFMMI w r t value of M&Q
	Rupees lakh		In percentage		
2002-03	3034.81	443.58	20.34	17.176	0.84
2003-04	4332.02	552.06	42.74	24.455	0.57
2004-05	5861.86	670.52	35.31	21.459	0.61
2005-06	7126.78	805.03	21.58	20.060	0.93
2006-07	8662.77	936.60	21.55	16.343	0.76
2007-08	12247.54	1126.06	41.38	20.229	0.49
2008-09	15937.37	1380.60	30.13	22.604	0.75
2009-10	15595.00	2020.75	-2.15	46.368	-21.58
2010-11	21727.13 (P)	3329.25	39.32	64.753	1.65
2011-12	22788.04 (Q)	4571.57	4.88	37.315	7.64

Source: # Economic Survey, Govt. of Odisha-2012-13
*Finance Accounts
Note: P-Provisional; Q-Quick estimates

3.1.6 User Charges

The above analysis clearly highlights the fiscal significance of the State's own non-tax sources. The trend indicates that non-tax sources play a very significant role in financing State expenditure. The growth of receipts from own non-tax sources has kept pace with receipts from the other revenue sources and is showing the requisite buoyancy needed for an efficient fiscal system. In fact, politico-economic considerations play a decisive role in the growth of non-tax revenue receipts. It is generally believed that the user charges must be augmented to reduce the burgeoning Government subsidies. The Government provides a variety of heterogeneous services. All of them are not amenable to cost recovery. While some services could have a price recovering of the cost incurred, others may be priced just to cover a part of the expenditure incurred in their provision. Also, there are a few services for which consumers are not charged at all. The policy to recover expenses should depend upon the type of services provided as there cannot be any universal policy prescription for all the services provided by the Government.

Given the politico-economic situation of the state economy, it is difficult to apply a purely economic rational policy for user charges. If the consideration is that the service providing units, not covered by the budgetary mechanism, should be fully responsible for maintaining the desired level of service delivery, then it should be obligatory on the part of the Government to compensate them for the possible losses due to the subsidized element of cost recovery. If the Government has to maximize its objective function of social welfare and utility, it has to share the burden of financing it, *e.g.* minor irrigation, education and health are cases of merit goods but are also the inputs for economic development and human resource development, which contribute to the overall development of the economy. The theories of utility pricing point out that an efficient allocation of resources and equity in financing Government services is possible (Purohit and Purohit, 2006). Government is required to focus on cost recovery, more particularly operational cost, for its services.

While it is important to aim at appropriate cost recovery, it is useful to keep in purview the following features that characterize the services provided by the Government (Purohit and Purohit, 2006):

(1) These services are characterized by externalities. The goods and services provided by the Government benefit the society as a whole, irrespective of whether these are being targeted at any specific individual or group. These services also have the quality of 'non-rivalness', *i.e.* the consumption or enjoyment of these goods and services by one individual or one group does not affect their availability and satisfaction for the others. In addition, the goods and services provided by the Government enjoy scale of economies in their provision. Efficient production or supply of these goods is not viable for small private producers. Hence, these services are treated as a natural monopoly of the Government.

(2) There is an unending debate on the nature of goods and services provided by the Government. While the benefits of public goods are expected to accrue to the society as a whole, all the goods and services provided by the Government cannot be treated as pure public goods--the benefits of these goods and services are enjoyed by both the targeted and non-targeted groups. Hence, it is difficult to classify Government goods and services as pure public goods or quasi-public (or mixed) goods.

Although many of the goods and services provided by the State Governments may not be 'pure public goods' and could accrue to non-targeted groups in the society, it is widely believed that it is the targeted sections who enjoy better access to the services. Hence, part of the cost of these services should be recovered from the target groups by the imposition of appropriate user charges. However, the 'marginal cost pricing' principle, generally applicable to pricing of 'private' goods and services, may not be appropriate for pricing such goods and services as this would imply negligible or zero recovery through user charges. This view has got an added impetus with the structural reforms adopted in the country. The trend is towards reducing the quantum of subsidy and levying appropriate user charges for the provision of public services. User charges will be determined according to the economic status of the user and the type of the commodity. The user charge will be such that the cost is met and the price of the commodity does not lead to over-consumption of such services and hence, to a wasteful use of scarce resources (Purohit and Purohit, 2006).

Making use of the data collected from State Budget Documents, Table 3.6 gives the percentage share of NTR/NPRE (recovery of non plan revenue expenditure) of select components of social and economic services at a disaggregated level.

Within the social services, the average recovery rate in case of education, sports, arts and culture has declined from 1.44 per cent in 2002-03 to 0.44 per cent in 2011-12, though it had the highest average rate of 2.16 per cent in 2005-06 (Table 3.6). At the same time, in case of medical, public health and family welfare it has increased marginally from 3.18 per cent to 3.92 per cent with fluctuation in between. Water supply and sanitation has declined from 24.28 per cent to 18.91 per cent during the period with the highest rate of 37.35 per cent in 2008-09. On the other hand, there is a declining trend of recovery rate in case of housing. It has decreased from 34.48 per cent in 2002-03 to 7.96 per cent in 2011-12. While very low recovery rate in case of education and health in a poor state of Odisha is understandable, there is still scope for increasing revenue from these sources as all the targeted groups are not poor. User charges can be determined on the basis of economic status of different groups and this should be increased in every year by a certain percentage. Further, declining recovery rate in case of water supply and sanitation means the trend is towards increasing quantum of subsidy, which leads to over-consumption and hence, wasteful use of scare resources like water. Therefore, the State should levy appropriate user charges for the provision of this public service. It should be determined according to the economic status of the user so that at least the operational cost is met.

Table 3.6: Average NTR/NPRE of Selected Social and Economic Services (In %)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009 - 10	2010 - 11	2011-12
Education$	1.44	0.70	0.89	2.16	1.95	1.63	0.30	0.34	0.53	0.44
Health*	3.18	2.17	3.65	2.16	2.71	2.76	4.69	1.55	2.18	3.92
Water Supply and Sanitation	24.28	23.02	21.89	23.47	26.82	36.21	37.35	32.78	20.24	18.91
Housing	34.48	31.69	23.70	16.57	12.22	9.49	8.41	7.92	7.07	7.96
Forest and Wild Life	135.68	65.04	118.07	64.49	153.05	81.56	104.48	70.40	92.87	121.79
Major & Medium Irrigation	31.24	44.02	45.87	37.39	41.12	25.85	23.37	26.68	42.75	73.88
Minor Irrigation	3.94	12.04	11.94	10.49	9.88	7.43	6.67	4.40	6.47	5.84
Non-ferrous Mining & Metallurgical Industries	5114.07	4285.58	5254.23	6178.23	6535.60	7036.38	6108.26	7757.47	11560.23	16597.94
Road & Bridges	8.01	10.25	10.84	9.17	4.84	5.53	7.08	6.17	7.17	6.55
Power	190.50	129.06	99.84	89.15	35.74	24.06	11.72	46.55	41.63	55.19

$: Also includes sports, art and culture
*: Includes medical, public health and family welfare

Within the economic services, the average recovery is highest in the case of non-ferrous mining and metallurgical industries. It is as high as 16597.94 per cent in 2011-12 up from 5114.07 per cent in 2002-03 (Table 3.6). Apart from non-ferrous mining and metallurgical industries, the state has earned good revenue from forestry and wild life. The average recovery of non-plan revenue expenditure in case of forestry and wild life is more than 100 per cent during 2011-12, though there is much fluctuation in the average recovery rate during the period under study. In case of major and medium irrigation, the state has seen an increase in average recovery rate during 2002-03 to 2011-12, while the state has seen a decline in average recovery rate in case of road and bridges and minor irrigation. While the average recovery of non plan revenue expenditure in case of major and medium irrigation has increased significantly from 2010-11 to 2011-12, still the State needs to recover fully operational cost of such services in order to avoid over-consumption and wasteful use of such services. Further, the State should levy appropriate charges for the provision of such service and should be determined according to the economic status of the user.

3.2 Productivity of Non-Tax Revenue

The revenue productivity of Odisha's non-tax revenues has been evaluated on the basis of estimates of buoyancies. Table 3.7 shows the buoyancy of select non-tax revenue in Odisha. It is revealed from the table that buoyancy of state's total own non-tax revenue has remained above unity during the period 2002-03 to 2011-12, indicating that the total own non-tax revenue responds more than proportionately to the growth of GSDP. However, the buoyancy of total own non-tax revenue is mostly influenced by the buoyancy of major & medium irrigation, and non-ferrous mining & metallurgical industries, which have more than proportionate growth of GSDP during the period under study. The buoyancies of these two sources of revenue are 1.42 and 1.58 respectively, indicating that these non-tax revenues respond more than proportionately to the growth of GSDP. The other non-tax revenues have low productivity as their buoyancies are less than unity, except receipts on interest where the buoyancy is just unity. Considering the year wise buoyancy of different own non-tax revenues it is found that there is wide fluctuation in the level of buoyancy indicating that the growth of different non-tax revenues are not consistent with the growth of GSDP.

Table 3.7: Buoyancy of Select Non-Tax Revenues with respect to GSDP

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009 - 10	2010 - 11	2011-12	2002-12
Interest	33.58	5.63	2.93	2.08	1.71	1.60	0.99	-4.32	-1.61	10.98	1.06
Dividend	273.41	-0.45	-2.84	7.85	-3.00	6.88	5.34	-0.08	-3.08	16.49	0.52
Education	-0.45	-2.46	1.78	18.23	-0.12	0.00	-5.02	4.08	3.86	-1.68	-0.03
Medical	1.79	-1.61	4.14	-3.02	2.09	0.34	8.43	-6.14	2.63	8.15	0.84
Water Supply and Sanitation	3.81	0.18	0.24	1.73	0.48	0.93	1.44	1.29	-0.08	0.45	0.76
Housing	1.06	-0.11	0.04	-0.30	0.04	0.03	0.04	-0.24	0.16	0.31	0.004
Forest and Wild Life	1.73	-2.42	4.22	-3.19	6.15	-1.36	4.61	-2.23	2.31	2.00	0.69
Major & Medium Irrigation	6.05	2.10	0.73	0.75	1.40	-0.45	0.57	3.91	5.39	12.84	1.42
Minor Irrigation	2.75	4.41	0.05	2.77	-0.37	0.42	0.49	-1.78	5.53	0.75	0.85
Non-ferrous Mining & Metallurgical Industries	2.87	1.19	1.22	2.12	0.83	0.75	1.52	4.76	3.35	3.39	1.58
Total Non-tax		0.67	1.30	1.46	3.50	0.09	1.32	0.12	2.52	3.16	1.33

3.3 Suggestions to enhance Own Non Tax Revenue

The analysis of State's own non-tax revenue reveals that there is significant growth of revenue from this source during the period under study. At the same time, it is found to be buoyant indicating that the total own non-tax revenue responds more than proportionately to the growth of GSDP. While economic services have exhibited an upward trend with respect to State's ONTR since 2007-08, social services have exhibited downward trend with respect to State's ONTR after 2007-08. On the other hand, general services have shown considerable fluctuations. The non-tax revenue is realised mostly from economic services with mining royalty having more than two-thirds share in total non-tax revenue during 2011-12 with significant rate of cost recovery, However, there is still scope for raising more revenue from this source as the growth rate of mineral revenue from NFMMI remains lower than the growth in the value of output in the mining and quarrying sector. Interest receipts, and profits and dividends, can hardly be relied upon for the growth of non-tax revenue due to wide fluctuations noticed during the period under study.

In majority cases no dividend is received by the state from the departmental public undertakings due to loss or non-availability of surplus or reinvestment. Dividends are received only from six departmental public undertakings with Odisha Mining Corporation (OMC) and Odisha Power Generation Corporation (OPGC) being the two major contributors during the period under study. However, the state has not received any dividend from OPGC since 2007-08 and OMC has not paid any dividend during 2009-10 and 2010-11. In case of loss making public undertakings, the state should think about closing down or disinvestment so as to reduce the fiscal burden.

The recovery of operational cost in most of the non-tax revenues is not encouraging except royalty from mining, revenue from forest and wild life and major and medium irrigation projects. Within the social services, the recovery rate is very low in case of education and health. While this is understandable in a poor state like Odisha, there is still scope for increasing revenue from these sources as all the targeted groups are not poor. User charges can be determined on the basis of economic status of different groups and this should be increased in every year by a certain percentage. Further, fall in recovery rate in case of water supply and sanitation could lead to over use and hence, waste of scare resources. Therefore, the State should levy appropriate user charges for the provision of these services.

CHAPTER FOUR

STATE'S EXPENDITURE

ToR 1.iii requires us to analyse the Expenditure pattern and trends separately for Non-Plan and Plan, Revenue and Capital, and major components of expenditure there-under. It also seeks to discuss the measures undertaken to enhance allocative and technical efficiency in expenditures during the last 5 years and make suggestions for improving efficiency in public spending.

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted to them. It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure earmarked for development and social sectors (CAG, 2012).

4.1 Composition of Expenditure in terms of Economic Classification

Total expenditure of the State in terms of economic classification includes revenue expenditure, capital outlay and loans and advances. This can also be classified on the basis of plan and non-plan expenditure. Table 4.1 presents the broad composition of state expenditure in terms of economic classification over a period of ten years (2002-12), while Chart 4.1 presents the trends in composition of expenditure. It is observed that total expenditure of the State has increased from Rs 11432 crore in 2002-03 to Rs 39777 crore in 2011-12 at the annual compound growth of 15.35 per cent.

4.1.1Revenue and Capital Expenditure

Revenue Expenditure (RE) is incurred to maintain the current level of services and payment of the past obligations and it has increased significantly from Rs 10015 crore in 2002-03 to Rs 34660 crore in 2011-12 (Table 4.1). It has also a predominant share of total expenditure throughout the period from 2002-03 to 2011-12. Its share hovered around 90 per cent excepting 2003-04, 2007-08 and 2008-09 when we notice some decline. However in RE, 2011-12 it has remained below the assessment made by the Government in MTFP (Table 4.2). The revenue expenditure grows at the annual rate of 15.08 per cent, which is marginally lower than overall growth rate of total expenditure (Table 4.1). The growth of total expenditure is however influenced by the growth of revenue expenditure due to its significantly higher share in total expenditure.

Non-Plan Revenue Expenditure (NPRE) has grown at a lower rate than total expenditure, as a result of which its share in Total Revenue Expenditure has declined from 84 per cent in 2002-03 to 72 per cent in 2011-12 which is a welcome development (Table 4.1). However, the NPRE in 2011-12 has exceeded THFC's normative assessment (Rs. 19131 crore) by Rs 5809 crore though it has remained below the assessment by Government in MTFP (Table 4.2).

Table 4.1: Economic classification of total expenditure (Rs. Crore)

Year	Revenue Expenditure	Capital Expenditure (Outlay)	Loans and Advances	Total Expenditure (excluding debt repayment)	Non-plan Revenue Expenditure
(1)	(2)	(3)	(4)	(5)	(6)
2002-03	10014.68 (87.60)	1074.08 (9.40)	343.24 (3.00)	11432 (100.00)	8444.05 (84.32)
2003-04	10861.16 (81.75)	852.95 (6.42)	1572.01 (11.83)	13286.11 (100.00)	9217.60 (84.87)
2004-05	12372.49 (90.75)	1055.55 (7.74)	205.10 (1.50)	13633.14 (100.00)	10416.54 (84.19)
2005-06	13603.52 (92.49)	1038.06 (7.06)	67.20 (0.46)	14708.79 (100.00)	11490.82 (84.47)
2006-07	15772.02 (90.15)	1451.47 (8.30)	271.77 (1.55)	17495.26 (100.00)	13045.53 (82.71)
2007-08	17723.27 (84.40)	2843.41 (13.54)	432.68 (2.06)	20999.36 (100.00)	13634.22 (76.93)
2008-09	21190.12 (84.15)	3779.17 (15.01)	210.97 (0.84)	25180.25 (100.00)	15882.12 (74.95)
2009 - 10	25291.59 (87.06)	3647.88 (12.56)	112.48 (0.39)	29051.95 (100.00)	19676.55 (77.80)
2010 - 11	29367.95 (86.46)	4285.1 (12.62)	314.69 (0.93)	33967.74 (100.00)	21975.32 (74.83)
2011-12	34660.23 (87.14)	4496.09 (11.30)	621.01 (1.56)	39777.34 (100.00)	24940.47 (71.96)
Growth rate (%)	15.08	23.59	-3.00	15.35	12.98

Note: (a) Figures in parentheses from col.2 to col.5 indicate percentage to total expenditure.
(b) Figures in parentheses in col.7 indicate percentage to total revenue expenditure

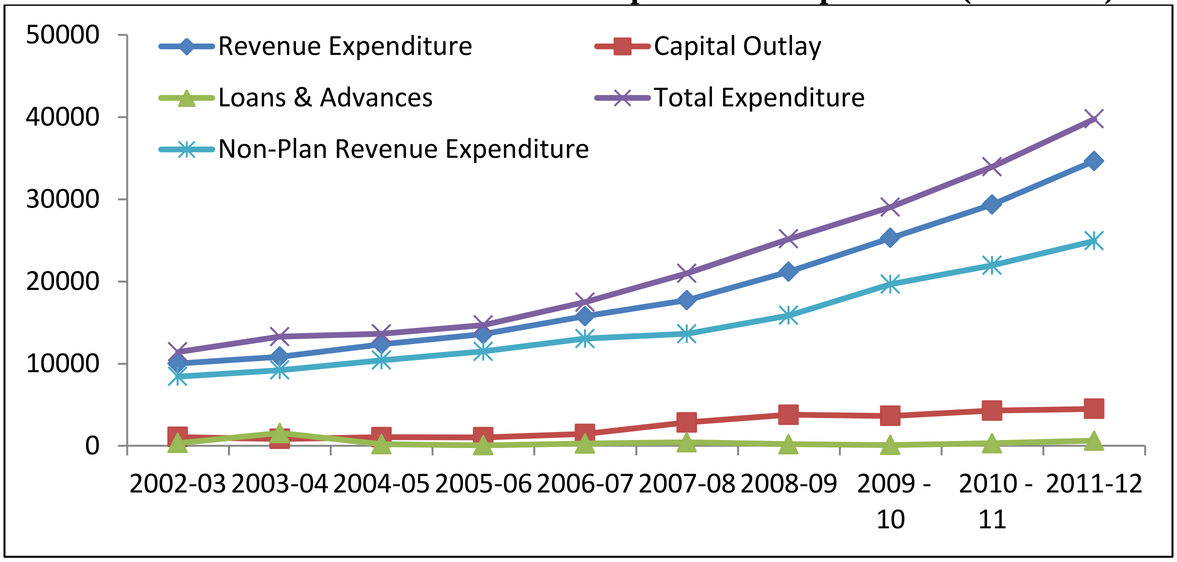
Table 4.2: Comparative Assessment of Revenue Expenditure (RE) and Non-Plan Revenue Expenditure (NPRE) during 2011-12

(Rs. Crore)

Expenditure Heads	Assessment made by ThFC	Assessment made by Government in MTFP	Actual in 2011-12
RE	NA	37072 (17.17)	34660 (16.05)
NPRE	19131 (8.86)	29962 (13.88)	24940 (11.55)

Note: Figures in the parentheses are per cent of GSDP

Chart 4.1: Trends in Economic Composition of Expenditure (Rs. Crore)



The capital expenditure has increased from Rs 1074 crore in 2002-03 to Rs 4496 crore in 2011-12 (Table 4.1) with the annual growth rate of 23.59 per cent. Due to the significantly higher annual growth of capital expenditure compared to the revenue expenditure, its share has increased from 9.69 per cent in 2002-03 to 11.48 per cent in 2011-12. The higher growth of capital expenditure is in a right direction for growth of the economy. However, the share of capital expenditure still remains at a low level and hence there is a need to substantially increase capital expenditure in order to accelerate economic growth.

The total expenditure as percentage of GSDP has decreased from 20.86 per cent in 2002-03 to 18.42 per cent in 2011-12 (Table 4.3). Initially the expenditure has decreased to 16.24 per cent of GSDP in 2007-08 and then increased gradually and reached to 18.42 per cent in 2011-12. As revenue expenditure has the dominant share of total expenditure, as a proportion of GSDP it has remained higher. However, the revenue expenditure as a percentage of GSDP has declined steadily from 18.27 percentages in 2002-03 to 13.71 percent in 2007-08, and in the subsequent years it has increased and reached at 16.05 per cent in 2011-12. Capital expenditure which was already low in the year 2002-03 at 1.96 per cent of GSDP declined to 1.22 per cent in 2005-06 and in the subsequent years increased marginally and reached at 2.55 in 2008-09 and again it has declining steadily in the subsequent years. Loans and advances issued by the government as a percentage of GSDP declined from 0.63 per cent of GSDP to 0.07 in 2009-10 and increased in the subsequent years and reached at 0.29 per cent of GSDP in 2011-12.

Table 4.3: Expenditure as proportion of GSDP (%)

Year	Revenue Expenditure	Capital Outlay	Loans and Advances	Total Expenditure	Non-plan Revenue Expenditure
2002-03	18.27	1.96	0.63	20.86	15.41
2003-04	16.43	1.29	2.38	20.10	13.94
2004-05	15.92	1.36	0.26	17.54	13.40
2005-06	15.99	1.22	0.08	17.28	13.50
2006-07	15.49	1.43	0.27	17.18	12.81
2007-08	13.71	2.20	0.33	16.24	10.55
2008-09	14.27	2.55	0.14	16.96	10.70
2009 - 10	15.52	2.24	0.07	17.83	12.08
2010 - 11	15.10	2.20	0.16	17.47	11.30
2011-12	16.05	2.08	0.29	18.42	11.55

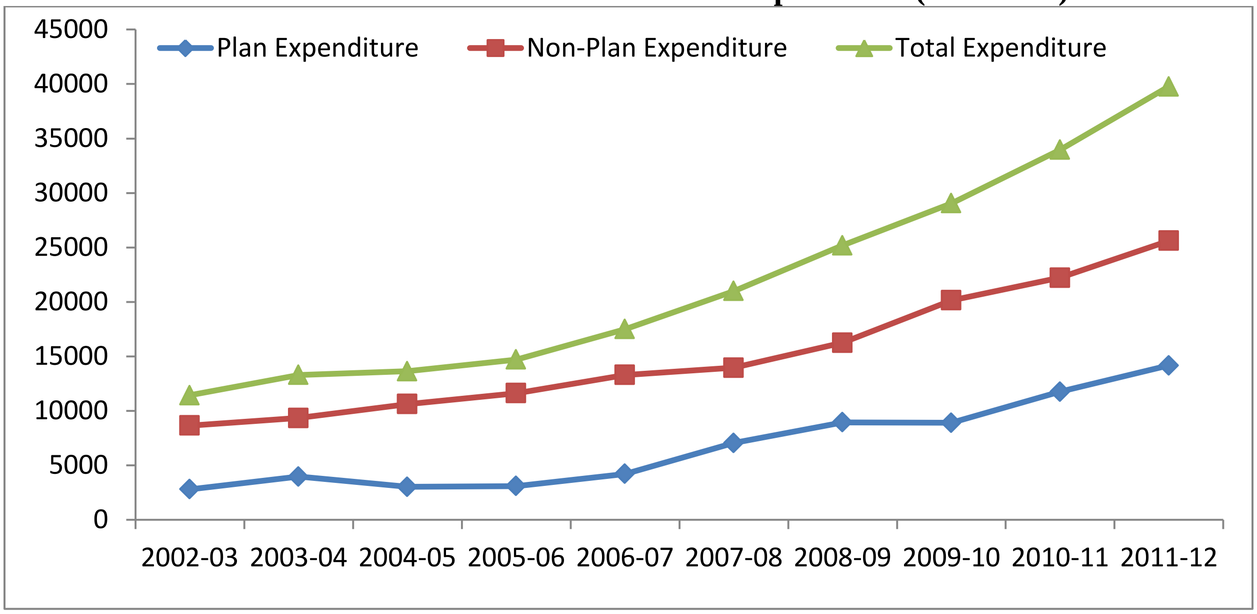
Table 4.4: Plan and Non-Plan Expenditure

Year	Plan Expenditure	Non-plan Expenditure	Total Expenditure	Plan Expenditure % of GSDP	Non-plan Expenditure % of GSDP
2002-03	2789.71 (24.40)	8642.52 (75.60)	11432.23 (100.00)	5.09	15.77
2003-04	3955.04 (29.77)	9331.97 (70.23)	13287.01 (100.00)	5.98	14.12
2004-05	3011.73 (22.09)	10621.37 (77.91)	13633.10 (100.00)	3.87	13.66
2005-06	3093.78 (21.03)	11615.42 (78.97)	14709.20 (100.00)	3.64	13.65
2006-07	4205.36 (24.04)	13289.42 (75.96)	17494.78 (100.00)	4.13	13.05
2007-08	7045.61 (33.55)	13953.07 (66.45)	20998.68 (100.00)	5.45	10.79
2008-09	8933.5 (35.48)	16246.47 (64.52)	25179.97 (100.00)	6.02	10.94
2009-10	8901.69 (30.64)	20150.79 (69.36)	29052.48 (100.00)	5.46	12.37
2010-11	11755.67 (34.61)	22212.01 (65.39)	33967.68 (100.00)	6.05	11.42
2011-12	14157.34 (35.59)	25619.67 (64.41)	39777.01 (100.00)	6.56	11.87
Annual Growth (%)	21.06	12.98	15.35		

The plan expenditure has grown at a significantly higher rate than overall growth of total expenditure. Its annual average growth rate is 21.06 per cent against 15.35 per cent growth of total expenditure during the period 2002-03 to 2011-12 (Table 4.4). Due to the higher growth of plan expenditure its share in total expenditure has increased from 24 per cent in 2002-03 to about

36 per cent in 2011-12. This is a welcome development for the growth of the economy. With the increase in plan expenditure there is prospect for higher growth. On the other hand, there is slow growth of non-plan expenditure. It has grown at the annual compound rate of 12.98 per cent against the growth of plan expenditure of 21 per cent. As a result of slow growth, its share in total expenditure has declined from 76 per cent in 2002-03 to 64 per cent in 2011-12. The trends in plan and non-plan expenditure can be seen from Chart 4.2.

Chart 4.2: Trends in Plan and Non-Plan Expenditure (Rs. Crore)



The plan expenditure as a proportion of GSDP has increased from 5.09 per cent in 2002-03 to 6.56 per cent in 2011-12. However, its share in GSDP has decreased from 2003-04 to 2005-06 and thereafter showed an increasing trend. The non-plan expenditure as a proportion of GSDP, on the other hand, has declined from 15.77 per cent in 2002-03 to 11.87 per cent in 2011-12.

Even though the non-plan expenditure has grown at a low rate still its share has remained very high. The convention of adding committed and maintenance expenditure of plan scheme to non-plan expenditure at the end of every plan has the effect of expanding non-plan expenditure in bulk every five years (Sarma, 2000; Rao, 2002). This practice together with interest liability from debt build-up for plan financing has contributed in no small measure to worsening revenue balance. A poor state like Odisha cannot afford such burden. Therefore, there is a need to do away with the dichotomy of Plan and Non-plan expenditure.

4.2 Functional Composition of Expenditure

Functional composition of total expenditure of the state consists of expenditure on general services including interest payments, social services (Education, Health, Housing, Urban Development, Welfare of SC, ST & OBC, Women & Child Development, Labour welfare etc.), economic services (Agriculture, Animal Husbandry, Forestry, Co-operation, Rural Development, Irrigation, Energy, Transport etc), grants-in-aid to different organizations & institutions including State‘s Share in different Government Schemes and loans and advances. Relative share of these components in total expenditure is indicated in Table 4.5.

Table 4.5: Functional Composition of Total Expenditure (Rs. Crore)

Year	General Services	Social Services	Economic Services	Developmental expenditure (Social + Eco.)	Grants -in-aid	Loans & Advances	Total
2002-03	4825.06 (42.21)	3620.44 (31.67)	2496.17 (21.83)	6116.61 (53.5)	147.09 (1.29)	343.24 (3.00)	11432 (100.00)
2003-04	5197.14 (39.12)	3836.20 (28.87)	2459.23 (18.51)	6295.43 (47.38)	221.53 (1.67)	1572.01 (11.83)	13286.11 (100.00)
2004-05	6509.56 (47.75)	4056.47 (29.75)	2703.53 (19.83)	6760.00 (49.58)	158.48 (1.16)	205.10 (1.50)	13633.14 (100.00)
2005-06	6878.34 (46.76)	4796.82 (32.61)	2819.57 (19.17)	7616.39 (51.78)	146.86 (1.00)	67.20 (0.46)	14708.79 (100.00)
2006-07	7566.83 (43.25)	5440.26 (31.10)	3944.14 (22.54)	9384.40 (53.64)	272.26 (1.56)	271.77 (1.55)	17495.26 (100.00)
2007-08	7359.57 (35.05)	7059.78 (33.62)	5796.43 (27.60)	12856.21 (61.22)	350.9 (1.67)	432.68 (2.06)	20999.36 (100.00)
2008-09	7146.80 (28.38)	9208.03 (36.57)	8221.69 (32.65)	17429.72 (69.22)	392.76 (1.56)	210.97 (0.84)	25180.25 (100.00)
2009-10	9462.90 (32.57)	10400.92 (35.80)	8669.83 (29.84)	19070.75 (65.64)	405.82 (1.40)	112.48 (0.39)	29051.95 (100.00)
2010-11	10170.94 (29.94)	12706.50 (37.41)	10344.00 (30.45)	23050.50 (67.86)	431.61 (1.27)	314.69 (0.93)	33967.74 (100.00)
2011-12	11186.84 (28.12)	14994.90 (37.70)	12313.48 (30.96)	27308.38 (68.66)	661.11 (1.66)	621.01 (1.56)	39777.34 (100.00)
Growth (%)	8.89	18.58	22.74	20.23	17.22	-3.00	15.35

Note: Figures in the parentheses indicate percentage share of total expenditure
Source: Finance Accounts, Govt. of Odisha.

The movement of relative shares of the component of expenditure shows that the combined shares of social services and economic services which constitute developmental expenditure has increased from 47.38 per cent in 2003-04 to 68.66 per cent in 2011-12. The share of general services (including interest payment), considered as non-developmental decreased from 42 percent in 2002-03 to 28 per cent in 2011-12. The relative share of social services increased from 32 per cent in 2002-03 to 38 per cent in 2011-12 while the relative share of economic services which hovered around 19 per cent during 2003-04 to 2005-06 has shown an increasing trend and increased to 31 per cent in 2011-12. Grants-in-Aid have increased from 1.29 per cent in 2002-03 to 1.66 per cent in 2011-12 with slight variations while loans and advances revealed longer-term decline with fluctuations during the period 2002-12. The trends in functional composition of expenditure can be seen from Chart 4.3.

The general service as a percentage of GSDP has declined from 8.80 per cent in 2002-03 to 5.18 percent in 2011-12 (Table 4.6). On the other hand, the combined shares of social services and economic services, which constitute developmental expenditure, as a percentage of GSDP has declined steadily from 11.16 per cent in 2002-03 to 8.70 per cent in 2004-05 and in the subsequent years it increased and reached at 12.65 per cent in 2011-12. At the same time, grants-in-aid as percentage of GSDP have hovered around 0.17 per cent to 0.34 per cent.

Chart 4.3: Trends in Functional Composition of Expenditure (Rs. Crore)

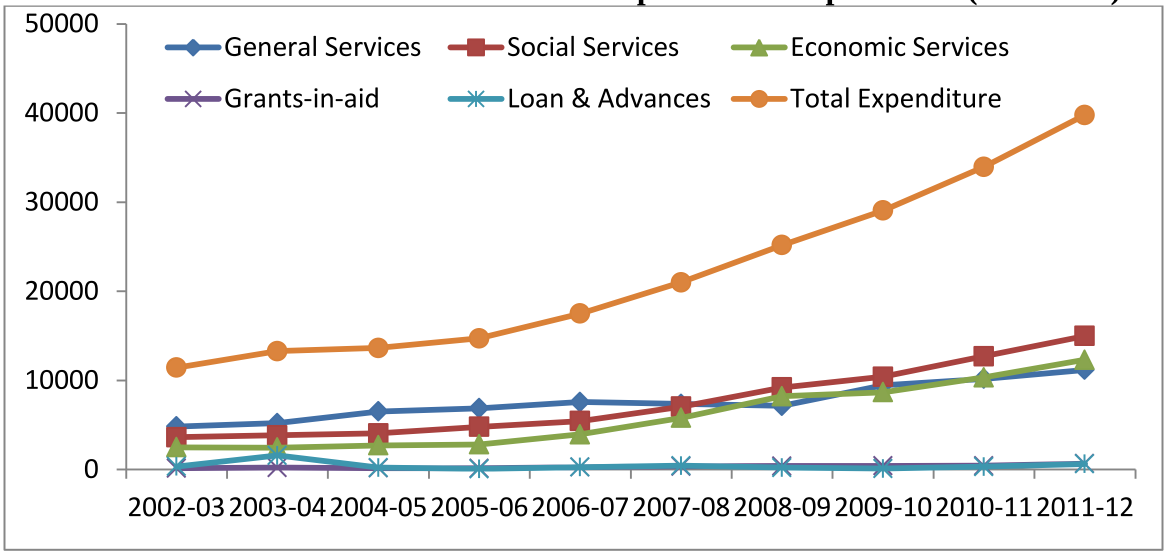


Table 4.6: Functional Composition of Expenditure as a percentage of GSDP (%)

Year	General Services	Social Services	Economic Services	Developmental expenditure	Grants-in-aid	Loans & Advances	Total
2002-03	8.80	6.61	4.55	11.16	0.27	0.63	20.86
2003-04	7.86	5.80	3.72	9.52	0.34	2.38	20.10
2004-05	8.37	5.22	3.48	8.70	0.20	0.26	17.54
2005-06	8.08	5.64	3.31	8.95	0.17	0.08	17.28
2006-07	7.43	5.34	3.87	9.21	0.27	0.27	17.18
2007-08	5.69	5.46	4.48	9.94	0.27	0.33	16.24
2008-09	4.81	6.20	5.54	11.74	0.26	0.14	16.96
2009-10	5.81	6.38	5.32	11.70	0.25	0.07	17.83
2010-11	5.23	6.53	5.32	11.85	0.22	0.16	17.47
2011-12	5.18	6.95	5.70	12.65	0.31	0.29	18.42

Source: own computation based on data from Finance Accounts of Odisha government.

4.3 Committed Expenditure

Committed Expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. Table 4.7 presents the composition of these expenditures.

4.2.1 Salaries

Expenditure on salaries has increased from Rs. 3814 crore in 2002-03 to Rs. 8868 crore in 2011-12 at the annual compound growth of 11.69 per cent (Table 4.7). However, its share in revenue receipts has declined from 45.20 per cent in 2002-03 to 22.02 per cent in 2011-12. The decline in the share of salary and wages in revenue receipts has increased the space for more spending on development expenditures. However, the amount spent for salary and wages during 2011-12 is still higher than the assessment made by ThFC of Rs. 6902 crore. To achieve the target, the state government is therefore required to reduce further on salary and wages of the employees.

Table 4.7: Components of Committed Expenditure (Rs. Crore)

Year	Salary & Wages	Pensions	Interest Payments	Subsidy
2002-03	3814 (45.20)	1030 (12.21)	2886 (34.20)	42 (0.50)
2003-04	3903 (41.34)	1158 (12.27)	2860 (30.30)	20 (0.22)
2004-05	3977 (33.56)	1260 (10.63)	3332 (28.12)	45 (0.38)
2005-06	4264 (30.27)	1339 (9.51)	3697 (26.25)	83 (0.59)
2006-07	4477 (24.83)	1485 (8.24)	3188 (17.68)	170 (0.94)
2007-08	5501 (25.04)	1801 (8.20)	3169 (14.43)	148 (0.68)
2008-09	6524 (26.51)	2075 (8.43)	2889 (11.74)	743 (3.02)
2009 – 10	7945 (30.06)	3283 (12.42)	3044 (11.52)	1008 (3.81)
2010 – 11	8969 (26.95)	4011 (12.05)	3061 (9.20)	1310 (3.94)
2011-12	8868 (22.02)	4741 (11.77)	2576 (6.40)	1744 (4.33)
Annual Growth rate (%)	11.69	19.12	1.16	67.11

Note: Figures in the parentheses indicate percentage to revenue receipts
Source: Finance Accounts, Govt. of Odisha.

4.2.2 Interest Payments

Interest payment has decreased from Rs. 2886 crore in 2002-03 to Rs. 2576 crore in 2011-12 (Table 4.7). Initially it has increased to Rs. 3697 crore in 2005-06 and thereafter declined with minor fluctuations. However, the interest payment in 2011-12 has remained lower than the projections made in MTFP (Rs. 4047 crore). It has also remained lower than the projection of ThFC (Rs. 4080 crore) and Budget Estimate (Rs. 4047 crore) for 2011-12. The interest rate as a proportion of revenue receipts was six per cent during 2011-12 as against projection in MTFP of 10.06 per cent. All these show that the state has performed well in reducing interest payments.

4.2.3 Pensions

Expenditure on pension has increased steeply from Rs. 1030 crore in 2002-03 to Rs 4741 crore in 2011-12 registering an annual compound growth rate of 19.12 per cent (Table 4.7). The THFC has estimated growth of expenditure on pension by 10 per cent per annum. However, the state government has spent more than this target. During 2011-12, the growth over previous year was 18 per cent, which is much higher than the target fixed by ThFC. The ThFC had projected Rs 2897 crore as pension payment, while the projection in MTFP was Rs. 4550 crore for 2011-12. As against this, the pension payment during 2011-12 was Rs. 4741 crore. However, the state government has no control over the expenditure on pension, which is the retirement benefit given to the employees of the state and has already been committed. The State Government did not estimate yearly pension liabilities for next ten years on realistic basis as required under FRBM Act, 2005.

4.2.4 Subsidies

The total subsidy of the State Government has increased from Rs. 42 crore in 2002-03 to Rs. 1744 crore in 2011-12 at the annual compound growth rate of 67.11 per cent (Table 4.7). There is a sudden jump in the subsidy to Rs. 743 crore during 2008-09 from Rs. 148 crore in 2007-08. The subsidy as a proportion of revenue receipts has increased significantly from 0.50 per cent in 2002-03 to 4.33 per cent in 2011-12.

4.3 Efficiency of Public Spending

The analysis of public expenditure efficiency can be decomposed into two parts: the efficiency of resource allocation across different lines of public spending, and the efficiency within individual lines of public expenditure (Mundle and Rao, 1997). While the former can be said as allocative efficiency the latter can be said as technical efficiency.

(a) Measures for Allocative Efficiency

The efficiency of resource allocation among different lines of activity can be assessed through the share of different types of expenditure with respect to total public spending. It can be seen from Table 4.8 that the share of general services declined sharply from 35.05 per cent in 2007-08 to 28.12 per cent in 2011-12. Interest payment, which is a major component of general service sector, also shows similar trend. Its share declined sharply from 15.09 per cent in 2007-08 to 6.48 per cent in 2011-12.

Table 4.8: Functional Composition of Major Heads in Total Government Expenditures

(In percentage)

Different Exp.	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Services	**35.05**	**28.38**	**32.57**	**29.94**	**28.12**
Interest Payments	15.09	11.47	10.48	9.01	6.48
Social Services	**33.61**	**36.57**	**35.81**	**37.41**	**37.69**
Education	15.56	17.88	19.12	19.46	17.37
Health	3.56	3.72	4.03	3.75	3.42
Water Supply	3.79	3.90	2.34	1.70	1.64
Housing	1.02	0.94	0.67	0.80	0.71
Welfare of SC,ST & OBC	2.74	2.65	2.87	3.57	3.20
Others	6.96	7.48	6.76	8.14	11.36
Economic Services	**27.60**	**32.65**	**29.84**	**30.45**	**30.95**
Agri & allied	4.47	7.54	7.86	8.41	8.01
Rural Dev	4.10	4.86	4.06	4.36	4.62
Irrigation	8.89	8.24	7.35	6.98	6.56
Industry	0.77	0.70	1.76	0.82	0.64
Transport	6.28	7.43	6.45	6.91	6.12
Others	3.09	3.87	2.35	2.97	5.01

The share of social services increased from 33.61 per cent in 2007-08 to a level of 37.69 per cent in 2011-12. Among the different heads of this sector, education (and allied) has always received a major portion compared to other heads. Its share increased from 15.56 per cent in 2007-08 to

17.37 per cent in 2011-12. However, the health and water supply received less attention. While the share of health has remained below 4 per cent in the last five years, the share of water supply has declined from 3.79 per cent in 2007-08 to 1.64 per cent in 2011-12. At the same time, the share of expenditure for welfare of SC, ST & OBC has increased marginally from 2.74 per cent to 3.20 per cent during the last five years. These social sectors have large externalities, where the case for public spending is most compelling on consideration of both efficiency and equity (Mundle and Rao, 1997). The improvement in allocation to these sectors is of utmost necessity due to low level of human development in the state.

There is increase in the share of economic services from 27.60 per cent in 2007-08 to 30.90 per cent in 2011-12. This increase is observed mainly in agriculture and allied sector from 4.47 per cent to 8.01 per cent during this period. However, rural development and irrigation received less attention. There is a need to increase allocation to these sectors for rapid economic growth.

The allocation of expenditure for general services as a percentage of GSDP has declined from 5.70 per cent in 2009-10 to 5.06 per cent in 2011-12 (Table 4.9). On the other hand, the allocation of expenditure for social services as a percentage of GSDP has increased from 4.96 per cent in 2007-08 to 6.64 per cent in 2011-12. Odisha has spent 3.15 per cent of GSDP during 2011-12 although the Education Commission (Govt. of India, 1966) and Ramamoorthy Committee (Govt. Of India, 1991) have recommended spending 6 per cent of income on education. Similarly, against the recommendation of ICSSR and ICMR panel (1981) for spending 6 per cent of income on health, Odisha has spent 0.61 per cent of GSDP during 2011-12. These two components are major indicators of human development and the allocation to these sectors needs to be enhanced. Allocation of expenditure for economic services as a percentage of GSDP though has increased from 2007-08 to 2011-12 it has remained only at 4.04 per cent. Rural development and irrigation, which are vital for economic development, each has less than 1 per cent share in GSDP.

Table 4.9: Major Heads of Functional Government Expenditures as percentage of GSDP

Different Exp.	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Services	**5.59**	**4.69**	**5.70**	**5.11**	**5.06**
Interest Payments	2.45	1.95	1.87	1.57	1.19
Social Services	**4.96**	**5.58**	**6.04**	**6.13**	**6.64**
Education	2.52	3.03	3.40	3.30	3.15
Health	0.56	0.62	0.70	0.64	0.61
Water Supply	0.27	0.18	0.21	0.26	0.26
Housing	0.11	0.10	0.09	0.09	0.08
Welfare of SC,ST & OBC	0.38	0.39	0.43	0.42	0.46
Others	1.12	1.26	1.20	1.41	2.08
Economic Services	**2.88**	**3.74**	**3.54**	**3.64**	**4.04**
Agri & allied	0.69	1.24	1.34	1.43	1.47
Rural Dev	0.67	0.83	0.72	0.76	0.85
Irrigation	0.35	0.37	0.38	0.39	0.40
Industry	0.10	0.12	0.11	0.14	0.12
Transport	0.58	0.60	0.58	0.54	0.55
Others	0.49	0.58	0.40	0.37	0.66

The above analysis suggests that there is declining allocation of expenditure towards general services and increasing allocation of expenditures towards social services and economic services. However, there is need to increase allocation towards different heads of social services like health and water supply, and economic services like rural development and irrigation.

The increasing allocation for economic and social service sectors and declining allocation for general service sector would certainly bring the long-term growth of the state economy and higher human development.

(b) Measures for Technical Efficiency

The other aspect of public expenditure efficiency relates to efficiency within individual items of public spending or technical efficiency. This aspect can be analysed through cost recovery in the public provision of various goods and services. The estimates show that not only is the rate of recovery very low in the case of selected social services like education and health but also it is fluctuating for these social services. This low rate of recovery has ultimately resulted in a massive increase in the amount of implicit subsidies. This implicit subsidy is not necessarily targeted only to the poor. In the case of education, it is found that the cost recovery is very low, in fact less than one, and has declined within a period of five years from 1.63 per cent in 2007-08 to 0.44 per cent in 2011-12 (Table 4.10). On the other hand, in the health services the rate of recovery has increased marginally from 2.76 per cent in 2007-08 to 3.92 per cent in 2011-12 with high fluctuation in between.

Table 4.10: Cost Recovery of Selected Services

(Ratio of Non-Tax Revenue to Non-Plan Revenue Expenditure)

(Per cent)

Item	2007-08	2008-09	2009-10	2010-11	2011-12
A. Social Services					
of which					
(a) Education $	1.63	0.30	0.34	0.53	0.44
(b) Health *	2.76	4.69	1.55	2.18	3.92
(c) Water supply & Sanitation	36.21	37.35	32.78	20.24	18.91
B. Economic Services					
of which					
(a) Irrigation #	15.50	12.68	15.70	25.14	46.43
(b) Power	24.06	11.72	46.55	41.63	55.19
(c) Roads @	5.53	7.08	6.17	7.17	6.55

$: Also includes expenditure on sports, art and culture.

* : Includes expenditure on medical and public health and family welfare.

: Relates to irrigation and flood control for non-plan revenue expenditure, and to major, medium and minor irrigation for non-tax revenue.

@ : Relates to roads and bridges for non-plan revenue expenditure, and to road transport for non-tax revenue.

In selected economic services like irrigation, power and roads, the rate of recovery has increased within five years from 2007-08 to 2011-12 (Table 4.9). While the rate of recovery in case of irrigation and power has increased significantly, in case of roads there is fluctuation between 5.53 per cent and 7.17 per cent in the rate of recovery during this period.

The above trends in the rate of recovery in selected functional categories reveal that the implicit subsidy is high in case of education and health in social services. On the other hand, there is substantial reduction of implicit subsidy in case of irrigation and power, which is a good trend as most of the benefits to these sectors flow to the richer and middle sections of the population. A progressive reduction in subsidies would therefore augment resources available for productive investment, leading to the growth of state economy. By pre-empting resources, subsidies in a way result in reducing the size of available resources (Raghavachari, 1979).

With improved fiscal condition, the focus of the State Govt. is on efficiency and quality of public spending. The emphasis is on outcome and efficiency on expenditure rather than simply making budget provision. State Govt. has taken following institutional reforms measures in order to improve efficiency, transparency and productivity in public spending.

i. Outcome budget has been introduced in as many as 13 major Depts. in order to link outlays measurable outcomes.
ii. Cash management system has been introduced in 15 Depts. in ensuring timely spending of the budgeted outlay.
iii. Formulation of annual maintenance plan has been put in place in ensuring effective productivity and utilization of the budgeted provision for operation and maintenance of capital assets.

The concept of outcome budget is an important tool for effective government management and accountability. It is a performance measuring tool that helps in better service delivery; decision-making; evaluating programme performance and results; communicating programme goals; and improving programme effectiveness. The exercise is primarily meant at converting financial outlays into measurable and monitorable outcome. The idea is to make the programme implementing agencies more result oriented by shifting the focus from 'Outlay' to 'Outcome'. From the outlay-outcome budget for the year 2011-12 in respect of three Departments (SC & ST Development, Panchayati Raj and Housing and Urban Development) it was seen that the financial and physical outcome was very low. In SC & ST department against the financial achievement ranging from 0 to 70 per cent, the physical achievement was only 0 to 54 per cent as of December 2011. In respect of four test checked schemes of Panchayati Raj Department, against the financial achievements which ranged from 52 to 89 per cent, the physical achievement ranged only from 15 to 70 per cent at the end of December 2011. Similarly, out of 11 test checked schemes of Housing and Urban Development Department, in seven cases the percentage of financial achievement was below 60 per cent, i.e. ranged from 0 to 42 per cent at the end of March 2012 (CAG, 2012).

As stipulated in the guideline for Cash Management System issued (October 2010) by Finance Department, the expenditure under State Plan, Central Plan schemes at the end of the third quarter of a financial year should reach minimum 60 per cent. However, in 11 schemes under the above Departments, the percentage of utilization was below 60 per cent by the third quarter of 2011-12. Thus, the objectives of Cash Management System to reduce rush of expenditure during the last quarters of the financial year got defeated and effective monitoring of expenditure pattern and improving the quality of expenditure etc. could not be ensured though promised (CAG, 2012).

4.4 Fall out of fiscal consolidation on public service delivery

In the drive to control revenue deficit of the state, as explained in the beginning, the government targeted at cutting down the overall expenditure, as increasing the revenue in the short term is difficult. The focus of the state on achieving the fiscal consolidation by cutting down the overall expenditure (both revenue and capital) of the state has led to serious deterioration in the delivery of public services by the state. Basic services like health, education; administration has been seriously affected in the state. In a seminar one former secretary of the state administration pointed out that when it was asked to reduce the revenue expenditure, the department of education and health were first targeted because the share of employment in these departments are relatively higher compared to other departments. The quality of service delivery can be imagined from the fact that in aggregate 27 percentages of the sanctioned posts in all departments are lying vacant. Department wise number of sanctioned posts and percentage of vacant posts are given in Annexure 4.1. In 16 government departments, namely, revenue, commerce, public works, Odisha legislative assembly, food supplies and consumer welfare, school and mass education, industries, forest and environment, steel and mines, excise, parliamentary affairs, energy, culture, women and child development, cooperation, and Employment And Technical Education & Training more than 30 percentage of the sanctioned posts are lying vacant it the state. In the higher education department in the Grade A and Grade B level, which are basically teaching posts, almost half of the sanctioned posts are lying vacant. In health and family welfare department around 27 percentages of the sanctioned posts are lying vacant. Two important revenue generating departments of the state, namely, excise and steel and mines, also experience huge staff shortage. Similarly, although the state government is aiming at rapid industrialization of the state, 57 percentage of the sanctioned posts in the industry department are lying vacant. At higher education level, the situation is precarious. There are many reputed colleges where many of the departments are running by a single teacher or no regular teacher at all. Sometimes departments are run by the ad-hoc teachers also. In the university departments there is severe shortage of faculty members. Due to lack of sufficient faculty members, many of the departments are not offering many subjects and not able to apply for the UGC grants under Special Assistance Programme. In order to reduce the burden of salary government has introduced the contractual appointment schemes in most of the departments. In elementary schools and high schools government has made the policy not to appoint any regular teacher. All teachers are appointed on contract for six years with a starting salary of around Rs 4,500 at primary level and Rs 9,000 at high schools. After six years of job in contractual position state government regularizes their jobs. The salary of a contractual teacher is even lower than manual labourers in Odisha. Due to low salary of teachers, they engage themselves in other jobs to earn their livelihood. This affects the quality of education in the state.

4.5 Suggestions for improving efficiency in public spending

The foregoing analysis reveals that there is declining allocation of expenditure towards general services and increasing allocation of expenditures towards social services and economic services. Although the expenditure has been increasingly allocated towards social and economic services, which are termed as developmental expenditure, yet the allocation for education and health in social services and rural development and irrigation in economic services need to be enhanced for development of the state. As per the recommendation of Education Commission and Ramamoorthy Committee, the state needs to spend 6 per cent of income on education. However, at present the state is spending half of this amount. Similarly, as per the recommendation of

ICSSR and ICMR panel, the state needs to spend 6 per cent of income, as against its spending of only less than 1 per cent in health. These two components of social services are major indicators of human development. The state has now surplus resources and hence, there is scope for spending on these components of human development. There is need to fill up the vacancies in order to function these sectors efficiently.

The analysis shows that technical/operational efficiencies of education and health are very low with cost recovery of only 0.44 per cent and 3.92 per cent respectively of non plan revenue expenditure indicating that the implicit subsidy is high in case of education and health in social services. Further, the declining cost recovery in case of education within last five years under study is not encouraging. There is need to recover cost of non-plan revenue expenditure increasingly in order to make the sector efficient. Even in case of health sector, though there is increasing cost recovery after 2009-10, the recovery rate of only 3.92 per cent in 2011-12 is very low and needs to be enhanced by appropriate user charges. On the other hand, it is observed that there is substantial reduction of implicit subsidy in case of irrigation and power, which is a good trend as most of the benefits to these sectors flow to the richer and middle sections of the population. The state needs to maintain this trend of progressive reduction of subsidies in order to augment resources available for productive investment, leading to the growth of state economy.

CHAPTER FIVE

ANALYSIS OF DEFICITS

ToR1.IV- requires us to analyse the fiscal deficits and revenue deficits along with balance of current revenues for plan financing.

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal position in the finances of the State Government during a specified period. The deficit in the Government Account represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are important pointers to its fiscal health. The trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits during the period from 2002-03 to 2011-12 are presented in the following.

5.1 Trends in Deficits/Surpluses

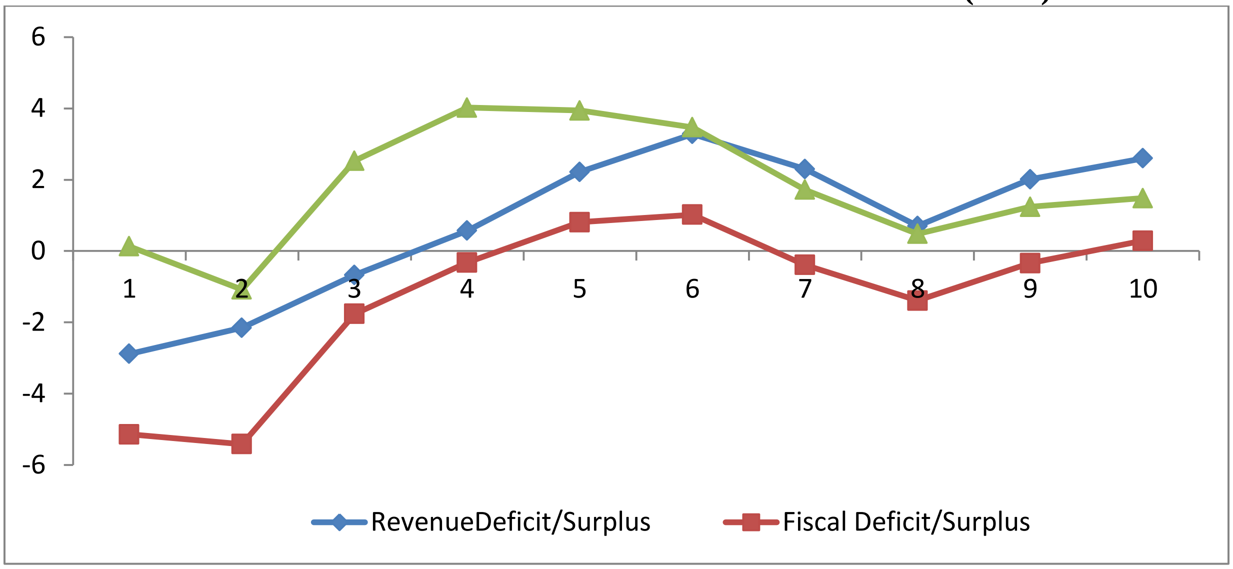
Table 5.1 and Chart 5.1 present the trends in deficits/surpluses over the period 2002-12.

Table 5.1: Deficit Indicators of Odisha

Year	Revenue Deficit (-)/ Surplus (+) (Rs. Crore)	Fiscal Deficit (-)/ Surplus (+) (Rs. Crore)	Primary Deficit (-)/ Surplus (+) (Rs. Crore)	Revenue Deficit as (%) of Fiscal Deficit	Revenue Deficit (-)/ Surplus (+) as (%) of GSDP	Fiscal Deficit (-)/ Surplus (+) as (%) of GSDP	Primary Deficit (-)/ Surplus (+) as (%) of GSDP
2002-03	-1576	-2816	70	55.97	-2.88	-5.14	0.13
2003-04	-1421	-3573	-713	39.77	-2.15	-5.41	-1.08
2004-05	-522	-1366	1966	38.21	-0.67	-1.76	2.53
2005-06	481	-276	3421	-	0.57	-0.32	4.02
2006-07	2261	823	4012	-	2.22	0.81	3.94
2007-08	4244	1323	4492	-	3.28	1.02	3.47
2008-09	3420	-584	2555	-	2.30	-0.39	1.72
2009-10	1139	-2265	778	-	0.70	-1.39	0.48
2010-11	3908	-658	2403	-	2.01	-0.34	1.24
2011-12	5607	622	3198	-	2.60	0.29	1.48

Source: Finance Accounts, Govt. of Odisha

Chart 5.1: Trends in deficit indicators relative to GSDP (in %)



5.2 Revenue Deficit/Surplus

Revenue surplus represents the difference between revenue receipts and revenue expenditure. Revenue surplus helps to reduce the borrowings**.** The state government had revenue deficit continuously from 1984-85 which reached peak level in 1999-2000, after which it started declining till 2004-05. In the year 2005-06, after a gap of 22 years the State was able to attain a revenue surplus of Rs. 481 crore and thereafter has continued to be a revenue surplus State. In 2011-12, revenue surplus increased to Rs 5607 crore (Table 5.1). The revenue surplus has remained above 2 per cent of GSDP since 2006-07, except during 2009-10 when it was only 0.70 per cent. The trends in revenue deficit/surplus can be seen from Chat 5.1.

5.3 Fiscal Deficit/Surplus

The fiscal deficit comprises the total borrowings of the Government. The State had fiscal deficit up to 2005-06, mainly due to deficit in revenue account. The fiscal surplus in 2006-07 slipped back to fiscal deficit during 2008-09 to 2010-11 (Table 5.1), but after three years there was again fiscal surplus of Rs. 622 crore during 2011-12 mainly due to huge surplus available in revenue account. This was well within the State's FRBM (Amendment Act, 2012) target of fiscal deficit of not more than three per cent of GSDP. The trends in fiscal deficit/surplus can be seen from Chat 5.1.

5.3 Primary Deficit/Surplus

The primary surplus in the State increased from Rs 70 crore in 2002-03 to Rs. 3198 crore in 2011-12 (Table 5.1). It reached to a peak of Rs. 4492 crore in 2007-08 and decreased to Rs. 778 crore in 2009-10 but thereafter increased. Its share as a percentage of GSDP varies from 0.13 per cent in 2002-03 to 4.02 per cent in 2005-06. During 2011-12 the share of primary surplus as a percentage of GSDP was 1.48 per cent. The trends in primary deficit/surplus can be seen from Chart 5.1.

5.4 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) was not having any asset backup. In the case of Odisha, the ratio of revenue deficit to fiscal deficit has decreased from 2002-03 to 2004-05 and thereafter there is no revenue deficit (Table 5.1). The bifurcation of the primary surplus would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State’s economy.

5.5 Adequacy of Revenue for Plan Financing

The State Government has been generating surplus in revenue account since 2005-06. This revenue surplus has been utilized for Plan financing in the State. Initially during 2005-06, the State Government was able to utilize 5.56 per cent of Plan expenditure from revenue surplus (Table 5.2). This, however, increased to 32.63 per cent during 2007-08, which thereafter decreased to 8.10 per cent during 2009-10. Again this reverts back and reached to 28.12 per cent in 2011-12. Though the revenue surplus is not adequate for Plan financing in the State, and there is fluctuation in revenue surplus, still the State Government has been able to support a part of Plan expenditure from revenue surplus. In the recent years there has been a steady rise in revenue surplus and this has helped the Government to support increasing percentage of plan expenditure.

Table 5.2: Adequacy of Revenue for Plan Financing

YEAR	Revenue Surplus (Rs. Crore)	Plan Expenditure (Rs. Crore)	Revenue Surplus as % of Plan Expenditure
2002-03	-1576	15371.79	-
2003-04	-1421	16826.34	-
2004-05	-522	11148.68	-
2005-06	481	8645.45	5.56
2006-07	2261	10975.66	20.60
2007-08	4244	13006.36	32.63
2008-09	3420	13502.78	25.33
2009-10	1139	14054.76	8.10
2010-11	3908	17052.12	22.92
2011-12	5607	19937.58	28.12

CHAPTER SIX

DEBT SCENARIO

ToR 1.V requires us to examine the level of Debt: GSDP ratio and the use of debt (i.e. whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, Central government debt (including those from bilateral/multilateral lending agencies routed through the Central government), liabilities in public account (small savings, provident funds etc) and borrowings from agencies such as NABARD, LIC etc.

6.1 Level of Outstanding Public Debt and Other Obligations

The aggregate scenario of Public Debt and Outstanding liabilities are presented in Table 6.1.

Table 6.1: Level of Public Debt and Outstanding Liabilities as a percentage of GSDP

Year	Total Public Debt#	Total OBLIGATIONS#	Total Outstanding Debt & other Obligations at the end of the Year	GSDP@	Total Public debt as a % of GSDP	Total Outstanding Debt & other Obligations as a % of GSDP
	Rupees Crore at the end of the 31st March of the year				In Percentage	
2002-03	20661.73	10073.11	30734.84	49713.00	41.56	61.82
2003-04	23813.61	10200.51	34014.12	61008.00	39.03	55.75
2004-05	25672.74	10420.45	36093.19	77729.00	33.03	46.43
2005-06	26730.12	11737.89	38468.01	85096.00	31.41	45.21
2006-07	26925.27	12540.73	39466.00	101839.00	26.44	38.75
2007-08	25587.20	12938.22	38525.42	129274.00	19.79	29.80
2008-09	25246.25	13921.52	39167.77	148491.00	17.00	26.38
2009-10	25407.69	1520579	40613.48	162946.00	15.59	24.92
2010-11	25591.70	16599.64	42191.34	194465.00P	13.16	21.70
2011-12	24617.69	17849.07	42466.76	215899.00Q	11.40	19.67

Source: # Finance Accounts

@GSDP data are taken from the Budget of Odisha Government for the year 20013-14

The total public debt of Odisha (which include internal debt of the state government and loans and advances from the central government) in absolute term went up from Rs 20661.73 crore at the end of 31st March 2003 to Rs 26925.27 crore at the end of March 2007. Then it started falling till 2008-09 and again started rising in the subsequent years and is estimated in the Budget of 2010-11 to reach at Rs 29589.44 by the end of March 31st 2014. Similarly, the total outstanding debt and other obligations (which includes total public debt plus Small savings, Provident Funds etc., Reserve funds bearing interest, Reserve funds not bearing interest, Deposits bearing interest and Deposits not bearing interest) of the state has gone up steadily from Rs 30734.84 crores at the end of March 2003 to Rs. 42466.76 at the end of March 2012. However, the burden of the public debt is not measured in absolute terms, rather as a percentage of the total income of the state measured by the Gross State Domestic Product (GSDP). Total public debt of the state as a percentage of GSDP has gone down substantially from 41.56 per cent in the year 2002-03 to 11.40 percent in 2011-12. Similarly, the aggregate public debt and outstanding liabilities as a percentage of GSDP have gone down significantly from 61.82 percent in 2002-03 to 19.76 percent in 2011-12. This is much below the target set by 12th Finance Commission at 28% of GSDP and 25 per cent target set by the 13th Finance Commision for all the states in aggregate. However, in state specific the roadmap drawn by the 13th Finance Commission the targets set for Odisha at for the years 2010-11, 2011-12, 2012-13, 2013-14 and 2014-15 are 31%, 30.6%, 30.2%, 29.8% and 29.5% respectively. Therefore, it is clear that in all respects Odisha has been able to slash its debt burden substantially and maintained the level well below the targets set by the 12th and 13th Finance Commission.

6.2 Composition of Debt

The statement no.6 of finance accounts of Odisha presents the statement of borrowings and other liabilities in a summarized manner. The reporting has changed from the year 2008-09. Therefore we find a difference between the borrowing statements before 2008-09 and that after 2008-09. However, in reporting the broad nature of public debt we find no difficulty during the entire period of our study. Following the recommendations of the twelfth finance commission (TwFC), the central government disintermediated state governments borrowings from 2005-06 onwards, resulting in a sharp decline in the inflows of loans from the center in the subsequent years. The share of internal debt (which includes Market Loans, WMA from the RBI, Bonds, Loans from Financial Institutions, Special Securities issued to National Small Saving Funds and Other Loans) as a percentage of total public debt and other liabilities (PDOL) increased from 36.14 per cent during 2002-03 to 46.65 percent in 2005-06 and subsequently declined to 40.83 percent during 2011-12 (Table 6.2). The share of central government loan (which includes Non-Plan Loans, Loans for State Plan Schemes, Loans for Central Plan Schemes, Loans for Centrally Sponsored Plan Schemes and Pre 84-85 Loans) in the total PDOL has steadily declined from 31.08 percent in 2002-03 to only 17.14 percent in 2011-12. The state government is now relying more upon the small scale saving and provident funds (SSPF) to raise funds for the functioning of the government. The share of SSPF in the total PDOL has gone up from 24.69 percent in 2002-03 to 32.90 percent in 2011-12 showing almost eight percentage points rise. The share of other obligations in the total PDOL declined from 8.08 percent in the year 2002-03 to 5.22 percent in 2005-06 and has been showing a rising trend in the subsequent years to record 9.13 percent in 2011-12.

Keeping in view in the changes in the reporting of public debt in the 2008-09 finance accounts of the state, we report the detailed composition of public debt from the year 2008-09. Table 6.3 presents the detailed statement of the Nature of Borrowing by Government of Odisha from 2008-09 to 2011-12. Table 6.4 presents the composition of public debt (excluding other liabilities) in percentage share.

Table 6.2: Composition of Debt and Other Liabilities in Odisha from 2002-03 to 2011-12

Year	Internal Debt of State Govt.	Loans & Advances from Central Govt.	Small Savings, Provident Funds, etc	Other Obligations	Outstanding Debt & other Obligations at the end of the Year	Share of Internal Debt as a % of total public debt & other Liabilities	Share of Central Govt Loans as a % of total Debt & other liabilities	Share of SSPF as a % of total Debt & Other liabilities	Share of Other Obligations as a % of Total Debt & other liabilities
	Rupees Crore					Percentage Share			
2002-03	11109.03	9552.7	7588.91	2484.2	30734.84	36.14	31.08	24.69	8.08
2003-04	14465.01	9348.6	7821.63	2378.88	34014.12	42.53	27.48	23.00	6.99
2004-05	16346.13	9326.61	8380.80	2039.65	36093.19	45.29	25.84	23.22	5.65
2005-06	17946.37	8783.75	9728.95	2008.94	38468.01	46.65	22.83	25.29	5.22
2006-07	18180.04	8745.23	10326.69	2214.04	39466	46.07	22.16	26.17	5.61
2007-08	17185.28	8401.92	10726.56	2211.66	38525.42	44.61	21.81	27.84	5.74
2008-09	16770.15	8476.1	11185.32	2736.20	39167.77	42.82	21.64	28.56	6.99
2009-10	17178.19	8229.5	12323.39	2882.40	40613.48	42.30	20.26	30.34	7.10
2010-11	17998.56	7593.14	13546.00	3053.64	42191.34	42.66	18.00	32.11	7.24
2011-12	17338.48	7279.21	13972.39	3876.68	42466.76	40.83	17.14	32.90	9.13

Source: Finance Accounts

Table 6.3: Nature of Borrowing by Government of Odisha from 2008-09 to 2011-12

	31 Mar 2009	31 Mar 2010	31 Mar 2011	31 Mar 2012
A - Public Debt				
Internal Debt of the State Govt.	16770.15	17,178	17,999	17,338
Market Loans	7,354	6,783	6,160	5,114
WMA from the RBI	0	0	0	0
Bonds	772.29	662	551.71	441
Loans from Financial Institutions	1,162	1646.88	2180.52	2750.82
Special Securities issued to National Small Saving Funds	6,822	7432.62	8455.96	8,482
Other Loans	660	654	650	550
Loans and Advances from the Central Govt.	8,476	8,230	7,593	7,279
Non-Plan Loans	37	34	31	29
Loans for State Plan Schemes	8,293	8,062	7439.26	7202.04
Loans for Central Plan Schemes	24.01	20.64	17.46	0.02
Loans for Centrally Sponsored Plan Schemes	68.97	62.04	55.25	
Pre 84-85 Loans	52.93	51.31	49.69	48.07
Total Public Debt	25246.25	25407.69	25591.7	24617.69
B - Other liabilities				
Public Accounts				
Small savings, Provident Funds etc.	11185.32	12323.39	13546	13972.39
Reserve funds bearing interest	4.84	4.84	27.33	296.14
Reserve funds not bearing interest	16.79	18.21	12.55	12.61
Deposits bearing interest	23.67	30.18	57.94	78.36
Deposits not bearing interest	2690.9	2829.17	2,956	3489.57
Total other liabilities	13921.52	15205.79	16599.64	17849.07
Total Public Debt and other liabilities	39167.77	40613.48	42191.34	42466.76

Source: Finance Accounts, Government of Odisha

As mentioned earlier, the share of internal debt in the total public debt of Odisha has gone up and that of loans and advances from central government have declined steadily. Between 2008-09 and 2011-12 the share of internal debt has increased from 66.43 percent to 70.43 percent. During this time period the share of loans and advances from the central government has declined from 33.57 percent to 29.57 percent. Within internal debt the share of Special Securities issued to National Small Saving Funds (SSNSSF) and loans from financial institutions(FIs) have gone up to compensate the fall in the share of market loans and bonds. The share of SSNSSF has gone up from 27.02 percent in 2008-09 to 34.46 percent in 2011-12. Similarly, the share of FIs has gone up from a meager 4.60 percent in 2008-09 to 11.17 percent in 2011-12. The share of market loan in the total public debt has gone down from 29.13 percent in 2008-09 to 20.77 percent in 2011-12. Similarly, the share of bonds has declined from 3.06 percent in 2008-09 to 1.79 percent in

2011-12. The government of Odisha is no more relying upon the Ways and Means Advance from the Reserve Bank of India.

Table 6.4: Composition of Public Debt from 2007-08 to 2011-12

Year	Percentage share of Different heads in the Total Public Debt							
	Internal Debt (total of columns 3+4+5+6+7+8)	Market Loans	WMA from RBI	Bonds	Loans from FIs	Special Securities issued to National Small Saving Funds	Other Loans	Loans and Advances from Central Govt
2008-09	66.43	29.13	0	3.06	4.60	27.02	2.61	33.57
2009-10	67.61	26.70	0	2.61	6.48	29.25	2.57	32.39
2010-11	70.33	24.07	0	2.16	8.52	33.04	2.54	29.67
2011-12	70.43	20.77	0	1.79	11.17	34.46	2.23	29.57

Source: Own Estimation from the data compiled from Finance Accounts

6.3 Use of Debt

Following table 6.5 shows the borrowing and liabilities, capital outlay, capital expenditure from 2002-03 to 2011-12. We can observe that the annual borrowing and other liabilities have gone down substantially from 11482.42 crore in 2002-03 to 1353.75 crore in 2011-12. Capital outlay as a percentage of total expenditure went up from 5.17 percent in 2002-03 to 14.03 percent in 2008-09 and declined in the subsequent years to reach the level of 10.68 percent in 2011-12. Capital expenditure as a percentage of total expenditure has steadily declined from 51.81 percent in 2002-03 to 17.68 percent in 2011-12. In the initial years of our analysis although government had a greater percentage of capital expenditure a large amount went for debt repayment leaving barely a very small amount for capital outlay. In the recent years, however, due to declining burden of debt repayments, capital outlay has increased relatively. Capital outlay nevertheless remains far from satisfactory. Due to record of revenue surplus from 2005-06 onwards the state government has been maintaining a huge cash surplus, a large part of which is parked in RBI which is invested in government treasury bills. The Audit Report (State Finances) for the year 2009-10 by the CAG states that the state seems to be using fresh borrowing towards debt repayment and not for capital asset formation. Hence repayment of these borrowings in future years would not be met out of funds generated from assets. It also points out that The State Government has been investing its huge surplus cash balances in the Treasury Bills of GoI with Reserve bank of India at low interest rates While maintaining an optimum cash balance (minimum: Rs 1.28 crore) with the Reserve Bank of India, the State may with proper planning use the surpluses to settle some of the high cost loans instead of investing the same in GoI Treasury Bills in the Reserve Bank of India at low rates of interest.

Table 6.5
Borrowing, Capital Outlay and Cash Surplus of Government of Odisha

Year	Borrowing and other liabilities during the year (Rs crore)	Capital outlay (Rs crore)	Capital expenditure (Rs crore)	Total expenditure (Rs crore)	capital outlay as % of capital expenditure	capital expenditure as % of total expenditure	Total investment of surplus cash (Rs crore)	% Change in total investment of surplus cash
2002-03	11482.42	1074.08	10769.09	20783.77	5.168	51.81	19.18	-7.56
2003-04	12892.06	852.95	12165.13	23026.29	3.704	52.83	358.42	1769.20
2004-05	5562.27	1055.55	4963.78	17336.26	6.089	28.63	1870.58	421.90
2005-06	2094.96	1038.06	2142.84	15746.36	6.592	13.61	4974.70	165.94
2006-07	2045.89	1451.47	3573.97	19345.99	7.503	18.47	8105.79	62.94
2007-08	506.90	2843.41	5121.06	22844.33	12.447	22.42	10176.91	25.55
2008-09	1151.66	3779.17	5732.74	26922.86	14.037	21.29	10646.15	4.61
2009-10	1650.13	3647.88	5249.05	30540.64	11.944	17.19	9616.59	-9.67
2010-11	2267.60	4285.1	6683.38	36051.32	11.886	18.54	10407.57	8.23
2011-12	1353.75	4496.09	7444.86	42105.1	10.678	17.68	11906.74	14.40

Source: Finance Accounts, Government of Odisha

The state government which ought to invest the surplus resources in order to augment the productive capacity of the state is not doing so; rather it has been investing the money with RBI in low yielding financial assets. Investment of surplus cash by the state government which includes Investments held in the Cash Balance-Investment Account and Investments of Earmarked Funds has gone up from 19.18 crore in 2002-03 to 11,906.74 crore in 2011-12. Investing such a huge fund with RBI while the state has a very low level of capital outlay does not make any economic sense. Therefore, we can conclude that the state government has not used the surplus cash for increasing the productive capacity of the state. Merely borrowing money and parking it in the RBI or investing in Treasury bill do not reflect the prudent management of fund.

6.4 The Path to Debt Reduction

The reduction in the outstanding debt of Odisha has been achieved through its own consistent effort to control revenue deficit and fiscal deficits and the Debt Swap Scheme (DSS) and Debt Consolidation and Relief Facility (DCRF) of the central government. DSS was in operation from 2002-03 to capitalise on the prevailing low interest regime, to enable states to prepay high cost loans contracted from the central government, through low cost market borrowings and proceeds from small savings. Accordingly, these loans were swapped with additional market borrowings of the states and their net small savings proceeds.

The DCRF, recommended by the FC-XII, had two components of relief, *viz.*, debt consolidation and debt write-off. Debt consolidation provided for consolidation of all central loans (from the Ministry of Finance) contracted by the states until March 31, 2004 and outstanding as on March 31, 2005 into fresh loans for 20 years to be repaid in 20 equal installments carrying a lower interest rate of 7.5 per cent, subject to the condition that the state government concerned enacted its FRBM Act. Repayments due from states during the period 2005-06 to 2009-10 on these loans were eligible for write-off. The quantum of debt write-off was linked to the absolute amount by which the revenue deficit was reduced in each successive year during the award period. The Government of Odisha availed debt relief of Rs. 1909.45 crore at the rate of Rs. 381.89 crore per annum from 2004-05 to 2009-10 (12th FC). Apart from that the 13th Finance Commission has waived GoI loans from ministries other than Ministry of Finance amounting to Rs. 63.14 crore outstanding as on 2011-12. The debt write-off scheme was also linked to absolute reduction of the revenue deficit with a set of conditionalties. Odisha has successfully availed full benefit of the DCRF Scheme by fulfilling all required conditions.

CHAPTER SEVEN

IMPLEMENTATION OF FRBM ACT AND ANALYSIS OF MTFP

ToR 1. VI requires us to analyse the implementation of FRBM Act and commitment towards targets and analyse the Medium Term Fiscal Plan (MTFP) of various departments and aggregate.[1]

7.1 Fiscal Responsibility and Budget Management (FRBM) Act and Fiscal Targets

The Orissa Fiscal Responsibility and Budget Management (FRBM) Act was assented to by the Governor on the 11th of May 2005 and was published for general information on 16th May 2005 as Orissa Act 6 of 2005. Subsequently, on 11th August 2005, the Finance Department, Government of Odisha notified the Orissa Fiscal Responsibility and Budget Management Rules, 2005. The objective of the Act was to provide for the responsibility of the state government to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit and sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the government and conduct of fiscal policy in a medium term fiscal framework and for matters connected there with or incidental thereto.

Clause 1 of Section 3 of the FRBM Act provided that the State Government shall lay in each financial year before Legislative Assembly a Medium Term Fiscal Plan along with the Annual Budget which will set forth a three-year rolling target for prescribed fiscal indicators with specification of underlying assumptions.

Under section 5 of this act the state had set the following targets:

a) reduce revenue deficit to nil within a period of five financial years beginning from the initial financial year on the 1st day of April, 2004 and ending on the 31st day of March, 2009;
b) reduce fiscal deficit to not more than three percent of the estimated gross state domestic product within a period of five financial years beginning from the initial financial year on the 1st day of April, 2004 and ending of the 31st day of March, 2009;
c) reduce fiscal deficit by 1.5 percentage of Gross State Domestic Product (GSDP) in each of the financial years beginning on the 1st day of April, 2004 in a manner consistent with the goal set in clause (b);
d) generate a primary surplus of over 3 percent of Gross State Domestic Product (GSDP) by the year ending 31st March 2008;
e) Other important monitorable fiscal targets are:
    i. the ratio of salary to State's Own revenue is to be reduced to 80 percent by the year ending 31st March 2008;

[1] Department-wise data on MTFP is not available.

ii. the ratio of non interest committed revenue expenditure to State's Own and Mandated Revenue is to be reduced to 55 percent by the year ending 31st March 2008; and
iii. the ratio of revenue deficit to revenue receipt is to be reduced to 0 percent by the year ending 31st March 2009.

f) In order to bring the debt stock to a sustainable level, interest payment as a percentage of revenue receipt is to be limited to 18 to 25 percent;
g) The total debt stock should be limited to 300 percent of the total revenue receipt of the State by the year ending 2007-08.

7.2 Implementation of FRBM and Analysis of MTFP

In line with the FRBM Act and Rule 2005 the state government under MTFP undertook concerted efforts to reduce the revenue deficit and fiscal deficits and control the outstanding debt. The State Government could wipe out Revenue Deficit and generated revenue surplus in the year 2005-06 and there has been no Revenue Deficit or diversion of borrowed funds since 2005-06. Thereby, fiscal space could be created by the State Government for investment in developmental programmes. The revenue surplus as percentage of GSDP was 0.57 per cent in 2005-06, which increased to 2.60 per cent in 2011-12 (Table 7.1). Fiscal deficit as percentage of GSDP remained much below the target of 3 per cent in 2005-06. But this was converted to fiscal surplus during the subsequent two years. However, again there was deficit from 2008-09 to 2010-11 but remained much below the target of 3 per cent of GSDP. As per the FRBM Act, the State Government had to generate primary surplus of over 3 per cent of GSDP by the year ending 31st March 2008. The State had achieved the primary surplus over 3 per cent of GSDP during 2005-06 to 2007-08. However, after 2007-08 this has remained less than 3 per cent of GSDP but a rising trend is observed since 2010-11. Interest payment as percentage of revenue receipts has gradually been declined and reached to the level of 6.40 per cent. Similarly the outstanding debt burden has declined from 42.84 per cent of GSDP in 2005-06 to 17.87 per cent in 2011-12. The debt-GSDP ratio remained much below the level determined as prudent by the 13th Finance Commission for the State as well as the Odisha FRBM.

Table 7.1: Fiscal Achievements under MTFP

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Deficit as percentage of GSDP (%)	0.57	2.22	3.28	2.30	0.70	2.01	2.60
Fiscal Deficit as percentage of GSDP (%)	-0.32	0.81	1.02	-0.39	-1.39	-0.34	0.29
Primary Deficit as percentage of GSDP (%)	4.02	3.94	3.48	1.55	0.48	1.24	1.48
Total Debt Stock as percentage of GSDP (%)	42.84	36.58	28.09	24.53	23.15	20.13	17.87
Interest payment as % of revenue receipts	26.25	17.68	14.43	11.74	11.52	9.20	6.40

Note: GSDP data used are of 2004-05 series.

The state government further amended the FRBM Act (2005) in the year 2012 and notified the Odisha Fiscal Responsibility and Budget Management (Amendment) Act, 2011 on 1st February, 2012. In this amendment the government made the provision that after commencement of the Odisha Fiscal Responsibility and Budget Management (Amendment) Act, 2011, the revenue deficit shall be maintained at zero for the financial year, 2011-12 and for subsequent financial years. Similarly, the amendment made the provision for containing the fiscal deficit within three per cent of the estimated Gross State Domestic Product (GSDP)" from the financial year, 2011-12 and onwards. It also declared that the interest payment as a percentage of revenue receipt is to be limited to 15 percent. Regarding limiting the outstanding debt of the state government the amendment declared that the state government shall notify the debt-GSDP ratio limit fixed by the Finance Commission and guidelines, if any, issued by the Government of India from time to time, and ensure that the debt-GSDP ratio is maintained in accordance with the said limit.

The state government has over-complied with the FRBM targets imposed by its own legislation and the MTFP roadmap drawn by the 13th Finance Commission. Table 7.2 presents the MTFP roadmap drawn by the 13th Finance Commission for Odisha vis-à-vis the MTFP of the state government.

Table 7.2: MTFP Roadmap drawn by the 13th Finance Commission#
(Per cent of GSDP)

Indicators	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Revenue Deficit	-	0.0	0.0	0.0	0.0
Fiscal Deficit	3.0	3.0	3.0	3.0	3.0
Outstanding debt	31.0	30.6	30.2	29.8	29.5
Roadmap drawn by the State Government MTFP 2013-14@ (percent of GSDP)					
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**
	Actual	Actual	Revised Estimates	Budget Estimate	Targets
Revenue Surplus	2.01	2.60	1.14	0.65	0.58
Fiscal Deficit	-0.34	0.29	-1.08	-2.03	-2.30
Outstanding debt	19.81	17.98	15.68	15.58	15.49

Source: # O M No. F.1 (1)/2010-FRU Government of India Ministry of Finance Department of Expenditure
@ Medium Term Fiscal Plan as presented in the budget of Odisha Government 2013-14

Note: (+) indicates deficit & (-) indicates surplus

It is very obvious that Odisha government has over-complied with the targets set by the FRBM Act and the roadmap drawn by the 13th Finance Commission by maintaining revenue surplus, recording fiscal deficit much below three percent of GSDP and carrying much lighter burden of outstanding debt. The budget document of government of Odisha for the year 2013-14 presents the MTFP projections for the years 2013-14 (BE), 2014-15 and 2015-16. The projections are based on the following assumptions:

(i) The growth rate of GSDP of Odisha is projected @6.5-7% in real terms and 13% in nominal terms during the year 2013-14 and during the projection period 2014-15 and

2015-16, the nominal growth rate of GSDP is expected at 13% and real growth rate at 8%.

(ii) Nominal growth rate (at current price) of State's Own Tax Revenue Receipt has been assumed at about 15% during the period of projection in the MTFP.

(iii) Non tax revenue has been projected taking a growth rate of 8 percent per annum during the period of projection in the MTFP.

(iv) Share of tax for 2013-14 (BE) has been estimated by applying 10% growth over the estimation made in Union budget for 2012-13 and assumed to grow @10% in 2014-15 and in 2015-16.

(v) Moderate growth of 10% has been assumed in the Grants in Aid from the centre.

(vi) Higher Capital Outlay is projected.

(vii) Plan Outlay is projected on the basis of broad guidelines of the Planning Commission.

CHAPTER EIGHT

FISCAL DECENTRALISATION AND JNNURM

ToR 1.VII requires us to analyse the state's transfers to urban and rural local bodies in the state and examine the major decentralisation initiatives undertaken by the state and reforms undertaken under JNNURM conditionalities.

8.1 History of PRIs in Odisha

Panchati Raj Institutions in Odisha got the first legal entitlement in the year 1948 with the legislation of Orissa Grama Panchayat Act which prescribed for the constitution of Grama Panchayats and described the power and functioning of Grama Panchayats. Provisions of the Act were to be extended to different areas of the state from time to time and could be withdrawn when necessary, as circumstances warranted. This experiment however did not succeed because in many villages people were misled by the propaganda that people had to pay some additional taxes, fees etc. to the Panchayats without getting appreciable amenities in lieu thereof. Government, therefore, adopted a scheme of establishing Panchayat covering an entire district or a sub-division with effective from the year 1952-53. The provision of permitting withdrawal of Panchayat from certain areas was deleted by the Orissa Grama Panchayats (2nd amendment) Act, 1957. Initially, a Panchayat was being formed in a single village having minimum of population of 1500 or a group of villages having a minimum of population 1000.

It was soon noticed that such a small unit is not operationally viable. Therefore, some of the Panchayats established in the year 1950-51 were merged in the neighbouring Panchayats in order to make them financially viable units. During the period 1958 to 1961, Blocks were established in the State in selected areas. Among the three tiers of Panchayats, the intermediate tier namely Panchayat Samiti was made the implementing agency. All the funds for Community Development were given as grant-in-aid to the Samiti. Grama Panchayat was treated as the unit for formulation of developmental programme. Zilla Parishad functioned as the Supervisory Body. Zilla Parishads were abolished in the year 1968. The Panchayat Samiti emerged as the important institution for implementing developmental programmes, poverty alleviation programmes and social security schemes. However, Panchayat Samities and Grama Panchayats could not emerge as the Institutions of Self-Government.

Similarly, the 74th constitutional amendment empowered the Urban Local Bodies (ULBs) with more power. Article 243W provides that the Legislature of a state may, by law, endow the Municipalities with such powers and authority as may be necessary to enable then to function as institution of self-government and such law may contain provisions for the devolution of powers and responsibilities upon municipalities.

The 73rd constitutional amendments empowered the Panchayats further with regularization of election and devolution of more power. The Constitution (Seventy-Third Amendment) Act, 1992 described that though the Panchayati Raj Institutions have been in existence for a long time, it has been observed that these institutions have not been able to acquire the status and dignity of viable and responsive people's bodies due to a number of reasons including absence of regular elections, prolonged supersession, insufficient representation of weaker sections like Scheduled Castes, Scheduled Tribes and women, inadequate devolution of powers and lack of financial resources.

Article 243G. of Indian Constitution provided that the Legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level, subject to such conditions as may be specified therein, with respect to- (a) the preparation of plans for economic development and social justice; (b) the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule.

8.2 Decentralisation of Power

The 73rd constitutional amendment enlists 29 subjects to be transferred to the PRIs. Out of 29 subjects the state government has transferred 21 subjects of 11 Departments to the PRIs in the light of decisions of the Cabinet during 2003. The Chief Secretary in his letter bearing No.6888/PS dt.4.7.2003 addressed to 11 Departments communicated the decision of the Government for implementation of the same in letter and spirit. The detailed summary of the subjects listed in schedule XI and the name of the department subjects transferred by the state government along with the designation of the functionaries who will be accountable to PRIs are listed in Annexure 8.1.

The Third State Finance Commission in its report has pointed out that various departments have not implemented decisions of the state government as communicated by the Chief Secretary in his letter bearing No.6888/PS dt.4.7.2003 addressed to 11 Departments in letter and spirit. Some Departments have issued instructions to field level functionaries contradictory to the decision of Government. One example in this regard as pointed out by the TSFC is that During 2002-2003 the Government took the decision to devolve the function of agriculture on the Panchayati Raj Institutions and accordingly instructions were issued under the signature of the Chief Secretary vide letter No. No.6886/PS dt.4.7.03. But Activity Mapping for Agriculture could not be completed till now. Fund is not released to the Panchayati Raj Institutions from the budget of Agriculture Department. Village Level functionaries and Block Level functionaries of Agriculture Department work under the administrative control of senior officers of Agriculture Department and are hardly responsible to the PRIs for implementation of agriculture programme.

The Commission recommends that- (i) the Activity Mapping relating to agriculture should be finalized jointly by the Panchayati Raj and Agriculture Departments without further delay and accordingly ; (ii) functionaries of Agriculture Department should be made accountable to the Panchayati Raj Institutions for successful implementation of agriculture policy of the Government; (iii) a part of the fund which will be made available to the Grama Panchayats under livelihood may be utilised for agricultural activities including supply of seedlings, pesticides, holding of crop demonstrations etc.

One more anomaly is also observed in the transfer of power. Although the Panchayati Raj department and the report of state finance commission mention that 21 subjects out of the 29 subjects listed in the schedule-XI are transferred, we observe that 9 subjects listed in the Schedule-XI are not transferred yet; those are as follows: 1) Social forestry and farm forestry, 2) Small scale industries, including food processing industries, 3) Khadi, village and cottage industries, 4) Fuel and fodder, 5) Rural electrification, including distribution of electricity, 6) Technical training and vocational education; 7) Libraries; 8) Cultural activities; 9) Social welfare, including welfare of the handicapped and mentally retarded.

8.3 Transfer of Funds to PRIs and ULBs

Article 243-I. of the Indian constitution provides for the Constitution of Local Finance Commission by the Governor of the state to review financial position of the Panchayats and to make recommendations to the Governor as to improve their financial position. Following this constitutional provision the Governor of Odisha has appointed three State Finance Commissions.

The First State Finance Commission, as per the mandate of the Constitution was constituted on 21st August 1996 with Justice Shri Subhranshu Kumar Mohanty as Chairman. The date by which the First State Finance Commission would submit their report/recommendations was fixed on 31st March 1998. The Commission could not complete the work assigned to it and so the Commission was reconstituted by the Government on 24.8.1998 with Dr. Baidyanath Misra as Chairman. The Commission completed its job in time and submitted its Report with recommendations to the Governor on 30th December 1998. The Second State Finance Commission was constituted on 5.6.2003 at Appendix-I under the Chairmanship of Sri Trilochan Kanungo and submitted its report on 29th September, 2004. The Third State Finance Commission (TSFC) was constituted on 10th September, 2008 under the chairmanship of Professor Sudhakar Panda in order to determine the principles for transferring the financial resources from the state government to the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs). The TSFC submitted its final report on 27th January, 2010.

The TSFC observed that the state has shown commitments to transfer functions and functionaries reasonably well. To quote the observations of the TSFC:

> ‘*The state government has transferred a large number of important activities to these bodies to undertake development that would benefit the poor and needy. The state government has strengthened Grama Panchayats creating posts of Executive Officers and appointing regular Executive Officers, engaging G.P Technical Assistant, Grama Rojagar Sevak, Grama Sathi and Grama Sanjojan. Computer Assistants have been provided in addition to Computer Programmer in Panchayat Samitis. Housing & Urban Development Department is taking steps to appoint officers with administrative experience as Executive Officer. Thus state government has shown its commitment to transfer function and functionaries reasonably well’.*

The Commission, therefore, recommended for larger devolution of funds to these bodies to enable them to provide public services and undertake local development and recommended to transfer 15 per cent of the average Gross Tax Revenue of the state calculated at Rs. 896.17 crore in favour of PRIs and ULBs per annum. Thus in five years i.e from 2010-11 to 2014-15 the allocation to be devolved to the local bodies would amount to Rs. 4480.85 crore. Out of this total fund the TSFC recommended that 25 per cent of the amount earmarked for devolution may be transferred to the ULBs and 75 per cent to the RLBs.

Keeping in view the serious revenue drainage implication from the state exchequer the TSFC also requested the 13th Finance Commission to reimburse the state with Rs. 4480.85 crore during their award period in order to augment the Consolidated Fund of the State. As against this, the 13th Finance Commission recommended Rs 3270.90 crore over the award period (2010-11 to 2014-15) as detailed below: Rs 2756.02 crore to Panchayati Raj Institutions and Rs.514.88 crore to Urban Local Bodies 514.88 and (including Special Area Grant). The Government of Odisha, in its action taken report announced that in addition to the entitlement of the Local Bodies from the grants for the purpose for which the amount of Rs 3270.90 crore has been recommended by 13th Finance Commission, an amount of Rs 1209.95 crore is to be provided by the State Government to the PRIs and ULBs in the ratio of 75:25 during the award period from 2010-11 to 2014-15, being Rs 907.45 crore (at the rate of Rs 181.49 crore per annum) and Rs 302.50 crore (at the rate of`60.50 crore per annum) respectively as a part of devolution of its own resources to be utilized for the purposes recommended by the TSFC.

The aggregate amounts devolved to local bodies are presented in the finance accounts across the following heads: 1) For rural local bodies under sub heads 196, 197, and 198 under applicable to major heads in the non-plan category. 2) For urban local bodies under the sub heads 191, 192, and 193 under applicable to major heads in the non-plan category. 3) For other assistance to all local bodies under the head 3604 in the non-plan category. All these figures include the grants received from the Central Finance Commission. Table 8.1 presents the total transfers to the rural and urban local bodies from the year 2002-03 to 2011-12.

The total Compensation and Assignments to Local Bodies & PRIs as a percentage to the total revenue expenditure of the state has increased from 1.45 percentage in the year 2002-03 to1.91 percent in 2011-12, albeit the fluctuations in between.

8.4 Transfer to Local Bodies in the Budget 2013-14

The government of Odisha in its budget 2013-14 has announced to transfer funds to the Local Bodies as follows:

1. Rs. 747.91 crore has been provided as grant-in-aid to P.R. Institutions on the recommendation of the 13th Finance Commission which is 16% excess than the current years' provision.
2. Rs. 706.44 crore has been provided in the budget towards assistance to Panchayati Raj Institutions as per the recommendation of the 3rd State Finance Commission.
3. Rs. 158.25 crore has been provided as grants to ULBs under 13th Finance Commission Award.
4. Assignment of share from Entry Tax to ULBs has been enhanced from rs. 307.34 Crore in 2012-13 to Rs. 500.00 Crore in 2013-14.

Table 8.1

Revenue Account Grants-in-Aid and Contributions to the Urban Local Bodies and Panchayati Raj Institutions

(Rs. lakhs)

3604	**Compensation and Assignments to Local Bodies & PRIs**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
191	Assistance to M. C's				0	6323.39	7351.24	9050.06	10876.7	12389.34	13604.25
192	Assistance to Municipalities/M.C's				0	7864.61	8585.88	10350.35	10917.19	11370.98	15864.57
193	Assistance to NAC's				0	5514.18	6332.12	6961.47	7412.98	7742.09	9540.02
196	Assistance to Zilla Parishad			207.24	185.12	647.37	681.07	714.58	807.84	823.87	858.13
197	Assistance to Block Panchayat			453.13	302.72	737.3	2842.11	3260.74	3302.3	3497.37	19301.28
198	Assistance to Gram Panchayats			1754.82	1112.59	5823.91	5497.58	7138.9	6965.42	7067.41	6711.53
200	Other Misc. Compensation & Assignment	14557.43	15346.77	11980.83	14537.01	315.26	3800	1800	300	300	300
911	Deduct-Recovery of Overpayments									-30.09	-68.31
	Total - 3604	14557.43	15346.77	14396.02	16137.44	27226.02	35090	39276.1	40582.43	43160.98	66111.47
3606	Aid Materials & Equipments	151.87	6806.25	1451.83	-1451.83						
	TOTAL	14709.30	22153.02	15847.85	14685.61	27226.02	54242.88	39276.1	40582.43	43160.98	66111.47
	TOTAL EXPENDITURE	1001468.02	1086115.63	1237248.52	1360351.58	1577202.02	1772326.81	2119012.17	2529158.83	2936794.54	3466023.56
	CALBPRI as % of Total revenue Expenditure	1.45	1.41	1.16	1.19	1.73	1.98	1.85	1.60	1.47	1.91

Source: Finance Accounts of Odisha

8.5 Reforms undertaken under JNNURM

The Mission document of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) progamme states that 'by the year 2011, urban areas would contribute about 65 per cent of gross domestic product (GDP). However, this higher productivity is contingent upon the availability and quality of infrastructure services. Urban economic activities are dependent on infrastructure, such as power, telecom, roads, water supply and mass transportation, coupled with civic infrastructure, such as sanitation and solid waste management'. It was felt that several reform initiatives also need to be taken by the state governments and the Urban Local Bodies in order to create an investor-friendly environment.

The main objectives of JNNURM are to ensure that the following are achieved in the urban sector:

a) Focussed attention to integrated development of infrastructure services in cities covered under the Mission;
b) Establishment of linkages between asset-creation and asset-management through a slew of reforms for long-term project sustainability;
c) Ensuring adequate funds to meet the deficiencies in urban infrastructural services;
d) Planned development of identified cities including peri-urban areas, outgrowths and urban corridors leading to dispersed urbanisation;
e) Scale-up delivery of civic amenities and provision of utilities with emphasis on universal access to the urban poor;
f) Special focus on urban renewal programme for the old city areas to reduce congestion; and
g) Provision of basic services to the urban poor including security of tenure at affordable prices, improved housing, water supply and sanitation, and ensuring delivery of other existing universal services of the government for education, health and social security.

8.6 JNNURM Reform Agenda

The JNNURM has enlisted two sets of reform agenda to be undertaken by the state government and Municipal Body. The first set of reforms is mandatory in nature for both the state government and the Municipal body. The second set of reforms is optional in nature for state as well as the municipal body.

8.6.1 Mandatory Reforms: State-Level

To be undertaken at the state level, the mandatory reforms are:

1. Effective implementation of decentralization initiatives as envisaged in the Constitution (74^{th})Amendment Act, 1992;
2. Repeal of Urban Land (Ceiling and Regulation) Act, 1976
3. Reforms of Rent Control laws, by balancing the interests of landlords and tenants.
4. Rationalisation of stamp duty to bring it down to no more than 5 per cent within seven years
5. Enactment of a public disclosure law
6. Enactment of a community participation law, so as to institutionalize citizen's participation in local decision making; and
7. Association of elected municipalities with the city planning function.

8.6.2 Mandatory Reforms: Municipal-level

To be undertaken at the level of municipalities, the reforms comprise:

1. Adoption of a modern, accrual-based, double entry system of accounting;
2. Introduction of a system of e-governance using IT applications, GIS and MIS for various urban services;
3. Reform of property tax with GIS, and arrangements for its effective implementation so as to raise collection efficiency to 85 per cent;
4. Levy of reasonable user charges, with the objective that full cost of operation and maintenance is collected within seven years;
5. Internal earmarking of budgets for basic services to the urban poor; and
6. Provision of basic services to the urban poor, including security to tenure at affordable prices.

8.6.3 Optional Reforms

1. Revision of bye-laws to streamline the approval process for construction of buildings, development of sites etc;
2. Simplification of legal and procedural frameworks for conversion of agricultural land for non-agricultural purposes;
3. Introduction of property title certification
4. Earmarking of at least 20-25 per cent developed land in housing projects for economically weaker sections and low income groups with a system of cross-subsidisation;
5. Introduction of computerized registration land and property
6. Revision of bye-laws to make rainwater harvesting mandatory in all buildings, and adoption of water conservation measures;
7. Bye-laws for reuse of recycled water
8. Administrative reforms including reduction in establishment cost by introducing voluntary retirement schemes and surrender of posts falling vacant due to retirement;
9. Structural reforms; and
10. Encouraging public private partnership.

The government of Odisha has been undertaking persistent effort to implement maximum number of reforms. In order to improve governance and enhance quantity of service delivery in urban areas Urban Local Bodies (ULBs) were delegated more powers and functions during the year 2010-2011. In respect of urban planning including town planning functions, regulation of land use and construction of buildings all Development Authorities (DAs) have been made accountable to ULBs. Similarly, the Public Health Engineering Organisation has been made accountable to the ULBs in respect of water supply for domestic industrial and commercial progress. In order to achieve this some mandatory and optional reforms at State Level and ULB Level under JNNURM has been formulated. Tables 8.2 and 8.3 present the detailed time line, status and implementation details of the mandatory and optional reform agenda at state level. Tables 8.4 and 8.5 present the reforms undertaken by Bhubaneswar and Puri City respectively.

Table 8.2: State Level Mandatory Reforms

Sl. No.	Reform Agenda	Timeline	Status	Implementation Details
S-1	Implementation of the 74th Constitution Amendment Act	2010-11	Achieved	On track. ULBs are constructing & maintaining Municipal roads, which constitute major portion of road length in the ULB. State PWD & NHAI roads & bridges functions are carried out by the respective Departments/ Authorities.
S-2	Integration of City Planning and Delivery Functions	2006-11	Achieved	(1) Implemented & Town Planning functions of Development Authorities delegated to ULBs as per GO No.Reform-UR-10/2010-7678, dated 30.03.2010. (2) Making PHEO accountable to the ULBs except Bhubaneswar city; Govt. Resolution No.Reform-UR-18/2010-7192/HUD, dated 22.03.2010 notified.
S-3	Rent Control Reforms	Not Applicable	No Rent Control Act exists in Odisha	Orissa Rent Control Act -1967 is ceased to have effect since 04 May 1988; vide Orissa Act 15 of 1989.
S-4	Rationalisation of Stamp Duty	2007-08	Achieved	The stamp duty has been reduced to 5% with effect from 05.08.08 by the State Govt. in Revenue & Disaster Management Dept. vide Govt. Order No.Stamp-10/06-33267/RDM, Dtd 05.08.2008.
S-5	Repeal of Urban Land Ceiling and Regulation Act	Not Applicable	Achieved	The Urban Land Ceiling and Regulation Act was repealed in Odisha before the launch of JnNURM.
S-6	Enactment of Community Participation Law	2007-08	In Progress	Tabled in the Odisha Legislative Assembly along with Property Tax Bill & presently under consideration of a Select Committee of OLA. Awaiting legislative approval.
S-7	Enactment of Public Disclosure Law	2006-07	Achieved in 2009	The Orissa Municipal Corporation (Amendment) Act.2008 has been published in the extraordinary issue of Orissa Gazette vide Notification No.I-Legis-32/2008-2409, dated 13.02.2009 in this regard. Capacity Building programme are being undertaken under different schemes for implementation of PDL. All information on H & UD Department are being disclosed in the website.

Source: GoO, 2013

Table 8.3: State Level Optional Reforms

Sl. No.	Reform Agenda	Timeline	Status	Implementation Details
O-1	Introduction of Property Title Certification System in ULBs	2011-12	In Progress	A note on experiences in different states has been prepared.
O-2	Revision of building bye-laws to streamline approvals	2006-10	Achieved in BBSR; Under Progress in Puri	Govt. instruction issued to Development Authorities, Town Planning and Regional Improvement Trusts to follow it at the time of approval of new buildings. Provision is already available u/s 44 (1) of BDA (Planning & Building Standard) Regulation, 2008.
O-3	Revision of bye-laws to make rain water harvesting mandatory	2006-09	Achieved in BBSR; Under Progress in Puri	Same as above
O-4	Earmarking at least 20-25% of developed land in all housing projects (both Public and Private Agencies) for EWS/LIG category	2009-10	In Progress	A "Scheme for Affordable Urban Housing in Odisha, 2012" has been notified vide Notification No.HUD-HU-POLICY-82/2012-25140, dated 05.09.2012 with provisions for earmarking 30% of total built-up area for EWS & LIG in all housing projects to be taken by Odisha State housing Board (OSHB) and at least 15% of built-up area shall be reserved for the above categories in all apartments/group housing projects developed by the private developers. Instruction has been issued for earmarking of 10% of developed land in all housing projects for EWS/LIG category to all Developmental Authorities, Improvement Trust & Special planning authorities by Director Town Planning vide letter No.MP-VI-61/05/264/DTP, dated 17.01.2011. Bhubaneswar Development Authority Notified by Gazette No.4248/dt.27.02.2012 to earmark at least 10% of all housing projects developed by Builders/Developers.

Sl. No.	Reform Agenda	Timeline	Status	Implementation Details
O-5	Simplification of legal and procedural frameworks for conversion of agricultural land for non-agricultural purposes	2006-10	Achieved	The legal procedure for conversion of agriculture land to non-agriculture purposes is available under 8-A of Orissa Land Reforms Act.
O-6	Introduction of computerized process of registration of land and property	2009	Achieved	Computerization process of Registration of Land and Property is implemented in the state under e-Registration.
O-7	Bye-laws for reuse of recycled water	2012	In Progress	In-principle decision of the State Government has been made. Draft Bye-Laws has been prepared.
O-8	Administrative reforms – VRS, non-filling up of posts falling vacant due to retirement	No Timeline	In Progress	75 % base level posts abolished by State Govt and other Govt undertakings. Need based training being imparted for capacity building. State sponsored e-municipality for better governance is being implemented & WIPRO has been engaged as SIC for implementation of NMMP under JnNURM. RFP for engagement of State Implementer is under finalisation.
O-9	Structural Reforms: Urban Cadre etc.	2012	In Progress	Creation of Urban Cadre is under process. Draft Odisha Municipal (Recruitment of Officers & Employees) Rules-2012 has been prepared sent to Finance Department for concurrence before approval of the Cabinet.

Sl. No.	Reform Agenda	Timeline	Status	Implementation Details
O-10	Encouraging Public Private Partnership	2008-09	Achieved	Odisha Urban Infrastructure Development Fund (OUIDF) has been set-up vide Notification No.Reforms-UR-01/2012/2709/HUD, dated 31.01.2012 to support the ULBs & Development Authorities etc for development of urban infrastructure projects on PPP mode. Loan Agreement & Financing Agreement have been signed with KfW, Germany for availing EURO 52.5 Million support for OUIDF. Various PPP initiatives are already underway. It is a platform to attract private partners for development projects environment related infrastructure projects. Various Housing Projects are undertaken by the Development Authorities & Improvement Trusts with private developers for construction of Group Housing Schemes. IFC has been engaged as the Transaction Advisor for Street Lighting Project of Bhubaneswar Municipal Corporation & Solid Waste Management of Berhampur Municipal Corporation. Solid Waste Management & Sanitation job is outsourced to private parties. In Khurda, Water Supply Project for IIT, NISER & AIIMS is undertaken in PPP mode.

Source: GoO, 2013[2]

[2] http://urbanorissa.gov.in/%28S%28qdya5f55cadudc2qcq4tq5vq%29%29/urban_reforms.html. Viewed on 6th September 2013.

Table 8.4: Urban Level Reforms in Bhubaneswar City

Sl. No	Reform Agenda	Timeline	Status	Implementation Details
L-1	E-Governance	2006-08	In Progress	1. Trade license, Birth & Death Modules under State Sponsored e-Municipality Project has been operational. 2.e-procurement is being practised. 3.Under e- Seva, payment of electricity bills, reservations of Kalyan Mandaps are being practiced. 4. Implementation of NMMP under JnNURM is in progress
L-2	Municipal Accounting	2006-08	Achieved	1.Software commissioned & online double entry accounting is fully practised. 2.Compilation Report for Financial Year 2011-12 completed. 3.Odisha Municipal Accounting Rule has been notified at State Level vide Notification No._ S.R.O. No. 132/2012.
L-3	Property Tax (85% coverage)	2006-12	In Progress	1.Vetted by the State Cabinet 2.Amendment of the Orissa Municipal Corporation Act, 2003 introduced in the State Legislative Assembly. Sent to a Select Committee & approval of OLA is awaited. 3.Collection of Holding Tax: 2011-12 Holding Tax coverage : 85583/125583-68.15% Holding Tax Collection Ratio: Rs.20,07,21,489 / Rs.30,52,35,089::65.75%
L-4	User Charges (Recovery of 100% O&M Charges)	2007-12	In Progress	1.User Charges Advisory has been notified by the State Govt. vide Notification No.Reforms-UR-34/2012/17854/HUD, dated 25.06.2012. 2.Recovery of O & M Cost: 3.Water Supply: 51% 4.Solid Waste Management: 35%

Sl. No	Reform Agenda	Timeline	Status	Implementation Details
L-5	Internal earmarking of funds for services to urban poor	2006-12	In Progress	The ULB is earmarking 25% of its budgets for the urban poor. 2011-12: Total Budget- Rs.367.26 Crore, Earmarked for Urban Poor: Rs.119.65 Crore (32.58%) 2012-13: Total Budget- Rs.428.27 Crore, Earmarked for Urban Poor: Rs.120.12 Crore (25.12%)
L-6	Provision of basic services to urban poor	2006-12	In Progress	Under BSUP-JnNURM, 4 projects as detailed below have been sanctioned for construction of 2153 Dwelling Units and other infrastructure. 1.Bharatpur Vikas Nagar-1135 dwelling units 2.Dumuduma Raghunath Nagar, Sukabihar, Satyanagar, Sastri Nagar &Barbari- 753 dwelling units 3.Nayapalli SabaraSahi- 73 dwelling units 4.Damana-Gadakana-192 dwelling units Water Supply: PIYUSH Scheme 2010-11-11: 268Nos 2011-12: 116Nos 2012-13: 17Nos
Source: GoO, 2013[3]				

[3] http://urbanorissa.gov.in/%28S%28qdya5f55cadudc2qcq4tq5vq%29%29/urban_reforms.html. Viewed on 6th September 2013.

Table 8.5: Urban Level Reforms in Puri City

Sl. No	Reform Agenda	Timeline	Status	Implementation Details
L-1	E-Governance	2006-08	In Progress	1. Grievance Redressal Module under State Sponsored e-Municipality Project is in operation. 2. e-procurement is being practised. 3. Birth & Death Registration are practised. 4. Trade Licence is in practice. 5. Holding Tax Module is running. 6. Solid Waste Management under operation. 7. Welfare Service Management is running.
L-2	Municipal Accounting	2006-08	In Progress	1. Software commissioned. 2. Double Entry Accounting for the financial year 2008-09, 2009-10 completed & 2011-12 is under progress. 3. Odisha Municipal Accounting Rule has been notified at State Level vide Notification No. S.R.O. No. 132/2012.
L-3	Property tax (85% coverage)	2006-12	In Progress	1.Vetted by the State Cabinet 2. Amendment of the Orissa Municipal Corporation Act, 2003 introduced in the State Legislative Assembly. Sent to a Select Committee & approval of OLA is awaited. 3.Collection of Holding Tax: 2011-12 *Holding Tax coverage : 21533/28813- 94.38% *Holding Tax Collection Ratio: Rs.1,16,61,826/Rs.1,92,36,059::60.62%
L-4	User charges (Recovery of 100% O&M charges)	2007-12	In Progress	1. User Charges Advisory has been notified by the State Govt. vide Notification No.Rrforms-UR-34/2012/17854/HUD, dated 25.06.2012. 2.Recovery of O & M Cost: *Water Supply: 41% *Solid Waste Management: 35%
L-5	Internal earmarking of funds for services to urban poor	2006-12	In Progress	The ULB is earmarking 25% of its budgets for the urban poor.
L-6	Provision of basic services to urban poor	2006-12	In Progress	Under BSUP, 2 projects have been sanctioned for the construction of 355 Dwelling Units and other infrastructure.

Source: Government of Odisha, 2013

Table 8.6: Orissa - Reforms Calibrated Milestones and Scores

Sl No	Reform Milestone	Maximum score	Achieved Score	
			Bhubaneswar	Puri
	MANDATORY STATE LEVEL REFORMS			
1	Implementation of 74th CAA	15	15	15
2	Integration of city planning and delivery functions	5	3	3
3	Reform in Rent Control	10	0	0
4	Stamp Duty Rationalisation to 5%	10	10	10
5	Repeal of ULCRA	10	10	10
6	Enactment of Community Participation Law	10	5	5
7	Enactment of Public Disclosure law	10	10	10
	Total State Level Score	**70**	**53**	**53**
	MANDATORY ULB LEVEL REFORMS			
1	e-Governance	10	7.50	1.25
2	Shift to Accrual based Double Entry Accounting	10	10	8.50
3	Property Tax (85% coverage)	10	6.5	6.5
4	100% O&M cost recovery in Water Supply and SWM	10	3.5	2.5
5	Internal Earmarking of Funds for Services to Urban Poor	10	7.5	7.5
6	Provision of Basic Service to poor	10	10	9
	Total ULB Level Score	**60**	**45**	**35.25**
OPTIONAL REFORMS (State Level/ULB Level)				
1	Introduction of Property Title Certification System in ULBs	10	0	0
2	Revision of Building Be Laws-Streamlining the approval process	10	10	10
3	Revision of Building Bye Laws- To make rain water harvesting mandatory	10	10	10
4	Earmarking 25% developed ladn in all housing projects for EWS/LIG	10	10	10
5	Simplification of legal and procedural framework for conversion of agricultural land for non-agricultural purposes	10	10	10
6	Introduction of computerized process of registration of land and property	10	10	10
7	Byelaws on reuse of reclycled water	10	10	10
8	Administrative Reforms	10	6	4
9	Structural Reforms	10	6	4
10	Encouraging Public Private Participation	10	10	10
Total Optional reforms Score		**100**	**80**	**78**
	Total (23 reforms)	**230**	**178**	**166.3**

Source: Tentative Reforms Calibrated Score (As on 31st July 2013, based on RARs – Cycle III)[4]

[4] http://jnnurm.nic.in/scoring.html, viewed on 20th August 2013

The JNNURM wing of the ministry of Urban Development, Government of India has also released the calibrated score of the reforms undertaken by the Odisha government and two cities namely Bhubaneswar. The detailed list of reforms undertaken by the state government and ULB are presented in Table 8.6. Table 8.7 presents the aggregate achievements score of the ULBs and State government. Overall, the state has scored 74.8 per cent in both mandatory and optional reforms undertaken by the state government, and ULBs in Bhubaneswar and Puri.

Table 8.7: Calibrated Score

Indicators	**Maximum Score**	**Achievements**	
		Bhubaneswar	**Puri**
Mandatory ULB Level Reforms	60	45.0	35.3
Mandatory State Level Reforms	70	53	53
Optional Reforms (State level/ULB level)	100	80	78
	230	**178**	**166.3**
Achievements in Percentage			
ULB Level Reforms	%	75%	59%
State Level Reforms	%	76%	76%
Optional Reforms (State level/ULB level)	%	80%	78%
		77%	72%
Overall State Performance (Calibrated) 74.8%			

Source: Tentative Reforms Calibrated Score (As on 31st July 2013, based on RARs – Cycle III)[5]

[5] http://jnnurm.nic.in/scoring.html, viewed on 20th August 2013

CHAPTER NINE

FINANCIAL HEALTH OF STATE PUBLIC ENTERPRISES

ToR 1.VIII requires us to analyse the impact of State Public Enterprises finances on the States' financial health and measures taken to improve their performance and/or alteratives of closure, disinvestment etc.

9.1 Impact of State Public Enterprises finances on the States' financial health

Table 9.1 presents the profit and loss of the State Public Enterprises (SPE) in one fiscal year and the cumulative profit or loss till that fiscal year from the year 2006-07 to 2011-12. During this period 26 to 29 SPEs have operated and out of which maximum number of PSUs have recorded profit and only 4 to 8 PSUs have recorded loss. If we take into account the aggregate profit and loss of SPEs there is net profit to the state exchequer. SPEs like Orissa Mining Corporation, Orissa State Cashew Dev. Corporation, Orissa Construction Corporation, Orissa Power Generation Corporation, Orissa State Road Transport Corporation, IDCO, IDCOL, Ferro Chrome & Alloys Limited have recorded profit during 2006-07 to 2011-12. Other firms have recorded loss at least in one financial year. Many of the recently profit making firms, however, recorded loss in the cumulative profit and loss statement. OMC has been the largest profit contributor to the state exchequer. In aggregate SPEs have remained as net revenue contributor to the state exchequer. The share of net profit of SPEs in total revenue receipts (TRR) of the state went up from 4.06 percent in 2006-07 to 11.50 percent in 2007-08 and started falling from 2009-10 onwards In the year 2011-12 the net profit of SPEs in TRR was only 1.73 percent.

In order to improve the financial position of SPEs the 13th Finance Commission has given the following recommendations:

1. All states should endeavour to ensure clearance of the accounts of all their Public Sector Undertakings (PSUs).
2. The states should use the flexibility provided by the Comptroller and Auditor General (C&AG) to clear the backlog of PSU accounts.
3. All states need to draw up a roadmap for closure of non-working PSUs by March 2011. Divestment and privatisation of PSUs should be considered and actively pursued.
4. The Ministry of Corporate Affairs should closely monitor the compliance of state and central PSUs with their statutory obligations.
5. A task force may be constituted to design a suitable strategy for disinvestment/privatisation and oversee the process. A Standing Committee on restructuring may be constituted under the chairmanship of the Chief Secretary to operationalise the recommendations of the task force. An independent technical secretariat may be set up to advise the finance departments in states on restructuring/disinvestment proposals.

Table 9.1: Financial Position of State Public Sector Undertakings

(In Lakhs)

Sl No		Profit & Loss		Profit & Loss		Profit & Loss		Profit & Loss		Profit & Loss	
	Name of the Corporations	*2006-07*	*Cumulative up to 2006-07*	*2007-08*	*Cumulative up to 2007-08*	*2009-10*	*Cumulative up to 2009-10*	*2010-11*	*Cumulative up to 2010-11*	*2011-12*	*Cumulative up to 2011-12*
1	ORISSA AGRO INDUSTRIES CORPORATION	-94.83	-5096.71	-120.42	-5168.54	329.36	-4658.55	799.38	-4171.79	892.39	-2966.68
2	ORISSA STATE SEEDS CORPORATION	337.56	1139.01	-370.01	-1288.86	419.83	1954.26	154.86	2128.08	158.49	2268.57
3	ORISSA STATE CASHEW DEV. CORPORATION	160.27	1241.00	208.35	1388.23	130.00	1505.63	27.13	1556.94	148.00	1585.87
4	ORISSA FOREST DEVELOPMENT CORPORATION	94.41	-15232.28	-69.00	-16164.00	355.63	-15881.90	791.57	-15521.00	1481.46	-14955.95
5	ORISSA MINING CORPORATION	44247.09	97571.86	162378.02	193498.11	71686.68	337994.98	71686.68	337994.98	126938.54	514927.28
6	ORISSA CONSTRUCTION CORPORATION	78.37	403.59	30.00	392.47	136.07	733.87	65.60	730.93	168.97	899.90
7	ORISSA BRIDGE & CONSTRUCTION CORPN	-52.45	-1412.18	-33.28	-1408.77	171.87	-1046.89	262.06	641.08	225.39	-320.85
8	ORISSA POWER GENERATION CORPORATION	17022.00	18421.65	19570.26	35839.16			11504.47	191246.00	13708.86	93145.62

Sl No		Profit & Loss		Profit & Loss		Profit & Loss		Profit & Loss		Profit & Loss	
	Name of the Corporations	**2006-07**	**Cumulative up to 2006-07**	**2007-08**	**Cumulative up to 2007-08**	**2009-10**	**Cumulative up to 2009-10**	**2010-11**	**Cumulative up to 2010-11**	**2011-12**	**Cumulative up to 2011-12**
9	*GRIDCO*	236.88	-765.44	56608.00	-19939.00	-14652.56	-24777.99	-58786.00	-83564.00	-93681.11	-177244.88
10	*ORISSA POWER TRANSMISSION CORPORATION*	1673.37	821.60	-1238.25	-3400.85	-7647.67	-15424.46	-669.00	-16676.00	2763.90	-15705.11
11	*IPICOL.*	250.00	-4690.00	2491.41	2198.13	-107.00	-1904.00	217.01	-1686.68	252.00	-1435.00
12	*ORISSA SMALL INDUSTRIES CORPORATION*	-216.11	-2156.15	307.76	1868.78	657.81	-887.41	889.00	-70.00	824.74	475.08
13	*ORISSA FILM DEVELOPMENT CORPORATION*	4.64	62.32	8.48	72.11			2.02	79.79	-19.04	60.75
14	*KONARK JUTE LIMITED*	-168.91	-2215.75			-99.61	-2537.21	-99.61	-2537.21		
15	*ORISSA RURAL HOUSING & DEV. CORPORATION*	-325.47	-463.51	-499.00	-962.00						
16	*ORISSA PISCICULTURE DEV. CORPORATION*	-15.81	-464.16	-31.63	-495.79	-40.79	-567.02	37.82	-2537.21	-2.19	-440.37
17	*ORISSA STATE ROAD TRANSPORT CORPN*	87.17	-23087.45	266.81	-22820.64	776.64	-21314.72	776.64	-21314.72	638.37	-19872.49

Sl No		Profit & Loss		Profit & Loss		Profit & Loss		Profit & Loss		Profit & Loss	
	Name of the Corporations	**2006-07**	**Cumulative up to 2006-07**	**2007-08**	**Cumulative up to 2007-08**	**2009-10**	**Cumulative up to 2009-10**	**2010-11**	**Cumulative up to 2010-11**	**2011-12**	**Cumulative up to 2011-12**
18	*ORISSA STATE FINANCIAL CORPORATION*	112.18	-38091.02	255.14	-37937.94	180.02	-37576.43	61.09	400.75	52.57	-40038.75
19	*IDCO*	6193.92	14569.34	7260.05	21829.38	5840.02	34223.04	6989.00	41211.07	533.76	46542.83
20	*ORISSA LIFT IRRIGATION CORPORATION*	83.47	-334.52	40.17	-294.35					30.38	172.81
21	*APICOL*	0.00	0.00							15.00	35.10
22	*ORISSA TOURISM DEV. CORPORATION*	138.71	-468.65	128.45	-360.57	193.29	-53.35	-236.07	-917.00	247.68	256.85
23	*ORISSA STATE WAREHOUSING CORPORATION*	593.73	3192.86	528.47	3721.33					1288.00	7200.00
24	*IDCOL SOFTWARE LIMITED*	-1.31	-55.61	3.19	-52.42					45.05	8.01
25	*INDUSTRIAL DEV. CORPORATION OF ORISSA*	453.78	-4157.95	739.00	-3419.00	1518.80	3357.05	385.00	3742.00	-184.00	3558.00
26	*IDCOL KALINGA IRON WORKS*	1313.25	-1994.73	505.83	-1488.90	-3961.03	-6100.27	2703.00	8803.00	-2754.00	-11557.00
27	*IDCOL FERRO CHROME & ALLOYS LIMITED*	1024.37	-488.48	1663.69	1175.20	151.92	2218.42	979.00	3197.00	243.00	3440.00
28	*ORISSA STATE CIVIL SUPPLIES CORPORATION*			No P/No Loss	299.71	0	299.71	0	299.71		299.71

Sl No		Profit & Loss		Profit & Loss		Profit & Loss		Profit & Loss		Profit & Loss	
	Name of the Corporations	**2006-07**	**Cumulative up to 2006-07**	**2007-08**	**Cumulative up to 2007-08**	**2009-10**	**Cumulative up to 2009-10**	**2010-11**	**Cumulative up to 2010-11**	**2011-12**	**Cumulative up to 2011-12**
29	*ORISSA HYDRO POWER CORPORATION*			121.39	395.88	2714.74	44060.08	3757	47817	7630.8	50531.02
30	*ORISSA STATE POLICE HOUSING & WELF. CORPN*			532	878	660.79	2840.56	660.79	2840.56	653.5	4041.37
31	*KALINGA STUDIOS LIMITED*			-12.64	-329.62						
32	*ORISSA STATE BEVERAGES CORPORATION*			1351.46	3153.95	2315.13	6619.86	7034	13965	7222.69	16774.22
Total loss of PSUs		-874.89	-101174.59	-2374.23	-115531.25	-26508.66	-132730.20	-59790.68	-148995.61	-96640.34	-284537.08
Total profit of PSUs		74105.17	137423.23	254997.93	266710.44	87909.24	435807.46	108983.74	656653.89	165271.15	746222.99
Net Profit/loss of PSUs		73230.28	36248.64	252623.70	151179.19	61729.94	303077.26	49992.44	507658.28	69523.20	461685.91
TRR of State		18032.62		21967.19		26430.21		33276.16		40267.02	
Share of PSU net profit in TRR of state		4.06		11.50		2.34		1.50		1.73	
Number of firms recorded loss		7	17	8	16	6	13	4	10	5	10
No of PSUs in Operation		26	26	30	30	24	24	26	26	28	29
Source: GoO, Various Budget Documents											

The government of Odisha has undertaken following measures to improve the financial status of the SPEs.

1. **Memorandum of Understanding with the State PSUs.** Government of Odisha has signed Memorandum of Understanding (MoU) with twenty two PSUs to stimulate the performance of the PSUs through a mutually agreed set of parameters. For monitoring and assessment of the achievement of the PSUs who have signed MOU, a taskforce has been constituted under the chairmanship of the Principal Secretary, Finance Department with Principal/ Commissioner-cum-Secretaries of different Administrative Departments of the State PSUs, Chief Executives of the State PSUs and Prof. D.V. Ramana, Xavier Institute of Management, Bhubaneswar as the members. The taskforce is mandated to review the MOU vis-à-vis achievements of the concerned PSUs on half-yearly/annual basis.
2. **Induction of Independent Directors in the Board of PSUs.** Department of Public Enterprises have empanelled professionals in various fields as Independent Directors. The PSUs have been authorized to appoint Independent Directors in their Boards by following due procedure of approval. The main responsibility of the Independent Directors is to provide independent and broader perspective suggestions to their respective Board as well as the company. The professionals empanelled by DPE are not mandatorily to be appointed in the Boards. PSUs have the liberty to induct other eminent persons with varied experience in different fields by verifying their antecedents/integrity, with due approval of their Administrative Department.
3. **Listing of PSUs in Stock Exchanges** As compliance to the Corporate Governance Manual, process has been initiated for listing of the State PSUs in the Stock exchanges and public issue of shares thereof and initial public offering (IPO) for raising capital from the public and listing of Odisha Hydro Power Corporation and Odisha Mining Corporation at first instance as model.
4. **Audit of PSUs.** Department of Public Enterprises in association with the Administrative Department of the State PSUs and Accountant General, Odisha have reviewed the positions of audit of accounts of the PSUs in regular interval and advised the defaulting PSUs to complete the annual audit and compilation of accounts. For which, the Department of Public Enterprises has been providing necessary assistance for procurement of hardware and Tally Software for computerization of the accounts of selective State PSUs.
5. **Liquidation of spinning mills- Handloom, Textiles & Handicrafts Department:** Assessment study is conducted by analysing the key issues and legal impediments for liquidation of spinning mills by the consultants engaged under OSRFS. Meetings were held to understand the points of view of other statutory authorities (ESI, EPF) impeding the liquidation process. Best practices followed in other states in similar circumstances were studied and a concept note was developed on liquidation of spinning mills. In this regard a presentation was made by the Consultants to elicit opinion of stakeholders and a guideline were developed on appointment of liquidators. Advertisement and ToR for appointment of asset valuer were prepared. Handloom, Textiles & Handicrafts Department would take necessary steps to appoint liquidator for liquidation of the identified spinning mills.

6. **Evaluation on Merger of IDCOL with its subsidiary:** Operation and other business strategic options of IDCOL and its subsidiary were analysed. Merger option with different permutation was evaluated and the report was presented to the high level committee headed by Chief Secretary, Odisha. After getting the feedbacks from IDCOL and also the Administrative Department, the final report was submitted by the Managing Consultant OSRFS to DPE. DPE has shared the said report with IDCOL for taking further necessary action. For induction of a joint venture partner for IKIWL, it was decided to engage a transaction adviser by IDCOL.
7. **Human Resources Reform Study of different State PSUs:** As a part of the Public Enterprises Reform Programme, Department of Public Enterprises have conducted Human Resources Reform Study in various PSUs like Odisha State Seeds Corporations, Odisha Police Housing & Welfare Corporation, Odisha Tourism Development Corporation, Odisha Pisciculture Development Corporation etc through the consultants engaged under OSRFS. The consultants have submitted the final HR Restructuring Report for Odisha State Seeds Corporation and Odisha Police Housing Welfare Corporation which were approved by their respective Board of Directors and forwarded to the concerned Administrative Departments for necessary Government approval and implementation. The HR Restructuring Study in Odisha Tourism Development Corporation, Odisha Beverages Corporation, and Odisha Pisciculture Development are underway.
8. **Financial Restructuring and Business Optimization study of MARKFED.** MARKFED was submitted by the OSRFS Consultant to the MARKFED as well as the Administrative Department. A presentation on the above study was made before the restructuring committee of MARKFED headed by Secretary, Cooperation and suggestions of the report were accepted.
9. **Computerization of Accounting System of State PSUs.** In order to complete the annual accounts and audit of the State PSUs in time, priority has been given for computerization of accounting system by providing software and hardware support for which information on the current computerization status of different State PSUs were collected. Software Selection Committee of Department of Public Enterprises reviewed the use of Tally Accounting Software and its operating performance in the existing PSUs. The observations of the Committee have been forwarded to OCAC to obtain their views/ recommendation for the procurement of Tally Software for Computerization of selected State PSUs. The views of the OCAC have already been obtained by the State Nodal Agency. Steps are being taken to computerize the accounting system of selective State PSUs by providing need based financial assistance for procurement of software, hardware and the required training cost.
10. **Categorization of the State PSUs.** Government has categorized the State PSUs and delegate autonomy to the State PSUs (see Table 9.2). Considering the parameters stipulated in the categorization framework, the following State PSEs have been categorized in the year 2011-12. The process of categorization of PSEs is an on-going exercise with a system of periodic reviews in every two or three years.

Table 9.2
Categorisation of State Public Enterprises

BRONZE	SILVER	GOLD	PLATINUM
1. Odisha State Seeds Corporation	1. GRIDCO	1. Odisha Mining Corporation	None qualify at present
2. Odisha Tourism Development Corporation	2.Industrial Development Corporation of Odisha	2. Odisha Power Generation Corporation	
3. Odisha Lift Irrigation Corporation	3. IPICOL	3. Odisha Hydro Power Corporation	
4. Odisha Construction Corporation	4. Odisha State Police Housing & Welfare Corporation	4. IDCO	
5. Odisha State Cashew Development Corporation	5. Odisha State Beverage Corporation		
	6. Odisha Small Industries Corporation		
	7. Odisha State Warehousing Corporation		

CHAPTER TEN

IMPLEMENTATION OF PUBLIC EXPENDITURE AND FINANCIAL MANAGEMENT (PEFM) REFORMS

ToR1.IX requires us to study on Public Expenditure and Financial Management (PEFM) and Reforms implemented in the State.

'Collection of sufficient resources from the economy in an appropriate manner along with allocating and use of these resources efficiently and effectively constitute good financial management. Resource generation, resource allocation and expenditure management (resource utilization) are the essential components of a public financial management system. Efficient and effective expenditure management calls for expenditure planning, allocation of resources according to policy priorities and good financial operational management and control. Good financial operational management focuses on minimizing cost per unit of output, achieving outcome for which these outputs are intended and enhancing the value for money spent' (2nd Administrative Reform Commission, 2009).

In order to improve the efficiency in public expenditure and financial management at state level the commission suggested following measures:

1. Greater delegation of financial powers to the Departments
2. Appointment of Integrated Financial Adviser for assisting administrative ministries in planning, programming and budgeting where FAs would be the representatives of the Finance Department.
3. Multi-year budgeting for more accurate assessment of revenue and expenditure stream.
4. Adoption of realistic estimates and proper assumptions while preparing budget.
5. Avoiding Ad hoc Announcements Token Provisions
6. Introducing the Monthly Expenditure Plan (MEP) for minimizing the skewed expenditure pattern.
7. Develop a strategic view of internal audit to move beyond the financial regularity and compliance audit to exert a wider role.

Government of Odisha introduced Cash Management System in 2010-11 on the lines of modified exchequer control based expenditure management and restrictions on expenditure during the last quarter of the financial year which was successfully implemented in the Ministries of Government of India. The cash management system had following objectives: 1) Even pacing of expenditure within the financial year, 2) Reduce rush of expenditure during the last quarter especially in the last month of the financial year, 3) Front loading of expenditure in the first three quarters of the financial year so that corrective measures can be taken in the mid year to achieve the fiscal objectives, 4) Curb the tendency of parking of funds outside government account. 5) Effective monitoring of the expenditure pattern, 6) Improve the quality of expenditure and 7) Better ways and means management.

1. Introduction of Cash Management System: In order to ensure timely spending and maintaining even pace of expenditure of budgeted outlays, government introduced cash management system in 10 key Departments through Monthly Expenditure Plan (MEP) and Quarterly Expenditure Allocation (QEA) in the financial year 2010-11. In addition to those 10 Departments, five more Departments namely Fisheries & ARD, Forest & Environment, ST & SC Development and Minorities & Backward Classes Welfare, Industries and Energy Departments were brought under the fold of Cash Management System during 2011-12. The concerned Departments are given full operational flexibility to spend the budgeted outlay as per the quarterly targets with the stipulation to limit the expenditure in the 4th quarter and in the month of March within 40% and 15% respectively.

2. Linking outlays to outcome: Mere provision in the budget is not sufficient. It should produce the desired output and outcome so that the common man is benefited. In other words, there is a need to link outputs and outcomes. Keeping in view these objectives, the government decided to bring out Outcome Budget of Works, Water Resources, Rural Development, Women & Child Development and Panchayati Raj Departments in 2010-11. In addition to these Departments, Outcome Budget was introduced in School & Mass Education, Health & Family Welfare, Agriculture, Fisheries & ARD, Housing & Urban Development, Forest & Environment, ST & SC Development and Minorities & Backward Classes Welfare and Energy Departments from the financial year 2011-12.

3. Annual Maintenance Plan: The Administrative Departments have been instructed to formulate Annual Maintenance Plan with the objective of putting in place appropriate institutional reforms for effective and productive utilization of the budgeted provision for Operation & Maintenance indicating the criteria to be followed for allocation of budgeted provision among the functional and administrative units, routine and periodic maintenance, monitoring and oversight arrangement.

4. Online Budget – Green Initiative: The State Government have introduced the Online Budget Compilation System for preparation of Supplementary Statement of Expenditure, 2011-12 and Annual Budget, 2012-13. The entire process of preparation of this Supplementary Statement of Expenditure has been done through “Online Budget Compilation System”. This is a green initiative taken by the State Government in budget formulation, through which we have saved about 5000 man-hours and 100 rims of paper. We intend to extend the facility to controlling officers level next year and make it web based.

In spite of the policy decisions on cash management system various government departments have not been able to adhere to the ideal practices. The CAG report for the year 2011-12 has pointed out that that the policy of state government on cash management has not been implemented as desired by many departments. Only seven out of 15 departments spent 60 *per cent* of the allocations by the end of the third quarter while the rest eight failed to do so during 2011-12. Further, six out of eight departments, spent less than 50 *per cent* up to December 2011. Similarly, nine out of 15 departments failed to adhere to the norms of spending limit within 15 *per cent* of the total allocation during the month of March 2012.

CHAPTER ELEVEN

IMPACT OF POWER SECTOR REFORMS ON STATE'S FISCAL HEALTH

ToR 1.X requires to evaluate the impact of Power Sector Reforms on State's fiscal health.

Before the Orissa Electricity Reform Act, 1995 came into force from 1.4.1996, the generation, transmission and distribution of electricity was the responsibility of the State Government through the erstwhile Orissa State Electricity Board (OSEB). The investment for transmission, distribution and generation of power from hydro as well as from thermal was being made by the State Government. The State Government was directly investing by obtaining loan from different sources for generation of hydro power and also for thermal power through OPGC, Talcher Thermal Plant, etc. Government was also investing for transmission of power. As regards the distribution, the tariff was being notified by the erstwhile OSEB with due approval of the State Government. But the loss by OSEB was being met by the State Government by way of paying subsidy which was around Rs 250 crore per annum on an average before 1.4.1996 through subvention as was mandated in the Electricity Supply Act, 1948 (subsidy paid in 1995-96 was Rs. 257.62 crore). The subsidy to this sector at same level would have been more than Rs 3500 crore by 2011-12. However, the payment of subsidy by the state government has been stopped since 1.4.1996.

After reform, the State Government has been kept away of any investment in generation, transmission and distribution. The power utilities of the state have been running on market principles without any budgetary support from the state government. This has helped keeping the revenue deficit of Odisha on a declining path. The impact of power sector reform on State's fiscal health has been highlighted in the following.

- State Government realized Rs.159 crore by divesting 51 per cent of its stake in the distribution companies which has been utilized to reduce the liabilities of GRIDCO and around Rs.600 crore by divesting its stake in OPGC.
- State Government received Rs.356 crore by selling TTPS (Talcher Thermal Power Station) to NTPC, which was adjusted against erstwhile OSEB's overdue payments to NTPC.
- Collection of electricity duties has increased from Rs. 121.35 crore in 1995-96 to Rs. 458.06 crore in 2010-11.
- As a result of withdrawal of budgetary support to the power sector from 1996-97 together with disinvestment and other fiscal measures the State consolidated fund has been enriched and Odisha has been converted from a revenue deficit state to a revenue surplus state.

While the revenue accounts of state government continues to record surpluses, despite recent moderation witnessed in some of them, this needs to be seen in the light of the mounting accumulated losses in state power distribution companies (DISCOMs), estimated at Rs.3340.94 crore at the end of March 2012. Non-revision of tariffs between 2001-02 and 2009-10, subsidy arrears, the high cost of buying short-term power and high distribution losses are some key reasons for the financial ill-health of the DISCOMs. As the DISCOMs have largely availed of short-term borrowings from banks and financial institutions to cover cash losses, it has raised serious concern not only for the DISCOMs but also for the banks/financial institutions that have lent to them. State governments extend support to the DISCOMs through various direct and indirect channels. Budgetary support by the state governments is in the nature of subsidies and grants in lieu of subsidised power provided to certain categories such as agricultural and domestic consumers, and equity/bond investments and direct loans to DISCOMs. Off-budget support is in the form of state government guarantees for the loans obtained by DISCOMs from banks/financial institutions. In addition to these regular channels of direct and indirect financial support, the state governments had issued power bonds on 2001 under a one-time settlement scheme to clear the dues of state electricity boards (SEBs) to central power sector utilities. The debt servicing/repayment of these bonds had an impact on state finances.

Table 11.1: Outstanding Guarantee to Power Sector (Rs. Crore)

Year	Outstanding Guarantee to Power Sector	% of Total Guarantee
2002-03	2496.26	84.27
2003-04	2521.02	85.45
2004-05	1846.62	85.51
2005-06	1825.61	89.20
2006-07	1351.14	95.94
2007-08	1102.18	96.70
2008-09	712.81	98.41
2009 - 10	151.12	92.93
2010 - 11	1814.65	87.82
2011-12	2442.45	97.29

Source: Finance Accounts, Govt. of Odisha.

The state has been extending very substantial guarantees to the power sector. As can be seen from Table 11.1 the overall outstanding guarantees extended by the state government to power sector utilities as on 31 March 2012 amounted to Rs. 2442.45 crore, which was 97.29 per cent of total guarantee extended by the state government to different statutory Corporations and Boards. The huge outstanding of guarantees were also observed during 2002-03 to 2011-12. The outstanding guarantee to power sector utilities during 2002-03 was 84.27 per cent of total guarantees provided by the state government. Since 2006-07, this has increased to more than 90 per cent of the total guarantee extended by the state government. This huge amount of guarantee extended to power sector has impact on the finances of the state as the repayment of principal and interest thereon is the primary responsibility of the State Government.

Table 11.2: CAPEX Funding by State Government

Year	CAPEX (Rs. Crore)
2010-11	205.00
2011-12	215.83
Total	420.83

The Govt. of Odisha has decided to invest Rs. 2400 crore for system improvement in the power distribution sector during 2010-11 to 2013-14, out of which state government's share would be Rs 1200 crore and the rest will be borne by DISCOMs through borrowing. The state government has invested Rs. 420.83 crore by the end of 31 March 2012. The CAPEX funding by the state government is presented in Table 11.2. The equity investment made in the state utilities by the state government amounted to Rs 143 crore as on 31 March 2012 (Annexure 11.1). These investments have not been earning financial returns for the State Government. Similarly, there is considerable debt financing to the power utilities by the state, the detail of which can be seen from Annexure 11.2.

CHAPTER TWELVE

ANALYSIS OF CONTINGENT LIABILITIES

ToR 1. XI requires to analyse the contingent liabilities of the state.

12.1 Explicit and Implicit Contingent Liabilities

Contingent liabilities could be explicit or implicit. Explicit liabilities usually accrue due to legal obligations whereas implicit obligation of the government mainly reflects public expectations. State guarantees issued on behalf of sub-national governments and public and private sector entities fall in the category of explicit contingent liabilities. Credit guarantees, trade and exchange rate guarantees offered by the State, state insurance schemes such as, for deposits, crops, floods, minimum returns from pension funds etc., are also in the category of explicit contingent liabilities. Implicit contingent liabilities would include, (i) Defaults of sub-national governments and public entities on non-guaranteed debt and other obligations, (ii) Liability clean-up in entities being privatised, (iii) Bank failures (support beyond state insurance), (iv) Failures of non-guaranteed pension funds or other social security funds, (v) Default of central bank on its obligations (foreign exchange contracts, currency, defence), (vi) Collapses due to sudden capital outflows and (vii) Environmental recovery, disaster relief, military financing. Implicit contingent liabilities are not recognised until a failure occurs. Explicit contingent liabilities are generally recorded only when the contingency is evident, i.e., when the guarantee must be redeemed and the necessary budget provision made.

Although the guarantees do not form part of the debt burden, in the event of default by the borrowing agencies, the Government has to repay the debt as the guarantee becomes the liability of the State. This also has an adverse impact on the State finances. Both explicit and implicit contingent liabilities are the indirect burdens on the state exchequer and therefore, its volume needs to be controlled. As per the guidelines of the 11th Finance Commission the Government of Odisha has undertaken concerted efforts to control the burden of contingent liabilities. Clause 9 of section 6 of the FRBM Act 2005, of Government of Odisha states that the state government should bring out a statement indicating the institution-wise State Government guarantees given, default by these organisations in discharging debt servicing liabilities and contingent liability created in the State Government account on account of default of these organizations and place in the Orissa Legislative Assembly. The statement will also indicate the working of the Escrow Account opened by the PSUs / Cooperatives / Urban Local Bodies.

12.2 Ceiling on Guarantee

In pursuance of the recommendation of the Technical Committee of State Finance Secretaries, the State Government have fixed the ceiling on guarantees during 2002-03 to regulate the guarantees vide Finance Department Resolution No. SG-3/2002-52214/F.,dt.12.11.2002 which stipulates as under-“The total outstanding Government guarantees as on 1st day of April every year shall not exceed 100 percent of the State Revenue Receipts of the second preceding year as reflected in the books of accounts maintained by the Accountant General. Attempts should be made to bring this gradually to the level of 80 percent over next five years." For this purpose, the State's revenue receipts would include (a) State's Own Tax Revenue, (b)States Own Non-Tax Revenue, and (c) Devolution of shared tax under the award of the Finance Commission.

Table 12.1 presents the maximum amount guaranteed and the outstanding amount of guarantee by the state government as a percentage of the revenue receipts (without grants-in-aid) of the preceding year of the state. It provides a clear picture of the continuous fall in the burden of guarantee given by the state. The maximum amount of guarantee as a percentage of revenue receipts has fallen from 155.06 per cent in 2002-03 to 51.07 per cent in 2011-12. Similarly, the outstanding guarantee as a percentage of revenue receipts has fallen from almost 100.46 per cent in 2002-03 to 5.92 in 2009-10 and 12.12 per cent in 2011-12. Along with the amount of guarantee, the number of organizations who were given guarantees has fallen from 172 in 2002-03 to 161 in 2011-12.

The composition of outstanding guarantees given by the government has changed over years. Gradually the share of Statutory Corporation and Boards (SCB) in the total outstanding guarantees has declined and that of Government companies has increased (see Table 12.2(a)). The share of SCBs has declined from 56.63 per cent in 2002-03 to 15.84 per cent in 2009-10. On the other hand the share of Government Companies has gone up from 30.68 per cent in 2002-03 to 62.32 per cent in 2009-10. The share of cooperative banks and societies has risen from 10.29 per cent in 2002-03 to 21.76 per cent in 2009-10. The share of NACs, Municipalities & Improvement Trusts has declined from 2.40 per cent in 2002-03 to 0.08 per cent in 2009-10. The reporting of the composition of outstanding guarantees in the Finance Accounts has changed from 2010-11. Therefore, a comparison of the composition of guarantees is not possible after this point of time. Table 12.2(b) presents the sector wise share of guarantees given by the state. Power sector has taken the maximum share guarantees issued by the government. Only power sector received 87.82 per cent of the total guarantee issued in the year 2010-11 and 97.29 per cent in 2011-12. All other sectors have received a very small fraction of the guarantees given by the state government.

12.3 Off Budget Borrowings

At times, the State Government undertakes implementation of specified projects through different Development Authorities or other State Government Agencies and provides guarantee on behalf of those organizations for borrowing from Banks/Financial Institutions but repayment of principal and interest thereon is the primary responsibility of the State Government. The provision is made in the State budget in favour of those organizations for servicing the debt on behalf of the State Government. This is called off budget borrowing. Since 1991-92 an amount of Rs 250.42 crores has been raised through off budget borrowings (SPVs) and the entire borrowings have been liquidated by 31st March, 2008.

Table 12.1
Guarantee Position as a percentage of Revenue Receipt (Actual) (without Grants-in-Aid)of the 2nd Preceding Year From 2002-03 to 2011-12

Year	Number of organizations given guarantee	Guaranteed Loan Outstanding as on 31st day of March. (Rs. crore)	Maximum amount guaranteed during the Year	Revenue receipt of the 2nd preceding year(Without grants-in-aid)	Maximum amount guaranteed as a % of revenue receipts of the preceding year	Outstanding Guarantee in the current year in relation of Revenue receipt of the preceding year	Ceiling set for Govt Guarantee
2002-03	172	5498.53	8487.42	5473.47	155.06	100.46	100%
2003-04	163	5177.91	9342.67	5807.35	160.88	89.16	96%
2004-05	166	3823.25	9296.86	6638.6	140.04	57.59	92%
2005-06	162	3496.19	9251.75	7723.95	119.78	45.26	88%
2006-07	162	2647.55	8588.9	9499.78	90.41	27.87	84%
2007-08	162	2168.43	8585.900	11410.93	75.24	19.00	80%
2008-09	162	1386.4	8380.25	14873.6	56.34	9.32	80%
2009-10	163	1026.94	8388.64	17356.16	48.33	5.92	80%
2010-11	163	2066.25	9788.62	19451.31	50.32	10.62	80%
2011-12	161	2510.43	10578.61	20713.19	51.07	12.12	80%

Source: Budget at a Glance-2013-14, Government of Odisha.

Table 12.2 (a)
Composition of Outstanding Guarantees from 2002-03 to 2009-10

Year	Statutory Corporations & Board	Govt. Companies	Coop. Banks & Societies	NACs, Municipalities & Improvement Trusts	Total	Percentage share in the total outstanding debt			
						Statutory Corporations & Boards	Govt. Companies	Cooperative Banks & Societies	NACs,Municipalities & Improvement Trusts
2002-03	2962.19	1604.92	538.30	125.52	5230.92	56.63	30.68	10.29	2.40
2003-04	2950.13	1446.00	573.66	124.29	5094.09	57.91	28.39	11.26	2.44
2004-05	2159.52	1056.82	451.23	155.69	3823.25	56.48	27.64	11.80	4.07
2005-06	2046.55	934.99	359.02	155.63	3496.19	58.54	26.74	10.27	4.45
2006-07	1408.35	790.88	294.61	153.70	2647.55	53.19	29.87	11.13	5.81
2007-08	1139.75	678.31	269.44	80.93	2168.43	52.56	31.28	12.43	3.73
2008-09	724.31	432.34	228.90	0.85	1386.40	52.24	31.18	16.51	0.06
2009-10	162.62	640.02	223.44	0.85	1026.93	15.84	62.32	21.76	0.08

Table 12.2 (b)
Composition of Outstanding Guarantees from 2010-11 to 2011-12

Year	Power	Co-operatives	Irrigation	Roads and Transport	State Financial Corporation	Urban Development and Housing	Other infrastructure	Any other	Total
2010-11	1814.64	27.38	0.82		43.88	176.63		2.89	2066.24
% share in total	87.82	1.33	0.04	0.00	2.12	8.55	0.00	0.14	100.00
2011-12	2442.45	27.78	0.56	0.00	35.90	0.85	0.00	2.89	2510.43
% share in total	97.29	1.11	0.02	0.00	1.43	0.03	0.00	0.12	100.00

12.4 Guarantee Management Policy

For enhancing the credibility of the State Government in the Capital Market (for market borrowing etc.), the following steps have been taken.

12.4.1 One Time Settlement (O.T.S.)

In order to inspire confidence in the minds of the Bankers/Financial Institutions, the State Govt. have responded in a positive manner by paying guaranteed loans of the borrowing institutions who have defaulted to service their debt in time. Due to invocation of guarantee by the Banks/Financial Institutions, the Finance Department have so far paid Rs. 565.93 crore to them under One Time Settlement (OTS) scheme to avoid embarrassment. The detailed year-wise payments are presented in Table 12.3. Simultaneously, the OSFC paid Rs 69.70 crore and IDC Ltd. paid Rs 14.94 crore to the various Banks/ Financial Institutions under OTS in addition to the payments made by Finance Department under One Time Settlement Scheme. Further the Housing and Urban Development Department and General Administration Department paid Rs. 94.11 crore to HUDCO under OTS (Rs. 15.15 cr in 2006-07. and Rs. 78.96 cr. in 2007-08) on behalf of BDA and OWS&SB, BBSR from out of their Budget Provision and F&ARD Department also paid Rs 0.30 crore (Rs.10.00 lakh in 2002-03 + Rs. 8.12 lakh in 2003-04 + Rs. 11.88 lakh in 2007-08) from out of their Budget under One Time Settlement Scheme. Besides Housing and Urban Development (H & U.D. Department have also paid Rs. 457.90 crore (Rs. 122.42 cr. in 2006-07 + Rs. 28.21 cr. in 2007-08 + Rs. 52.52 cr. in 2008-09 + Rs. 47.22 cr. in 2009-10 + Rs. 44.30 cr. in 2010-11 + Rs. 163.23 cr. in 2011-12) to HUDCO from out of their Budget Provision to clear the defaulted and final loan dues of ORHDC Ltd covered under Govt. Guarantee.

Table 12.3

One Time Settlement Payments by the finance Department due to invocation of guarantee

Year	Payment by the State Govt in Rs Crore
Prior to 1999-2000	85.80
2001-02	4.92
2002-03	44.99
2003-04	23.10
2004-05	95.18
2005-06	24.45
2006-07	114.70
2007-08	109.68
2008-09	59.61
2009-10	-
20010-11	3.50
Total	565.93

Source: Budget at a Glance, Government of Odisha, 2013-14

12.4.2 Guarantee Redemption fund

As per the recommendations, of the Technical Committee of State Finance Secretaries and Reserve Bank of India, the Government of Odisha have created a “Guarantee Redemption Fund” with an annual contribution of Rs. 20.00 crore from 2002-03. The Fund has been operated outside the State Government account and is administered by R.B.I., Nagpur. The proceeds of the fund are being invested and re-invested in Government of India Securities and this does not form a part of State Government Ways & Means Advance. The accumulation in the fund earns interest which would be utilised for meeting the payment obligations arising out of guarantees. By the end of December, 2012, Rs. 480.00 crore have been transferred to Guarantee Redemption Fund Account of Government of Odisha.

12.4.3 Escrow account

In order to enforce Financial discipline in the Public Sector Undertakings/Urban Local Bodies/Co-operative Institutions and State owned companies etc, and to ensure minimizing the default on payment of Government Guaranteed Loans, the State Government (Finance Department) in their resolution No. 11311/F., dt.19.03.2004 have issued instructions that the Public Sector Undertakings/Urban Local Bodies/Co-operatives institutions who have borrowed or intend to borrow against Government Guarantee will Open an Escrow Account in a Nationalised Bank for timely repayment of Guaranteed Loans. The proceeds of this account shall first be utilised for payment of dues of the Financial Institutions and it is only after meeting such payments, the surplus amount shall be diverted for other payments including salaries. Again all concerned have been reminded vide Finance Department Circular No.17673 (40)/F., dt.11.04.2007 for opening of Escrow Account by the concerned organizations immediately if not already done.

12.4.4 Guarantee cover only for the Principal

With a view to limiting guarantee exposure of the State Government and ensuring effective monitoring of such exposure, the State Government took a decision during Nov, 2006. (Finance Department Resolution No.46546/F., dt.14.11.2006) that hence forth, the government guarantee shall be confined only to Principal Amount borrowed by the Public Sector Undertakings/ Urban Local Bodies/ Co-operative Institutions/ Companies etc.

12.4.5 Risk assessment of outstanding guaranteed loans

When the borrowing organisations fail to service their debt burden covered under State Government Guarantee, the lending Banks/ Financial Institutions 299 invoke the State Government Guarantee, then it is incumbent on the State Government to discharge the liability. Meanwhile, the State Government have received the notices from different Banks/Financial Institutions invoking Government Guarantee of Rs. 1935.23 cr. (Principal Rs. 966.87cr. + Interest Rs. 968.36cr.). There is also possibility of further invocation of Government Guarantee by the Banks/Financial Institutions in future. This may lead to dislocation in implementation of Plans and Programmes of the State Government for which the State Government have already deposited Rs. 480.00 cr. by end of December, 2012 in the Guarantee Redemption Fund Account of Government of Odisha for meeting the future payment obligations arising out of guarantees. Out of the above liabilities, the State Government have already settled Rs. 683.62 crores towards outstanding Principal amount by paying Rs. 660.35 crores upto December, 2012 under OTS resulting waiver of portion of interest, penal interest, other charges and a sizable portion of principal amount. Further the H&U.D. Department have paid Rs. 457.90 cr. to HUDCO from 2006-07 to 2011-12 to clear the defaulted dues of ORHDC Ltd. In addition SC & ST Development Department infused Share Capital of Rs. 10.00 crore in OSFDC during 2007-08 and Women and Child Development Department provided Grants-in-Aid of Rs. 5.00 crore to MVSN Ltd. during 2009-10 which was fully utilised for repayment of loan to National Corporations covered under Government Guarantee.

CHAPTER THIRTEEN

ANALYSIS OF SUBSIDY

ToR 1. XII requires to analyse the Subsidies given by the States (Other than Central subsidies), its targeting and evaluation.

In any welfare State, it is not uncommon to provide subsidies/subventions to disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public service to the people. Budgetary support to financial institutions, inadequate returns on investments and poor recovery of user charges from social and economic services provided by the Government fall in the category of implicit subsidies. The total subsidy of the State Government has increased from Rs. 42 crore in 2002-03 to Rs. 1744 crore in 2011-12 (Table 13.1). There is a sudden jump in the subsidy from Rs. 148 crore in 2007-08 to Rs. 743 crore during 2008-09.

It is found from Table 13.2 that economic service sector has the major share of subsidy. During 2011-12, the subsidy to this sector was 74 per cent against 26 per cent subsidy to social sector. There was no subsidy for social service sector from 2002-03 to 2004-05 and it remained below 10 per cent from 2005-06 to 2009-10, except during 2006-07. Thereafter the share of subsidy to this sector increased rapidly. It increased to 18.36 per cent in 2010-11 and to 26.27 per cent in 2011-12. On the other hand, the economic service sector received the entire subsidy from 2002-03 to 2004-05 and then its share decreased with the increase in subsidy to social sector. During 2011-12, the economic service sector still has the lion's share in total subsidy.

Agriculture and allied sub-sector dominates in the share of total subsidy, which is mostly directed towards food subsidy. The share of food subsidy has increased significantly to 76.53 per cent in 2008-09 from 26.94 per cent in 2007-08 (Table 13.2). The subsidy of Rs. 1744 crore in 2011-12 has included food subsidy of Rs. 979 crore (Table 13.1) due to implementation of two-rupee/kg rice for the people living below poverty line. The ThFC has made a normative assessment of Rs. 20 per capita for each of the year for food subsidy. Accordingly, food subsidy should have been Rs. 83.80 crore taking into account the population of the State (4.19 crore) as against the Rs. 979 crore spent in 2011-12. The proportion of food subsidy in total subsidy on agriculture and allied sector during 2011-12 was 80.83 per cent and in total economic sector and total subsidy was 76 per cent and 56 per cent respectively (Table 13.3). The detailed subsidy to agriculture and allied sector can be seen from Annexure 13.1.

The other major subsidies during 2011-12 included Rs. 456 crore under Relief on account of Natural Calamities mainly assistance to farmers affected by floods/cyclone for purchase of agricultural inputs etc (Rs. 300 crore), Rs. 30 crore under subsidy to Orissa Lift Irrigation Corporation and Rs. 54 crore interest subsidy/subvention to the co-operative banks for providing crop loan at five per cent interest per annum to the farmers.

The State Government in its MTFP aimed to rationalise general subsidy and reduce their overall volume gradually at a rate of 10 per cent per annum beginning from 2005-06. But what is seen that the expenditure on subsidies increased significantly instead of being reduced in all the years after 2005-06, excepting 2007-08 (Table 13.4). More so the food subsidy increased significantly by 400 per cent with the declaration of two-rupee/kg rice in 2008-09 after which it has hovered around 30 per cent.

Even though the subsidy has increased over the years, its share in GSDP has remained below 1 per cent. It is observed from Table 13.5 that food subsidy as a proportion of GSDP has increased from 0.08 per cent in 2002-03 to 0.81 per cent of in 2011-12. The share of subsidy in GSDP in case of economic service sector has remained at 0.60 per cent (with agriculture and allied at 0.56 per cent) and social service sector at 0.21 per cent during 2011-12. Food subsidy has the highest share of 0.45 per cent in GSDP during 2011-12.

13.1 Targeting of Subsidies

Better targeting of subsidy is the key to lowering the volume of subsidy while continuing to satisfy the objectives of subsidisation. Subsidies are delivered through various mechanisms. However, the efficiency of delivery mechanism is critical to improving the incidence profile of subsidies towards the intended beneficiaries (Srivastava et al, 2003). As discussed earlier, the subsidy in Odisha is mostly concentrated on food subsidy. The main beneficiaries of the food subsidies in the state are the ration card holders under different categories. It is therefore interesting to find out how these subsidies are targeted in the state.

Jha (1991) has conceptualised two types of targeting ratios. The first target ratio (TR1) measured as to how far the PDS caters to the poor vis- a-vis the non-poor and the second target ratio (TR2) measured the extent to which the poor are covered by the PDS[6]. Thus, (100–TR1) indicates inclusion error, i.e., coverage of the non- poor who ought to be excluded but are included, and (100–TR2) indicates exclusion error, i.e., the percentage of those who ought to be included but are excluded from the PDS.

If only the poor buy from the ration shops, the first target ratio will be 100, and the subsidy will be perfectly targeted in the sense that all the beneficiaries are poor. If it is less than 100, there is scope for better targeting by, say, cutting down the per capita ration quota to the maximum of per person consumption among the poor and using the savings to further subsidize the ration price for the same good or spend it on the better targeted goods. On the other hand, the ideal situation for TR2, i.e., the percentage of poor among all beneficiaries, would be 100 when the system covers all the poor (Jha, 1991).

[6] TR1 = $(N_{PR}/N_{TR})*100$; where N_{PR} = number of poor people using ration card, N_{TR} = total number of people having ration card.
TR2 = $(N_{PR}/N_{TP})*100$; where N_{PR} = number of poor people having ration card, N_{TP} = total number of poor

As per Tendulkar Methodology, about 138.53 lakhs population in Odisha were below poverty line during 2011-12 (GoI, 2013). It would be interesting to find out how the subsidies are targeted towards these BPL families. In Odisha the number of Below Poverty Line (BPL) ration card holders and Above Poverty Line (APL) ration card holders during 2011-12 were 36.91 lakhs and 34.80 lakhs respectively. Using the targeting ratios conceptualised by Jha (1991), we find that the percentage of poor among all beneficiaries was only a little more than 50 percent (i.e. 51.47 per cent) during 2011-12 in Odisha. Therefore, the inclusion error, i.e. coverage of the non-poor who ought to be excluded but are included, is 48.53 per cent.

On the other hand, it is observed that only about 26.64 percent among the poor were PDS ration card holders during 2011-12, indicating that exclusion error is significantly high (i.e. 73.36 per cent). Comparing between inclusion error and exclusion error, it is found that exclusion error is significantly more than inclusion error. That means the percentage of poor who ought to be included but are excluded from the PDS is much more than coverage of the non-poor who ought to be excluded but are included.

13.2 Steps taken for better targeting of subsidies through PDS

For better targeting of PDS, the State Government with the assistance of World Food Programme has taken up technology based solution for creation of database of PDS beneficiary through digitization of ration cards across Odisha. The objective of creating such database is to eliminate exclusion and inclusion errors in the existing database of ration cards owing to political inclination, and to bring transparency in the system. As there are a lot of inclusion and exclusion errors in the existing database of ration cards, the Government of Odisha has decided to go for fresh enumeration of beneficiaries on the basis of national Population Register which is a near complete database for entire population. Digitisation of PDS beneficiary database has already been taken up in Balangir and Rayagada districts on pilot basis and with its success the rest districts will be taken up.

Table 13.1: Sector wise Subsidy (Rs. in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
A. Social Services	**0.00**	**0.00**	**0.00**	**1.53**	**34.66**	**13.64**	**62.15**	**60.17**	**240.55**	**458.30**
1. Welfare of SCs, STs & OBCs				0.23	0.19	2.27	3.14	2.82	2.42	2.02
2. Labour & Labour Welfare				0.00	1.08	4.17	0.00	1.74	0.00	0.00
3. Social Welfare & Nutrition				1.30	33.39	7.20	59.02	55.60	23.81	456.28
(a) Social Security & Welfare				0.15	0.15	0.65	0.15		0.52	0.67
(b) Relief on Acc of natural Calamities				1.15	33.24	6.55	58.87	55.60	237.61	455.61
B. Economic Services	**41.93**	**20.33**	**45.09**	**81.18**	**135.55**	**134.75**	**681.33**	**947.48**	**1069.56**	**1286.19**
1. Agriculture & Allied Activities				49.90	52.36	56.36	619.71	893.43	1005.75	1210.56
(a) Crop Husbandary				2.69	4.92	14.85	47.87	39.75	72.48	123.27
(b) Food subsidy	41.80	20.20	44.97	45.03	39.96	39.98	568.98	852.77	931.93	978.52
(c) Co-operation				0.09	0.28	0.03	0.47	0.40	0.50	102.00
(d) Fisheries				2.09	7.20	1.50	2.40	0.50	0.84	6.77
2. Irrigation & Flood Control				18.89	20.59	46.27	28.00	28.63	30.00	30.00
3. Energy				3.00	27.86	0.00	0.00	0.00	0.00	0.00
4. Industry & Minerals				7.79	33.14	30.53	32.01	23.83	32.21	44.04
(a) Village & SSIs				7.73	33.10	30.39	30.76	23.63	32.11	43.64
(b) Other Industries and Minerals				0.06	0.04	0.14	1.25	0.20	0.10	0.40
5. Transport	0.13	0.13	0.13	1.60	1.60	1.60	1.60	1.60	1.60	1.60
Total Subsidy (A+B)	**41.93**	**20.33**	**45.09**	**82.70**	**170.20**	**148.39**	**743.48**	**1007.65**	**1310.11**	**1744.49**

Table 13.2: Sector wise percentage share of subsidy (%)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
A. Social Services	**0.00**	**0.00**	**0.00**	**1.85**	**20.36**	**9.19**	**8.36**	**5.97**	**18.36**	**26.27**
1. Welfare of SCs, STs & OBCs	0.00	0.00	0.00	0.28	0.11	1.53	0.42	0.28	0.18	0.12
2. Labour & Labour Welfare	0.00	0.00	0.00	0.00	0.63	2.81	0.00	0.17	0.00	0.00
3. Social Welfare & Nutrition	0.00	0.00	0.00	1.57	19.62	4.85	7.94	5.52	1.82	26.16
(a) Social Security & Welfare	0.00	0.00	0.00	0.18	0.09	0.44	0.02	0.00	0.04	0.04
(b) Relief on Acc of natural Calamities	0.00	0.00	0.00	1.39	19.53	4.41	7.92	5.52	18.14	26.12
B. Economic Services	**100.00**	**100.00**	**100.00**	**98.16**	**79.64**	**90.81**	**91.64**	**94.03**	**81.64**	**73.73**
1. Agriculture & Allied Activities	0.00	0.00	0.00	60.34	30.76	37.98	83.35	88.66	76.77	69.39
(a) Crop Husbandary	0.00	0.00	0.00	3.25	2.89	10.01	6.44	3.94	5.53	7.07
(b) Food subsidy	99.69	99.36	99.73	54.45	23.48	26.94	76.53	84.63	71.13	56.09
(c) Co-operation	0.00	0.00	0.00	0.11	0.16	0.02	0.06	0.04	0.04	5.85
(d) Fisheries	0.00	0.00	0.00	2.53	4.23	1.01	0.32	0.05	0.06	0.39
2. Irrigation & Flood Control	0.00	0.00	0.00	22.84	12.10	31.18	3.77	2.84	2.29	1.72
3. Energy	0.00	0.00	0.00	3.63	16.37	0.00	0.00	0.00	0.00	0.00
4. Industry & Minerals	0.00	0.00	0.00	9.42	19.47	20.57	4.31	2.36	2.46	2.52
(a) Village & SSIs	0.00	0.00	0.00	9.35	19.45	20.48	4.14	2.35	2.45	2.50
(b) Other Industries and Minerals	0.00	0.00	0.00	0.07	0.02	0.09	0.17	0.02	0.01	0.02
5. Transport	0.31	0.64	0.29	1.93	0.94	1.08	0.22	0.16	0.12	0.09
Total Subsidy (A+B)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Table 13.3: Proportion of Food Subsidy (%)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Proportion of food subsidy to total agriculture & allied activities	100.00	100.00	100.00	90.23	76.31	70.94	91.81	95.45	92.66	80.83
Proportion of food subsidy to total economic services	99.70	99.38	99.72	55.47	29.48	29.67	83.51	90.00	87.13	76.08
Proportion of food subsidy to total subsidies	99.70	99.38	99.72	54.44	23.48	26.94	76.53	84.63	71.13	56.09

Table 13.4: Year wise Growth of Subsidy (%)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
A. Social Services	-	-	-	2165.36	-60.65	355.65	-3.19	299.78	90.52
1. Welfare of SCs, STs & OBCs	-	-	-	-17.39	1094.74	38.33	-10.19	-14.18	-16.53
2. Labour & Labour Welfare	-	-	-		286.11	-	-	-	-
3. Social Welfare & Nutrition	-	-	-	2468.46	-78.44	719.72	-5.79	-57.18	1816.34
(a) Social Security & Welfare	-	-	-	0.00	333.33	-76.92	-100.00	-	28.85
(b) Relief on Acc of natural Calamities	-	-	-	2790.43	-80.29	798.78	-5.55	327.36	91.75
B. Economic Services	-51.51	121.79	80.04	66.97	-0.59	405.63	39.06	12.88	20.25
1. Agriculture & Allied Activities	-	-	-	4.93	7.64	999.56	44.17	12.57	20.36
(a) Crop Husbandary	-	-	-	82.90	201.83	222.36	-16.96	82.34	70.07
(b) Food subsidy	-51.67	122.62	0.13	-11.26	0.05	1323.16	49.88	9.28	5.00
(c) Co-operation	-	-	-	211.11	-89.29	1466.67	-14.89	25.00	20300.00
(d) Fisheries	-	-	-	244.50	-79.17	60.00	-79.17	68.00	705.95
2. Irrigation & Flood Control	-	-	-	9.00	124.72	-39.49	2.25	4.79	0.00
3. Energy	-	-	-	828.67	-100.00	-	-	-	-
4. Industry & Minerals	-	-	-	325.42	-7.88	4.85	-25.55	35.17	36.73
(a) Village & SSIs	-	-	-	328.20	-8.19	1.22	-23.18	35.89	35.91
(b) Other Industries and Minerals	-	-	-	-33.33	250.00	792.86	-84.00	-50.00	300.00
5. Transport	0.00	0.00	1130.77	0.00	0.00	0.00	0.00	0.00	0.00
Total Subsidy (A+B)	-51.51	121.79	83.41	105.80	-12.81	401.03	35.53	30.02	33.16

Table 13.5: Subsidies as Proportion to GSDP (%)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
A. Social Services	0.00	0.00	0.00	0.00	0.03	0.01	0.04	0.04	0.12	0.21
1. Welfare of SCs, STs & OBCs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Labour & Labour Welfare	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Social Welfare & Nutrition	0.00	0.00	0.00	0.00	0.03	0.01	0.04	0.03	0.01	0.21
(a) Social Security & Welfare	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(b) Relief on Acc of natural Calamities	0.00	0.00	0.00	0.00	0.03	0.01	0.04	0.03	0.12	0.21
B. Economic Services	0.08	0.03	0.06	0.10	0.13	0.10	0.46	0.58	0.55	0.60
1. Agriculture & Allied Activities	0.00	0.00	0.00	0.06	0.05	0.04	0.42	0.55	0.52	0.56
(a) Crop Husbandary	0.00	0.00	0.00	0.00	0.00	0.01	0.03	0.02	0.04	0.06
(b) Food subsidy	0.08	0.03	0.06	0.05	0.04	0.03	0.38	0.52	0.48	0.45
(c) Co-operation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05
(d) Fisheries	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00
2. Irrigation & Flood Control	0.00	0.00	0.00	0.02	0.02	0.04	0.02	0.02	0.02	0.01
3. Energy	0.00	0.00	0.00	0.00	0.03	0.00	0.00	0.00	0.00	0.00
4. Industry & Minerals	0.00	0.00	0.00	0.01	0.03	0.02	0.02	0.01	0.02	0.02
(a) Village & SSIs	0.00	0.00	0.00	0.01	0.03	0.02	0.02	0.01	0.02	0.02
(b) Other Industries and Minerals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Transport	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Subsidy (A+B)	0.08	0.03	0.06	0.10	0.17	0.11	0.50	0.62	0.67	0.81

CHAPTER FOURTEEN

SUMMARY AND CONCLUSION

The present study provides a detailed account of the changing fiscal profile of the state between 2002-03 and 2011-12 and explains the measures undertaken for the fiscal consolidation of the state. The aggregate fiscal position of the state has witnessed remarkable changes in last one decade. Revenue receipts of Odisha as a percentage of GSDP has increased from 15.40 per cent in 2002-03 to 18.65 per cent in 2011-12. While the own revenue receipts of the state as a percentage of GSDP has increased from 7.03 per cent to 9.21 per cent, revenue transfer from centre to state which includes state's share in central taxes and grants-in-aid, as a percentage of gsdp remained more or less constant during the same period. Own tax revenue as a percentage of GSDP (or own tax GSDP ratio) in Odisha has increased from 5.28 per cent in 2002-03 to 6.23 per cent in 2011-12. Nonetheless, Odisha's tax-GSDP ratio remains much lower compared to other major general category states, except Bihar, Jharkhand and West Bengal. Therefore, the state government needs to raise its revenue generating efforts further to increase the tax-GSDP ratio. State's total revenue has grown at a greater proportion than that of GSDP during the period between 2002-03 and 2011-12 as is observed from the buoyancy of more than unity. State's own tax revenue has grown proportionately with the GSDP of the state indicating the buoyancy of state's own tax revenue at unity. Odisha's aggregate own tax effort is poor compared to other non-special category states. With an estimated annual taxable capacity of Rs. 9842.91 crore, the State has raised on average Rs. 9389.95 crore. Its tax effort is much lower than the average tax effort of major non-special category States of India. At the disaggregated level, Odisha has performed miserably in raising sales tax, stamps duty & Registration fee, and state excise.

Non-tax revenue as a percentage of GSDP has increased from 1.75 per cent to 2.99 per cent during the period of study. It has recorded an annual compound growth rate of 23.03 per cent, while exhibiting buoyancy of more than 1 over the period. Buoyancy of state's total own non-tax revenue has remained above unity during the period from 2002-03 to 2011-12, indicating that the total own non-tax revenue responds more than proportionately to the growth of GSDP. Recovery of operational cost in case of most of the social and economic services is not encouraging due to lower user charges. The government can introduce discriminatory tuition fee –higher for richer section and lower or zero for BPL families - at higher education level.

Total expenditure of the state as a percentage of GSDP has decreased from 20.86 per cent in 2002-03 to 18.42 per cent in 2011-12. Total expenditure as a percentage of GSDP decreased to 16.24 per cent in 2007-08 and then onwards increased gradually and reached at 18.42 per cent in 2011-12. Revenue expenditure as a percentage of GSDP has also declined steadily from 18.27 percentages in 2002-03 to 13.71 percent in 2007-08, and in the subsequent years it has increased and reached at 16.05 per cent in 2011-12. Capital expenditure (outlay) as a per cent of GSDP which was at 1.96 in 2002-03 declined to 1.22 per cent in 2005-06 and in the subsequent years increased marginally and reached at 2.55 per cent in 2008-09 and again it has declined steadily in the subsequent years. Plan expenditure of Odisha has grown at a significantly higher rate than the growth of total expenditure. The annual average growth rate of plan expenditure is 21.06 per cent against 15.35 per cent growth of total expenditure during the period 2002-03 to 2011-12. Due to the higher growth of plan expenditure its share in total expenditure has increased from 24 per cent in 2002-03 to about 36 per cent in 2011-12. Expenditure allocation for general services in total expenditure has declined sharply from 35.05 per cent in 2007-08 to 28.12 per cent in 2011-12, while it has increased for social services from 33.61 per cent in 2007-08 to 37.69 per cent in 2011-12 and for economic services from 27.60 per cent in 2007-08 to 30.90 per cent in 2011-12. Allocation of expenditure for social services as a percentage of GSDP was 6.64 per cent in 2011-12. Although the Education Commission and Ramamoorthy Committee have recommended spending 6 per cent of income on education, Odisha spent 3.15 per cent of GSDP during 2011-12. Similarly, against the recommendation of ICSSR and ICMR panel for spending 6 per cent of income on health, Odisha spent only 0.61 per cent of GSDP during 2011-12.

Share of expenditure on salaries in revenue receipts has declined from 45.20 per cent in 2002-03 to 22.02 per cent in 2011-12. However, the amount spent during 2011-12 is still higher than the assessment made by ThFC. Interest rate as a proportion of revenue receipts has declined significantly from 34.20 per cent in 2002-03 to 6.40 per cent in 2011-12, and remained lower than the projection made in MTFP and ThFC. Subsidy as a proportion of revenue receipts have increased significantly from 0.50 per cent in 2002-03 to 4.33 per cent in 2011-12.

Total public debt of the state as a percentage of GSDP has gone down substantially from 41.56 per cent in the year 2002-03 to 11.40 percent in 2011-12. Similarly, the aggregate public debt and outstanding liabilities as a percentage of GSDP has gone down significantly from 61.82 percent in 2002-03 to 19.76 percent in 2011-12. This is much below the target set by 12th Finance Commission at 28% of GSDP and 25 per cent target set by the 13th Finance Commission for all the states in aggregate. Share of internal debt (which includes Market Loans, WMA from the RBI, Bonds, Loans from Financial Institutions, Special Securities issued to National Small Saving Funds and Other Loans) as a percentage of total public debt and other liabilities (PDOL) increased from 36.14 per cent during 2002-03 to 46.65 percent in 2005-06 and subsequently declined to 40.83 percent during 2011-12. The share of central government loan (which includes Non-Plan Loans, Loans for State Plan Schemes, Loans for Central Plan Schemes, Loans for Centrally Sponsored Plan Schemes and Pre 84-85 Loans) in the total PDOL has declined steadily from 31.08 percent in 2002-03 to only 17.14 percent in 2011-12. The state government is now relying more upon the small scale saving and provident funds (SSPF) to raise funds for the functioning of the government. The share of market loan in the total public debt has gone down from 29.13 percent in 2008-09 to 20.77 percent in 2011-12. Similarly, the share of bonds has declined from 3.06 percent in 2008-09 to 1.79 percent in 2011-12. The government of Odisha is no more relying upon the Ways and Means Advance from the Reserve Bank of India.

The 73rd constitutional amendment enlists 29 subjects to be transferred to the PRIs. Out of 29 subjects the state government has transferred 21 subjects of 11 Departments to the PRIs in the light of decisions of the Cabinet during 2003. The Chief Secretary in his letter bearing No.6888/PS dt.4.7.2003 addressed to 11 Departments communicated the decision of the Government for implementation of the same in letter and spirit. The Third State Finance Commission in its report has pointed out that various departments have not implemented decisions of the state government. Some Departments have issued instructions to field level functionaries contradictory to the decision of Government. The Third State Finance Commission, which submitted its final report on 27th January, 2010 recommended for larger devolution of funds to these bodies to enable them to provide public services and undertake local development and recommended to transfer 15 per cent of the average Gross Tax Revenue of the state calculated at 896.17 crore in favour of PRIs and ULBs per annum.

The JNNURM wing of the ministry of Urban Development, Government of India has also released the calibrated score of the reforms undertaken by the Odisha government and two cities namely Bhubaneswar and Puri. Overall, the state has scored 74.8 per cent in both mandatory and optional reforms undertaken by the state government, and ULBs in Bhubaneswar and Puri. Although Odisha has undertaken several measures to empower the PRIs and ULBs, they are still suffering from paucity of funds and short of functionaries. Moreover, the local governments are not taking enough initiatives to realize their revenue capacity. The ULBs are facing major challenges of increasing demand for public service delivery and shortage of revenue. Therefore, ULBs can generate additional revenue from new tax sources. In this direction we can suggest at least two more revenue generating sources. The ULBs can collect a fee for the collection and disposal of garbage. Similarly, they can impose a fee for the maintenance and development of urban infrastructure.

Between 2006-07 and 2011-12, 26 to 29 SPEs have operated and out of which maximum number of PSUs have recorded profit and only 4 to 8 PSUs have recorded loss. The share of net profit of SPEs in total revenue receipts (TRR) of the state went up from 4.06 percent in 2006-07 to 11.50 percent in 2007-08 and started falling from 2009-10 onwards. In the year 2011-12 the net profit of SPEs in Total Revenue Receipts (TRR) was only 1.73 percent.

There has been continuous fall in the burden of guarantee given by the state. The maximum amount of guarantee as a percentage of revenue receipts has fallen from 155.06 per cent in 2002-03 to 51.07 per cent in 2011-12. Similarly, the outstanding guarantee as a percentage of revenue receipts has fallen from almost 100.46 per cent in 2002-03 to 5.92 in 2009-10 and 12.12 per cent in 2011-12. Along with the amount of guarantee, the number of organizations who were given guarantee has fallen from 172 in 2002-03 to 161 in 2011-12.

Even though the subsidy has increased over the years, the total amount of subsidy as a percentage of GSDP has remained below 1 per cent. Over the period from 2002-03 to 2011-12, the total subsidy as a proportion of GSDP has increased from 0.08 per cent to 0.81 per cent. The share of subsidy in GSDP in case of economic service sector has remained at 0.60 per cent (with agriculture and allied at 0.56 per cent) and social service sector at 0.21 per cent during 2011-12. Food subsidy has the highest share of 0.45 per cent in GSDP during 2011-12. We suggest for a rethinking on the classification of food subsidies and subsidies given for agriculture and allied activities. In the present system of classification food subsidy is a subcomponent of agriculture and allied activities. We suggest that the subsidies can be categorized as input subsidy and output subsidy under which we can enlist different subsidies. Following this practice food subsidy should come under output subsidy and fertilizer subsidy should come under input subsidy.

The present study finds that the Odisha has been successful in consolidating its fiscal position from the year 2005-06. The state has been recording revenue surplus from the year 2005-06 and in a few years it has also recorded fiscal surplus. Barring a few years the state has been witnessing a revenue surplus to the tune of 2 percent of GSDP. The state has kept its fiscal deficit below 2 percent of GSDP from the year 2004-05 and has recorded fiscal surplus of 0.81 percent, 1.02 and 0.29 percent in 2006-07, 2007-08, 2011-12 respectively. Similarly, aggregate public debt and outstanding liabilities as a percentage of GSDP has gone down significantly from 61.82 percent in 2002-03 to 19.76 percent in 2011-12. This is much below the target set by 12th Finance Commission at 28 per cent of GSDP and 25 per cent target set by the 13th Finance Commission for all the states in aggregate. Due to availability of surplus fund in the revenue account the state has not resorted to Ways and Means Advances from the RBI. Thus, the state has fully complied with the FRBM rules and seems to be following a prudent fiscal profile.

Due to adherence to austerity measures the government has compromised severely on the public service delivery like health, education and other general but essential services. Moreover, the government has not been investing much to augment the future productive capacity of the state. The state government which ought to invest the surplus resources in order to augment the productive capacity of the state is not doing so; rather it has been investing the money with RBI in low yielding financial assets. Investment of surplus cash by the state government which includes Investments held in the Cash Balance-Investment Account and Investments of Earmarked Funds has gone up from 19.18 crore in 2002-03 to 11,906.74 crore in 2011-12.

Huge number of vacancies in most of the departments has deteriorated the delivery of services like health, education and general administrative services. In all the government departments out of 5, 73,512 sanctioned posts 1, 54,727 posts, which constitute 26.98 percent, are lying vacant. In such a scenario maintaining revenue surplus in the state exchequer does not augur well for the economic growth and human development of the state. It is also surprising to note that the departments which help the state government to earn more revenues, like excise, steel and mines, industry etc., are afflicted by large proportion of vacant posts. Due to shortage of employees in these departments government fails to monitor the mining activities and excise collection causing a huge loss to the state exchequer. The reporting of rampant illegal mining activities in Odisha could be partly explained due to shortage of manpower in the department for doing regular inspection.

The progress in human development indicators of the state requires sufficient human power in the hospitals and schools. The state has only four allopathic government medical colleges to cater to the need of more than 4.19 core population. Very recently three private medical colleges have come up in the state; thus making a total of seven medical colleges in the state. Whereas in Kerala, which stands as role model in human development indicators, there are 20 government, cooperative and private medical colleges to cater to the needs of 3.34 crore population. In order to increase the supply of quality health personnel in the state, the government needs to set up at least another three medical colleges. Similarly, provision of education in the state has been severely affected in the state. In the school and mass education department alone in total 32 per cent of vacant posts are lying vacant. In the level of grade B and Grade C, which by and large represents teaching post, around 40 per cent of the sanctioned posts are lying vacant. In the higher education department in aggregate around 19 per cent of the sanctioned posts are lying vacant. However in grade A and grade B level, which represents the teaching posts, around 50 per cent of the sanctioned posts is lying vacant. In such a scenario the quality of teaching at all levels of education is severely marred. The consequence is that no college or university of the state ranks among the top ten universities of the country.

While prioritizing the expenditure of the state usually emphasis is given to the developmental expenditure which includes social and economic services. The classification of expenditures into developmental and non-developmental expenditure does not seem to be valid in all contexts. Following this classification of expenditure, expenditures on general services are considered to be non-developmental expenditures Nevertheless, general services are equally important to facilitate the provision of social and economic services or developmental expenditures. Therefore, the economic literature which measures the allocative efficiency by assigning higher weightage to the expenditures of social and economic services needs to be revisited. There is no doubt that due to fulfillment of political objectives through large scale political employment in the general services departments were in vogue in previous decades. However, this proposition does not seem to be valid any more in an era of formalization of recruitment process. Therefore, maintaining a right size of employees in all the departments – social, economic and general services – are imperative for ensuring efficient utilization of money in stipulated time frame. There is no point in maintaining revenue surplus in the state exchequer when the people of the state do not get basic minimum public services. Therefore, it is important to fill up the vacant posts in all the departments. The state government should spend all the surplus revenue for revenue expenditure, especially for filling up the sanctioned vacant posts.

The state suffers from low level of human development indicators. As per the India Human development Report for the year 2011, Odisha ranked at the second position from bottom. For example, in terms of Infant Mortality Rate (IMR), Maternal Mortality Rate (MMR) the state remains at the bottom level. IMR of the state in the year 2011 was 57 against the national average of 44. This makes the state second worst performer among Indian States; Madhya Preadesh being the worst performer with IMR of 59. MMR of the state during 2007-09 was 258 against the national average of 212. Similarly, in terms of average Monthly Per capita Consumption Expenditure the state scores at the lowest rung. The average MPCE in rural Odisha is only Rs 905 against the national average of Rs Rs 1,287. The MPCE of rural Odisha is only one rupee above the rural MPCE of Chhatishgarh which is lowest in India. Similarly, with the average MPCE of Rs 1,830 in Urban Odisha, the state remains as the third lowest among all states. The Committee for evolving a composite development index of states headed by Raghuram Rajan in its report submitted in September 2013 categorized Odisha as the least developed state of India. The committee includes 10 indicator to measure the backwardness namely (i) monthly per capita consumption expenditure, (ii) education, (iii) health, (iv) household amenities, (v) poverty rate, (vi) female literacy, (vii) percent of SC-ST population, (viii) urbanization rate, (viii) financial inclusion, and (x) connectivity. As per the Census 2011 data, 78 per cent of the households in Odisha did not have latrine against the national average of 53.1 percent. The state ranks at the bottom along with Jharkhand in this indicator. The rural Odisha is in even worse position with 86 per cent of households not having latrine against the national average of 69.3 percent.

As pointed out in Chapter four, the capital outlay of the state, which improves the productive capacity, remains abysmally low and has further gone down from the year 2009-10. Capital outlay of the state which increased from 1.96 percent of GSDP in 2002-03 to 2.55 percent in 2008-09 before it declined in the subsequent years to reach the level of 2.08 percent of GSDP in 2011-12. Only around 35 percent of the cultivable land of the state is irrigated. The state needs to develop its irrigation potential fully for the development of agriculture. The state also has huge tourism potential. Nevertheless, due to poor infrastructure facilities in the major tourist destination the state fails to tap its tourism potential. The state also needs to develop its infrastructure, to attract the private investors. Even though the state needs to invest in a number of areas, it has not been doing so in order to meet the fiscal consolidation targets. The state has complied with the FRBM targets more than required. Fiscal deficit of the state remains below two percent. The state has recorded fiscal surplus in the years 2006-07, 2007-08 and 2011-12. Similarly, the aggregate public debt and outstanding liabilities as a percentage of GSDP has gone down significantly from 61.82 percent in 2002-03 to 19.76 percent in 2011-12. This is much below the target set by 12th Finance Commission at 28% of GSDP and 25 per cent target set by the 13th Finance Commission for all the states in aggregate. Given the low debt liability of the state, the state can borrow more to invest in revenue generating projects like irrigation, ports, development of tourist spots etc. Odisha economy has been witnessing rapid growth from the year 2003-04. The Domar's rule of debt sustainability says that if the GSDP of the state grows faster than the average interest rate paid by the state the debt burden remains sustainable. The nominal GSDP of the state has recorded a trend growth rate of 16 percent during 2002-03 and 20011-12. Therefore, even if the state borrows a little higher the problem of debt sustainability will not arise. The rate of return from the investment in human capital and physical capital of a state is definitely much higher than the rate of return derived from the investment in Treasury bill and other government bonds.

In a press release on 20th May 2008, the World Bank lauded the Odisha government for two reasons: for recording fast economic growth and achiving fiscal consolidation. The Bank noted that '*from being the poorest state of India in the mid 1990s, Odisha has become a state on the move. The state's economy has shifted gear and is on a higher growth trajectory'*. It also pointed out that *'since 2001, Odisha has achieved a remarkable fiscal turnaround. The ratio of the state's debt burden to annual Gross State Domestic Product (GSDP) has fallen significantly, helping it transform from being one of the most fiscally-stressed states of the country in the late 1990s, with a primary (non-interest) fiscal deficit of 6 percent of GSDP, to a surplus of 3.4 percent'*. The Bank praised the government of Odisha for achieving the fiscal consolidation through a series of tax reforms and rationalization of public expenditures. The praise note of the Bank also pointed out that *'the government undertook major surgery to trim the fat, and in the process some muscle also got cut, which needs to be rebuilt now'. Therefore, it is high time for the Odisha economy to raise the development expenditure by diverting its entire revenue surplus towards development expenditure'*.

Utilisation of funds in stipulated time frame has remained as a major issue in the state. From the experience of various departments it comes to fore that the shortage of human power and obsolete Finance Rule of the state are major impediments in the way of timely utilization of funds. The inability in utilizing the money in stipulated time frame create the notion that the state has less fund absorption capacity and therefore the central government shows reluctance to grant more money to the state. Therefore, the state government should amend the Finance Rule in tune with the present day requirements. Similarly, the central government should realize the fund requirement of the state while allocating the money instead of reducing the grant volume assuming low absorption capacity of the state. As pointed by the Raghuram Rajan Committee Report, the huge Scheduled Tribe (ST) population of the state poses a special challenge of development before the policy makers of the state. Therefore, while allocating funds to the state the Finance Commission should give certain weightage to the share of ST population in the total population of the state as a criterion for inter se fund allocation.

Annexures

Annexure 2.1

Methodology on Estimation of Taxable Capacity and Efforts

The tax performance of the state governments in a federation is often assessed in terms of tax effort, which can be expressed as a relationship (ratio) between the actual amount of tax collection and some measure of taxable capacity. It is possible to judge the tax effort of a state in relation to those of other states, or more specifically, in relation to the average performance of all the states in a country. The simplest and most commonly used measure of relative tax effort is the ratio of tax revenue to total income of a state, commonly known as 'tax ratio'. This measure of tax effort has been used in India for the allocation of Plan assistance among the state governments. The use of the tax ratio as a measure of tax effort, however, involves the implicit assumption that income is the appropriate indicator of relative taxable capacity and thus suitable for normalising the tax collections across governmental units. Two sets of problems with such simple measures have been pointed out since long. The first problem relates to income being an imperfect proxy for the tax base, while the second problem relates to the implicit assumption involved in any simple ratio - that the relationship between the broad tax base adopted and tax revenue is linear or proportional, which is not necessarily the case (Sen, 1997).

In the literature, two different approaches have been used to estimate tax efforts; viz. disaggregated estimates of tax effort using representative tax system (RTS) approach popularised by the American Advisory Commission on Inter-Governmental Relations (ACIR), and similar estimates using multiple regressions (Regression Approach) popularised by the staff of the Fiscal Affairs Department of the International Monetary Fund (Chelliah and Sinha, 1997; Thimmaiah, 1979; Sen, 1997). The former essentially involves computing average effective rates of tax over the entire sample after defining an appropriate proxy base for each of the taxes being considered, and using these average rates to estimate tax potential on the basis of each state's tax base. In the latter case, either the aggregate tax revenue or the individual tax collections are explained by a set of variables judged to be representing the taxable capacity through one or more regressions. The regression estimates of the dependent variables are then used as indicators of tax potential/capacity. Comparing the actual tax collection with the tax potential yields a measure of tax effort.

The RTS approach requires detailed data on every type of tax base or a close proxy for each. Due to lack of such data, we have adopted regression approach to estimate the tax potential/capacity and efforts of Odisha. We have used a disaggregated approach and estimated separate cross-section regressions for each of the taxes, or group of taxes. This exercise is carried out for 16 major non-special category states in India, for which the data are readily available. The data used for the study are the average of the three-year period 2008-09 to 2010-2011, to reduce the degree of fortuitous fluctuations. The estimated tax capacities of the states can be seen from the following.

The tax effort of Odisha is computed on a disaggregated basis for the following groups of taxes. These groups were formed due to some degree of interchangeability of the taxes within each group and also because of an identical set of tax base proxies.

1. Land Revenue;
2. Stamp Duty and Registration Fees;
3. Sales Tax (including Central Sales Tax);
4. State Excise Duty;
5. Motor Vehicle Tax;
6. Electricity Duty; and
7. Other Taxes (including Passenger and Goods Tax, Professional Tax, and other taxes).

The basic equations postulated for each of the (groups of) taxes are as follows:

LR	=	f (GSDP-ag)
SR	=	g (GSDP)
PCST	=	h (PCGSDP)
EXD	=	j (GSDP)
MVT	=	k (REGMV, GSDP)
ED	=	l (DOCON, AGCON, INDCON, OTHCON)
OT	=	m (GSDP)

Where

LR	= land revenue,
SR	= revenue from stamp duty and registration fees,
GSDP	= Gross State Domestic Product,
GSDP-ag	= Gross State Domestic Product from agriculture and allied,
PCGSDP	= per capita Gross State Domestic Product,
PCST	= per capita revenue from sales tax (including Central sales tax),
EXD	= revenue from state excise duty,
MVT	= revenue from motor vehicles tax,
REGMV	= No. of registered motor vehicles
ED	= revenue from electricity duty,
ECON	= total sale of electricity,
DOCON	= electricity consumption in domestic sector,
AGCON	= electricity consumption in agriculture sector,
INDCON	= electricity consumption in industry sector,
OTHCON	= electricity consumption in other sectors, and
OT	= revenue from other taxes including passenger and goods tax, profession tax, etc.

The postulated functions are as much dictated by the availability of data as theoretical considerations, and could be improved upon if required data were available. The land revenue is simply taken to be a function of GSDP in the unavailability of GSDP from primary sector for all the selected states. In the case of stamp duty and registration fees (the bulk of revenue comes from stamp duty), the problem with the available data on taxable transaction is that the reported values are under-estimated and hardly reflect taxable capacity. Moreover, the degree of underestimation may not be uniform across states; using reported values of transactions would thus ignore a part of the tax effort - that of bringing reported values of properties transacted more in line with the market values. Hence, we have to choose independent variables that ought to influence market values rather than the unobservable market values. Similarly, in the sales tax equation, direct observations on tax base (i.e. taxable sales) cannot be used, as they would be net of evasion, controlling which is a legitimate part of tax effort. Indirect proxies are therefore used, with PCGSDP reflecting general consumption levels. The data for the share of GSDP from non-primary sector proxying urbanisation, industrialisation and monetisation could not be available for all states. While GSDP is expected to explain excise duty collections, consumption of various types of liquor ought to explain excise duty collections better than GSDP. The specifications for motor vehicles tax and electricity duty are self-explanatory, while the category of 'other taxes' being of miscellaneous type, only a general capacity variable like GSDP can be used.

We have estimated tax potential/capacity using the estimated values of the dependent variables derived on the basis of the preferred equations. The ratio of the actual tax revenue to the estimated tax potential is first calculated. Then, the average for all States is equated to 100 in order to yield the relative tax effort index. The aggregate tax potential is derived as a sum of the disaggregated tax potential, and the aggregate tax effort is derived as a ratio of aggregate tax revenue to the aggregate tax potential.

The estimated equations are presented in the following (t-values in parentheses).

$$\text{Log (LR)} = \underset{(-0.944)}{-2.478} + \underset{(1.804)}{0.971^{***}} \log(\text{GSDP-ag}) \qquad R^2 = 0.19 \qquad F=3.255^{***}$$

$$\text{Log (SR)} = \underset{(-5.921)}{-4.283^{*}} + \underset{(9.147)}{1.385^{*}} \log(\text{GSDP}) \qquad R^2 = 0.86 \qquad F=83.377^{*}$$

$$\text{Log (ST/POP)} = \underset{(-6.176)}{-3.0^{*}} + \underset{(12.398)}{1.341^{*}} \log(\text{PCGSDP}) \qquad R^2 = 0.92 \qquad F=153.713^{*}$$

$$\text{Log (EXD)} = \underset{(-0.390)}{-1.061} + \underset{(1.594)}{0.795} (\text{GSDP}) \qquad R^2 = 0.15 \qquad F=2.542$$

$$\text{Log (MVT)} = \underset{(0.553)}{0.814} + \underset{(2.677)}{0.649^{**}} \log(\text{REGMV}) + \underset{(1.624)}{0.425} \log(\text{GSDP}) \qquad R^2 = 0.82 \qquad F=29.152^{*}$$

$$\text{Log (ED)} = \underset{(-0.683)}{-11.191} - \underset{(-3.246)}{2.020^{*}} \log(\text{DOCON}) + \underset{(0.437)}{0.088} \log(\text{AGCON})$$

$$+ \underset{(3.196)}{1.767^{*}} (\text{INDCON}) + \underset{(1.210)}{1.150} (\text{OTHCON}) \qquad R^2 = 0.82 \qquad F=9.001^{*}$$

$$\text{Log (OT)} = \underset{(-0.943)}{-2.827} + \underset{(1.869)}{1.027^{***}} \log(\text{GSDP}) \qquad R^2 = 0.20 \qquad F=3.493^{***}$$

__Annexure 2.2__

Tax Potential and Efforts of Selected States: Sales Tax

Sl. No.	States	Estimated Capacity/Potential	Actual Revenue	Tax Effort Index
1	Andhra Pradesh	21305.80	24878.91	116
2	Bihar	5103.55	3804.31	74
3	Chhatisgarh	3911.12	4054.63	103
4	Gujarat	19788.16	19967.97	100
5	Haryana	10815.21	9423.04	86
6	Jharkhand	3236.94	4139.33	127
7	Karnataka	14875.02	16896.70	113
8	Kerala	10711.82	13327.04	123
9	Madhya Pradesh	7777.49	8274.52	105
10	Maharashtra	42035.15	35279.76	83
11	**Odisha**	**6286.97**	**5672.97**	**89**
12	Punjab	9144.68	8010.01	87
13	Rajasthan	10093.19	10565.87	104
14	Tamilnadu	20826.50	23983.48	114
15	Uttar Pradesh	16682.89	21047.92	125
16	West Bengal	15673.47	10913.50	69
	All	218267.96	220239.96	100

__Annexure 2.3__

Tax Potential and Efforts of Selected States: Stamps Duty and Registration Fee

Sl. No.	States	Estimated Capacity/Potential	Actual Revenue	Tax Effort Index
1	Andhra Pradesh	4097.61	3134.40	73
2	Bihar	1007.63	937.59	89
3	Chhatisgarh	466.72	621.52	128
4	Gujarat	3372.74	2650.49	75
5	Haryana	1330.81	1646.41	119
6	Jharkhand	420.05	316.68	72
7	Karnataka	2521.27	3028.46	115
8	Kerala	1452.14	2150.63	142
9	Madhya Pradesh	1371.53	1925.57	135
10	Maharashtra	9136.64	10859.09	114
11	**Odisha**	**907.64**	**423.81**	**45**
12	Punjab	1155.18	1866.56	155
13	Rajasthan	1759.01	1553.54	85
14	Tamilnadu	3784.47	4035.48	102
15	Uttar Pradesh	4308.32	4891.72	109
16	West Bengal	3065.31	1862.97	58
	All	40157.06	41904.93	100

Annexure 2.4

Tax Potential and Efforts of Selected States: Motor Vehicles Tax

Sl. No.	States	Estimated Capacity/Potential (Rs Crore)	Actual Revenue (Rs Crore)	Tax Effort Index
1	Andhra Pradesh	1617.70	2140.89	129
2	Bihar	435.80	366.10	82
3	Chhatisgarh	354.49	364.39	100
4	Gujarat	1824.74	1642.66	87
5	Haryana	765.31	324.58	41
6	Jharkhand	361.25	413.53	111
7	Karnataka	1351.98	2064.26	148
8	Kerala	845.56	1133.31	130
9	Madhya Pradesh	946.42	963.32	99
10	Maharashtra	2979.28	2811.81	92
11	**Odisha**	**492.85**	**621.08**	**122**
12	Punjab	758.16	577.58	74
13	Rajasthan	1076.65	1399.56	126
14	Tamilnadu	2113.48	2131.42	98
15	Uttar Pradesh	1973.83	1448.35	71
16	West Bengal	725.12	772.79	104
	All	18622.62	19175.62	100

Annexure 2.5

Tax Potential and Efforts of Selected States: Excise Duty

Sl. No.	States	Estimated Capacity/Potential (Rs Crore)	Actual Revenue (Rs Crore)	Tax Effort Index
1	Andhra Pradesh	2958.63	6621.96	156
2	Bihar	1322.48	1094.72	58
3	Chhatisgarh	850.22	1219.42	100
4	Gujarat	2645.82	59.21	2
5	Haryana	1551.45	1947.79	88
6	Jharkhand	800.32	460.84	40
7	Karnataka	2238.86	6993.54	218
8	Kerala	1631.13	1537.33	66
9	Madhya Pradesh	1578.53	2952.44	131
10	Maharashtra	4688.06	5150.75	77
11	**Odisha**	**1245.48**	**867.79**	**49**
12	Punjab	1430.39	2094.65	102
13	Rajasthan	1820.88	2443.93	94
14	Tamilnadu	2826.66	6870.71	170
15	Uttar Pradesh	3045.03	5703.19	131
16	West Bengal	2504.58	1436.70	40
	All	33138.52	47454.96	100

__Annexure 2.6__

Tax Potential and Efforts of Selected States: Electricity Duty

Sl. No.	States	Estimated Capacity/Potential (Rs Crore)	Actual Revenue (Rs Crore)	Tax Effort Index
1	Andhra Pradesh	746.39	221.23	25
2	Bihar	58.19	66.49	97
3	Chhatisgarh	733.07	444.85	51
4	Gujarat	2240.29	2758.73	104
5	Haryana	494.72	118.72	20
6	Jharkhand	62.80	60.02	81
7	Karnataka	473.34	570.92	102
8	Kerala	52.28	33.83	55
9	Madhya Pradesh	406.97	1321.96	275
10	Maharashtra	2517.10	3471.48	117
11	**Odisha**	**323.87**	**427.68**	**112**
12	Punjab	633.46	761.45	102
13	Rajasthan	511.75	753.28	125
14	Tamilnadu	767.71	712.73	79
15	Uttar Pradesh	163.33	281.96	146
16	West Bengal	556.20	673.73	103
	All	10741.49	12679.06	100

__Annexure 2.7__

Tax Potential and Efforts of Selected States: Land Revenue

Sl. No.	States	Estimated Capacity/Potential (Rs Crore)	Actual Revenue (Rs Crore)	Tax Effort Index
1	Andhra Pradesh	331.07	174.22	31
2	Bihar	159.57	121.57	45
3	Chhatisgarh	66.50	255.52	225
4	Gujarat	230.97	1164.50	295
5	Haryana	153.83	9.34	4
6	Jharkhand	46.55	59.58	75
7	Karnataka	178.74	187.02	61
8	Kerala	113.47	52.49	27
9	Madhya Pradesh	188.84	293.23	91
10	Maharashtra	354.59	785.08	130
11	**Odisha**	**101.89**	**343.87**	**197**
12	Punjab	187.90	16.66	5
13	Rajasthan	234.91	177.45	44
14	Tamilnadu	186.36	145.89	46
15	Uttar Pradesh	452.05	782.19	101
16	West Bengal	302.90	1055.45	204
	All	3290.15	5624.07	100

<u>Annexure 2.8</u>

Tax Potential and Efforts of Selected States: Other Taxes

Sl. No.	States	Estimated Capacity/Potential (Rs Crore)	Actual Revenue (Rs Crore)	Tax Effort Index
1	Andhra Pradesh	1065.77	719.59	45
2	Bihar	376.63	1653.29	292
3	Chhatisgarh	212.84	613.72	192
4	Gujarat	922.51	635.05	46
5	Haryana	462.91	418.51	60
6	Jharkhand	196.85	87.62	30
7	Karnataka	743.48	2853.25	255
8	Kerala	493.85	211.00	28
9	Madhya Pradesh	473.37	1704.37	239
10	Maharashtra	1931.53	3696.54	127
11	**Odisha**	**348.54**	**1032.74**	**197**
12	Punjab	416.79	12.37	2
13	Rajasthan	569.29	478.32	56
14	Tamilnadu	1004.76	1458.03	97
15	Uttar Pradesh	1106.15	475.19	29
16	West Bengal	859.39	767.49	59
	All	11184.67	16817.10	100

<u>Annexure 2.9</u>

Tax Potential and Efforts of Selected States: Total Own Tax

Sl. No.	States	Estimated Capacity/Potential (Rs Crore)	Actual Revenue (Rs Crore)	Tax Effort Index
1	Andhra Pradesh	31758.68	37891.19	109
2	Bihar	10331.39	8044.08	71
3	Chhatisgarh	6496.36	7574.05	107
4	Gujarat	29213.91	28878.60	91
5	Haryana	13429.35	13888.39	95
6	Jharkhand	5398.07	5537.61	94
7	Karnataka	21817.30	32594.15	137
8	Kerala	13872.66	18445.63	122
9	Madhya Pradesh	13843.31	17435.40	116
10	Maharashtra	60879.02	62054.50	94
11	**Odisha**	**9842.91**	**9389.95**	**88**
12	Punjab	12341.46	13339.28	99
13	Rajasthan	16762.76	17371.95	95
14	Tamilnadu	30359.39	39337.74	119
15	Uttar Pradesh	32830.04	34630.52	97
16	West Bengal	24692.35	17482.62	65
	All	333868.98	363895.68	100

__Annexure 2.10__

Measures taken for Additional Tax Mobilisation

Year	Measures taken
2002-03	• The schedule to the Profession Tax Act has been amended. Stayed by Hon’ble High Court, Orissa.
	• Fixed rate structure of one time M.V.Tax has been changed to ad-valorem system
	• Stamp and Registration fees have been rationalised
	• Salami levied for conversion of plots from freehold to leasehold
	• The base of the Luxury Tax has been extended w.e.f 1.1.2003.
	• New Excise Policy introduced with the following revision of rates
2003-04	• Forest Development Tax introduced. Validity of the Act challenged in the Court
	• The scope of Entry Tax Act enhanced
	• Excise Duty increased
2004-05	• The scope for the Professional Tax enhanced by inclusion of new services
	• The upper limits of production capacity based slabs for levy of licencee fee on Distellileries/Breweries lowered
	• Premium India made Whisky, Brandy, Rum, Vodca (landing cost at OCBC-Rs3501/-) : Excise Duty increased from Rs120.00 to Rs. 130.00
	• Excise Duty increased/rationalised
2005-06	• Introduction of VAT w.e.f. 1.4.2005
	• Rate of Electricity Duty revised on Ad Valorem basis
	• Depending on production capacity of Distilleries/Breweries licencee fees revised
	• Excise Duty increased
2006-07	• Excise Duty increased
	• Cable Operators brought into the fold of Entertainment Tax
2007-08	• New Excise Policy introduced with the revision of License Fees, Excise Duty on certain excise items
2008-09	• New Excise Policy introduced with the revision of License Fees, Excise Duty on certain excise items and Application Fee for Label Registration increased on IMFL and foreign liquor
	• Amendment to Schedule of OVAT act, 2004: No input tax credit shall be allowed for Coal, Furnace oil, automobiles, airconditioning units, earth moving equipments etc. except when purchased for resale. (No. 4762/ dt. 27.01.2009)
2009-10	• New Excise Policy introduced with the revision of Lecense Fees for Beer Parlour 'ON' in six cities of the State. Besides, license fees increased from Rs. 1.00 lakh to Rs. 1.50 lakh in other urban areas and Rs. 75,000/- to Rs. 1.00 lakh in rural areas.
2010-11	• New Excise Policy had been introduced with the revision of Lecense Fees, for Breweries and Distileries and Bottling Units, wine roducing units. Utilization Fee in case of short lifting and use of molasses by the distilleries. Revision of Excise Duty on certain excise items like Beer made in Inida, IMFL and increase of license fee for IMFL 'ON' shops.
	• The Odisha Motor Vehicle Taxation (Amendment) Ordinance, 2010 - Revision of rates of Annual Tax
	• The DTH- Broadcasting Service providers have been brought under the purview of Entertainment Tax Act w.e.f. 24th September, 2010.

	• Enhancement of upper ceiling of Non-captive Electricity Duty (ED) from 25 paise/unit to 40 paise/unit
2011-12	• New Excise Policy had been introduced with the revision of License Fees, Application Fees, Annual Renewal of license fees, Excise Duty on certain excise items. Besides, monthly license fee increased for Out Still shops. Increase in Excise Duty on IMFL to be supplied to Troops and Military Bodies.
	• Enhancement of Freight for goods carriages plying within and outside the districts of Keonjhar, Jajpur, Sundargarh and Anugul carrying coal / iron ore / minerals.
	• Tax rate from 12.5% to 13.5% increased. Introduction of a new Act, Odisha Sales Tax (Settlement of Arrears)Act, 2011 for realization of arrears under Odisha Sales Tax Act.
	• Enhancement of VAT rate from 13.5% to 25% on Tobacco and its products other than unmanufactured tobacco, beedies and tobacco used in manufacturing of beedies
	• Imposition of VAT @10% on unmanufactured tobacco, beedies and tobacco used in manufacturing of beedies
	• Enhancement of VAT rate from 4% to 13.5% on digital still camera costing more than Rs. 5000

Source: Finance Department, Govt. of Odisha

Annexure 2.11

Measurement of Buoyancy and Elasticity

The buoyancy coefficient is derived simply by regressing the gross tax receipts on GSDP. On the other hand, the elasticity coefficient is obtained by regressing the adjusted tax series (after 'cleansing' the effect of discretionary changes) on the GSDP. In consequence, the measurement of elasticity, unlike that of buoyancy, is a little complicated one. In deriving elasticity, one has to adjust the figures of tax revenue to remove the effect of discretionary changes made from time to time. Furthermore, tax revenue in a year is not only influenced by the discretionary change in that year, but also influenced by the changes made in the past. Hence, in segregating the effects of discretionary changes it is necessary to adjust not only the changes made in a given year but also the changes made in the earlier years (Meher, 1993).

For estimating elasticity of tax revenue several methods have been suggested in the literature. These include proportional adjustment method, constant rate structure method, dummy variable method, and Divisia index approach (Sharma, 1989). The present study has used the proportional adjustment method to estimate the elasticity coefficients, as this method requires only the budget estimates of the tax yield from proposed discretionary changes for adjusting the revenue series. This method is also relatively easy to handle statistically. It adjusts the tax yield for each year in the sample period to derive a tax series which is based on the structure of rates and exemptions prevailing in a reference year. In the present study the initial year of the study, i.e. 2002-03 has been chosen as the reference year. In attempting to adjust the revenue of the subsequent years to the structure of the reference year, the method first eliminates the estimated effect of discretionary change in the year of change and then subtracts from adjusted yield of each subsequent year an amount of revenue imputed to the concerned discretionary change on the assumption that the effects of the change grows at the same rate as total tax revenue (Chelliah and Chand, 1974).

With the help of the above method, the adjusted tax revenue series can be estimated as follows:

$$T_{1,1} = T_1$$
$$T_{1,2} = T_2 - D_2$$
$$T_{1,3} = T_{1,2} + \frac{(T_3 - D_3 - T_2)}{T_2} T_{1,2}$$

The expression in the parenthesis represents the estimated automatic growth in revenue between the second year and the third year. This is adjusted for the effect of discretionary change in the second year to provide as estimate of the automatic growth in terms of reference year's tax structure.

The above equation can be simplified as:

$$T_{1,3} = (T_3 - D_3)\frac{T_{1,2}}{T_2}$$

In general

$$T_{1,j} = \left(T_j - D_j\right)\frac{T_{1,j-1}}{T_{j-1}}$$

Where T_j denotes the actual yield in the j^{th} year,

D_j denotes the effect in the j^{th} year of the discretionary change in that year, and

$T_{1,j}$ denotes the collection of tax in the j^{th} year adjusted to the structure of the reference year.

Annexure 4.1

Department wise number of Sanctioned Posts and Vacancy

Name of the Department		Grade - A	Grade - B	Grade - C	Grade - D	Total(A+B+C+D)	GRANT-IN-AID	GRAND TOTAL
Home	Number of Vacancies	449	843	10406	1842	13540	1671	15211
	Sanctioned Strength	1760	2466	64295	5720	74241	7844	82085
	Percentage of vacancy	25.51	34.18	16.18	32.20	18.24	21.30	18.53
General Administration	Number of Vacancies	41	88	253	163	545		545
	Sanctioned Strength	164	256	997	909	2326		2326
	Percentage of vacancy	25	34.375	25.38	17.93	23.43		23.43
Revenue	Number of Vacancies	326	393	7777	1628	10124		10124
	Sanctioned Strength	771	889	17677	8694	28031		28031
	Percentage of vacancy	42.28	44.21	44.00	18.73	36.12		36.12
Law	Number of Vacancies	40	25	447	111	623		623
	Sanctioned Strength	205	121	2258	1336	3920		3920
	Percentage of vacancy	19.51	20.66	19.80	8.31	15.89		15.89
Finance	Number of Vacancies	82	407	1092	327	1908		1908
	Sanctioned Strength	561	560	3992	1580	6693		6693
	Percentage of vacancy	14.62	72.68	27.35	20.70	28.51		28.51
Commerce	Number of Vacancies	3	27	428	157	615		615
	Sanctioned Strength	18	70	1392	584	2064		2064
	Percentage of vacancy	16.67	38.57	30.75	26.88	29.80		29.80
Works	Number of Vacancies	45	137	1763	1103	3048		3048
	Sanctioned Strength	184	800	3981	4474	9439		9439
	Percentage of vacancy	24.46	17.13	44.29	24.65	32.29		32.29
Orissa Legislative Assembly	Number of Vacancies	17	14	89	36	156		156
	Sanctioned Strength	46	52	245	100	443		443
	Percentage of vacancy	36.96	26.92	36.33	36.00	35.21		35.21
Food Supplies & Consumer Welfare	Number of Vacancies	7	29	524	128	688		688
	Sanctioned Strength	22	242	1336	560	2160		2160
	Percentage of vacancy	31.82	11.98	39.22	22.86	31.85		31.85

Department wise number of Sanctioned Posts and Vacancy (Contd…)

Name of the Department		Grade - A	Grade - B	Grade - C	Grade - D	Total(A+B+C+D)	GRANT-IN-AID	GRAND TOTAL
Schools & Mass Education	Number of Vacancies	50	321	70846	1288	72505	2567	75072
	Sanctioned Strength	315	806	183183	13348	197652	35677	233329
	Percentage of vacancy	15.87	39.83	38.67	9.65	36.68	7.20	32.17
S.T. & S.C. Development And Minorities & Other Back	Number of Vacancies	13	48	761	242	1064		1064
	Sanctioned Strength	52	503	7993	1491	10039		10039
	Percentage of vacancy	25	9.54	9.52	16.23	10.60		10.60
Health & Family Welfare	Number of Vacancies	1181	1050	4228	7028	13487	11	13498
	Sanctioned Strength	6377	2601	27030	14170	50178	20	50198
	Percentage of vacancy	18.52	40.37	15.64	49.60	26.88	55.00	26.89
Housing & Urban Development	Number of Vacancies	27	29	246	128	430		430
	Sanctioned Strength	75	190	982	644	1891		1891
	Percentage of vacancy	36	15.26	25.05	19.88	22.74		22.74
Abour & E.S.I.	Number of Vacancies	86	41	310	137	574		574
	Sanctioned Strength	246	156	973	603	1978		1978
	Percentage of vacancy	34.96	26.28	31.86	22.72	29.02		29.02
Sports & Youth Services	Number of Vacancies	1	5	24	6	36		36
	Sanctioned Strength	10	24	123	50	207	41	248
	Percentage of vacancy	10	20.83	19.51	12	17.39	0	14.52
Planning & Co-Ordination	Number of Vacancies	23	15	541	33	612	8	620
	Sanctioned Strength	71	99	2202	303	2675	27	2702
	Percentage of vacancy	32.39	15.15	24.57	10.89	22.88	29.63	22.95
Panchayatiraj	Number of Vacancies	11	30	320	179	540		540
	Sanctioned Strength	377	880	10619	2118	13994		13994
	Percentage of vacancy	2.92	3.41	3.01	8.45	3.86		3.86

Department wise number of Sanctioned Posts and Vacancy (Contd…)

Name of the Department		Grade - A	Grade - B	Grade - C	Grade - D	Total(A+B+C+D)	GRANT-IN-AID	GRAND TOTAL
Public Grievances & Pension Administration	Number of Vacancies	1	2	6	0	9		9
	Sanctioned Strength	8	9	21	16	54		54
	Percentage of vacancy	12.50	22.22	28.57	0.00	16.67		16.67
Industries	Number of Vacancies	3	6	66	32	107		107
	Sanctioned Strength	10	16	106	55	187		187
	Percentage of vacancy	30	37.5	62.26	58.18	57.22		57.22
Water Resources	Number of Vacancies	128	230	1747	785	2890		2890
	Sanctioned Strength	479	1332	7560	5178	14549		14549
	Percentage of vacancy	26.72	17.27	23.11	15.16	19.86		19.86
Transport	Number of Vacancies	7	45	108	14	174		174
	Sanctioned Strength	62	188	710	208	1168		1168
	Percentage of vacancy	11.29	23.94	15.21	6.73	14.90		14.90
Forest & Environment	Number of Vacancies	99	273	3808	273	4453		4453
	Sanctioned Strength	319	833	10651	954	12757		12757
	Percentage of vacancy	31.03	32.77	35.75	28.62	34.91		34.91
Agriculture	Number of Vacancies	148	742	2010	772	3672	677	4349
	Sanctioned Strength	222	2201	8519	3145	14087	1663	15750
	Percentage of vacancy	66.67	33.71	23.59	24.55	26.07	40.71	27.61
Steel & Mines	Number of Vacancies	16	148	400	81	645		645
	Sanctioned Strength	70	302	950	304	1626		1626
	Percentage of vacancy	22.86	49.01	42.11	26.64	39.67		39.67
Information & Public Relation	Number of Vacancies	8	16	133	44	201		201
	Sanctioned Strength	29	89	476	360	954		954
	Percentage of vacancy	27.59	17.98	27.94	12.22	21.07		21.07

Department wise number of Sanctioned Posts and Vacancy (Contd…)

Name of the Department		Grade - A	Grade - B	Grade - C	Grade - D	Total(A+B+C+D)	GRANT-IN-AID	GRAND TOTAL
Excise	Number of Vacancies	31	10	821	2	864		864
	Sanctioned Strength	41	44	2004	28	2117		2117
	Percentage of vacancy	75.61	22.73	40.97	7.14	40.81		40.81
Science & Technology	Number of Vacancies	1	0	11	3	15	60	75
	Sanctioned Strength	7	3	31	20	61	249	310
	Percentage of vacancy	14.29	0.00	35.48	15.00	24.59	24.10	24.19
Rural Development	Number of Vacancies	48	67	317	193	625		625
	Sanctioned Strength	179	550	2245	2465	5439		5439
	Percentage of vacancy	26.82	12.18	14.12	7.83	11.49		11.49
Parliamentary Affairs	Number of Vacancies	22	5	30	68	125		125
	Sanctioned Strength	58	19	121	188	386		386
	Percentage of vacancy	37.93	26.32	24.79	36.17	32.38		32.38
Energy	Number of Vacancies	8	29	34	14	85		85
	Sanctioned Strength	48	51	111	64	274		274
	Percentage of vacancy	16.67	56.86	30.63	21.88	31.02		31.02
Textile & Handloom & Handi Crafts	Number of Vacancies	13	29	219	43	304		304
	Sanctioned Strength	34	116	960	548	1658		1658
	Percentage of vacancy	38.24	25.00	22.81	7.85	18.34		18.34
Tourism	Number of Vacancies	2	11	54	22	89		89
	Sanctioned Strength	8	47	117	216	388		388
	Percentage of vacancy	25	23.40	46.15	10.19	22.94		22.94
Culture	Number of Vacancies	10	46	98	50	204	57	261
	Sanctioned Strength	18	80	292	253	643	120	763
	Percentage of vacancy	55.56	57.50	33.56	19.76	31.73	47.50	34.21
Fisheries & Animal Resources Development	Number of Vacancies	73	449	946	1068	2536	13	2549
	Sanctioned Strength	482	1445	4708	3960	10595	13	10608
	Percentage of vacancy	15.15	31.07	20.09	26.97	23.94	100.00	24.03

Department wise number of Sanctioned Posts and Vacancy (Contd…)

Name of the Department		Grade - A	Grade - B	Grade - C	Grade - D	Total(A+ B+C+D)	GRANT -IN-AID	GRAND TOTAL
Co-Operation	Number of Vacancies	8	242	630	160	1040		1040
	Sanctioned Strength	49	570	1994	751	3364		3364
	Percentage of vacancy	16.33	42.46	31.59	21.30	30.92		30.92
Public Enterprises	Number of Vacancies	0	0	10	0	10		10
	Sanctioned Strength	6	4	24	19	53		53
	Percentage of vacancy	0	0	41.67	0	18.87		18.87
Women & Child Developemnt	Number of Vacancies	1	50	1933	146	2130		2130
	Sanctioned Strength	4	505	5361	447	6317		6317
	Percentage of vacancy	25	9.90	36.06	32.66	33.72		33.72
Information Technology	Number of Vacancies	2	0	6	2	10		10
	Sanctioned Strength	5	7	15	10	37		37
	Percentage of vacancy	40	0	40	20	27.03		27.03
Higher Education	Number of Vacancies	1430	359	1366	547	3702	3273	6975
	Sanctioned Strength	3006	747	3203	1628	8584	29644	38228
	Percentage of vacancy	47.57	48.06	42.65	33.60	43.13	11.04	18.25
Employment And Technical Education & Training	Number of Vacancies	195	536	485	130	1346	298	1644
	Sanctioned Strength	289	721	1181	610	2801	911	3712
	Percentage of vacancy	67.47	74.34	41.07	21.31	48.05	32.71	44.29
Micro, Small & Medium Enterprises	Number of Vacancies	52	60	179	70	361		361
	Sanctioned Strength	97	198	643	335	1273		1273
	Percentage of vacancy	53.61	30.30	27.84	20.90	28.36		28.36
Total Vacancy	**Number of Vacancies**	**4708**	**6857**	**115472**	**19055**	**146092**	**8635**	**154727**
	Sanctioned Strength	**16784**	**20792**	**381281**	**78446**	**497303**	**76209**	**573512**
	Percentage of vacancy	**28.05**	**32.98**	**30.29**	**24.29**	**29.38**	**11.33**	**26.98**

__Annexure 8.1__

Powers devolved to the Panchati Raj Institutions in Odisha

	Subjects listed in XI schedule	**Name of Department Subjects transferred**	**Designation of functionaries who will be accountable to PRIs**	**Sanction of casual leave**	**Transfer**
1	Agriculture, including agricultural extension.	Agriculture Department Kharif,Rabi	i)District Agriculture Officer	President, Zilla Parishad.	
2	Land improvement, implementation of land reforms, land consolidation and soil conservation.	Agriculture Department Soil conservation. Horticulture.	ii)District Soil Conservation Officer	Chairman, Panchayat Samiti. President, Zilla Parishad.	
3	Minor irrigation, water management and watershed development.	Agriculture Department Watershed. Water Resources Minor Irrigation up to 100 acres	iii)District Horticulture Officer Junior Agriculture Officer Executive Engineer, MI Assistant Engineer	Chairman, Panchayat Samiti.	
4	Animal husbandry, dairying and poultry.	F & ARD Department. Dairy	Chief District Veterinary Officer Veterinary Asst.Surgeon Live Stockman	President, Zilla Parishad Chairman, Panchayat Samiti	
5	Fisheries	F & ARD Department. Fishery	District Fisheries Officer Assistant Director, Fisheries	President, Zilla Parishad, Sarapanch will report attendance of Live Stock Inspector to Chairman and Veterinary Assistant Surgeon.	

6	Social forestry and farm forestry.	**Not Transferred**			
7	Minor forest produce.	Minor Forest Produce.	Block Development Officer	President, Zilla Parishad.	
8	Small scale industries, including food processing industries.	**Not Transferred**			
9	Khadi, village and cottage industries.	**Not Transferred**			
10	Rural housing.	Rural Housing.	BDO	Chairman, Panchayat Samiti	
11	Drinking water.	R.D Department Drinking Water and Sanitation	Executive Engineer, RWSS	President, Zilla Parishad.	
12	Fuel and fodder.	**Not Transferred**			
13	Roads, culverts, bridges, ferries, waterways and other means of communication.	Road, culvert, bridges, and ferries.	BDO	Chairman, Panchayat Samiti	
14	Rural electrification, including distribution of electricity	**Not Transferred**			
15	Non-conventional energy sources.	Non- conventional energy	BDO	Chairman, Panchayat Samiti	
16	Poverty alleviation programme.	P.R Department Poverty Alleviation	BDO	Chairman, Panchayat Samiti	
17	Education, including primary and secondary schools.	School & Mass Education Department Primary Education	C.I/D.I of School	President, Zilla Parishad.	A Committee comprising of Chairman, BDO and DI of School on the

					Recommendation of the Sarapanches
18	Technical training and vocational education.	**Not Transferred**			
19	Adult and non-formal education.	School & Mass Education Department Non-Formal Education and Adult Education.	Headmaster of Primary School.	Sarapanch.	
20	Libraries.	**Not Transferred**			
21	Cultural activities.	**Not Transferred**			
22	Markets and fairs.	Markets	BDO	Chairman, Panchayat Samiti	
23	Health and sanitation, including hospitals, primary health centres and dispensaries.	H & F.W Department Health	Chief District Medical Officer Medical Officer in charge of PHC/Hospitals	President, Zilla Parishad. Chairman, Panchayat Samiti	
24	Family welfare.	H & F.W Department Family Welfare schemes.	Village Level Health Worker/ANM	Sarapanch or Naib-Sarapanch whoever is a woman.	
25	Women and child development.	W & C.CD Department Social Security Schemes/Mid-day Meal Programme	District Social Welfare Officer CDPO,ICDS/ Anganwadi Workers	President, Zilla Parishad. Chairman/Vice Chairman whosoever is a woman	
26	Social welfare, including welfare of the handicapped and mentally retarded.	**Not Transferred**			
27	Welfare of the weaker	ST &SC Development	District Welfare Officer	President, Zilla	

	sections, and in particular, of the Scheduled Castes and the Scheduled Tribes.	Department Primary Education	Headmaster of Seveshram	Parishad. Sarapanch.	
28	Public distribution system.	Food Supplies & Consumer Welfare Department Public Distribution system.	Civil Supplies Officer	President, Zilla Parishad	
29	Maintenance of community assets.	Maintenance of community assets.	BDO	Chairman, Panchayat Samiti	

Annexure 11.1

Equity Investment in Power Sector by the State Government

Sl. No.	Sanction Order No. and Date	Amount (Rs. in cr.)
1.	R&R-I-01/2009-3560 dt.25.03.09	23.04
2.	R&R-I-01/2009-2003 dt.24.02.09	0.01
3.	R&R-I-01/2009-9464 dt.11.09.09	5.00
4.	R&R-I-01/2009-4826 dt.01.06.10	20.00
5.	R&R-I/73/2010-2438 dt.23.03.2011	51.95
6.	R&R-6/12-685 dt.31.01.2012	1.00
7.	R&R-6/12-690 dt.31.01.2012	39.00
8.	R&R-6/12-695 dt.31.01.2012	3.00
	Total	143.00

__Annexure 11.2__

Debt Financing to Power Utilities by the State Government (Rs. in Crore)

Sl No	Particulars	As on 31.3.2012				
		Principal			Interest o/s	Total
		Not Due	Overdue	Total		
		1	2	3=1+2	4	5=3+4
A	**Govt. Loans**					
1	State Govt.(WCL)	10.00	110.00	120.00	203.01	323.01
2	St.Govt (OPGC Adj.)	10.57	31.98	42.54	52.63	95.17
3	St.Govt Loan (CPA Adj.)	-	162.77	162.77	208.80	371.57
4	GoO Bonds-NTPC	488.16	330.86	819.02	217.13	1,036.15
	Sub total	**508.73**	**635.61**	**1,144.33**	**681.57**	**1,825.90**
B	**Govt. Guaranteed Loan**			-		-
	B.I - Prior to 31-12-2009			-		-
5	Allahabad Bank - II	6.96	-	6.96	-	6.96
6	Allahabad Bank - III	4.93	-	4.93	-	4.93
7	Dena Bank - II	19.52	-	19.52	-	19.52
8	Andhra Bank_I	6.91	-	6.91	-	6.91
	Sub total (B.I)	**38.33**	**-**	**38.33**	**-**	**38.33**
	B.II. - After 31-12-2009 (out of Rs.2000 cr.)			-		-
9	Dena Bank - III_2009-10	98.33	-	98.33	-	98.33
10	Uco Bank -III (100 cr)_2009-10	99.99	-	99.99	0.01	100.00
11	Uco Bank -IV (200 cr)_2009-11	200.00	-	200.00	-	200.00
12	Canara_III-200 cr TL_2010-11	199.85	-	199.85	-	199.85
13	Bank of India(100cr) - I _2010-11	100.00	-	100.00	-	100.00
14	Bank of India(200cr) -II_2010-11	200.00	-	200.00	-	200.00
15	Cental Bank_I - 100 cr_2010-11	99.99	-	99.99	-	99.99
16	Syndicate Bank-II_200cr_2010-11	200.00	-	200.00	-	200.00
17	Allahabad Bank - IV_2010-11	200.00	-	200.00	-	200.00
18	Union Bank- VII_100_2010-11	189.87	-	189.87	-	189.87
19	Andhra Bank_III_2010-11	199.98	-	199.98	-	199.98
20	Canara_IV -100_2010-11	199.81	-	199.81	-	199.81
21	IOB _I - 200_2010-11	199.99	-	199.99	-	199.99
	Sub total (B.II)	**2,187.81**	**-**	**2,187.81**	**0.01**	**2,187.82**
	Sub total	**2,226.13**	**-**	**2,226.13**	**0.01**	**2,226.15**
C	**Other Loans & Bonds**			-		-
22	Union Bank of India- III	19.46	-	19.46	-	19.46
23	Union Bank of India- IV	31.14	-	31.14	-	31.14
24	Union Bank STL - V_2009-10	100.00	-	100.00	0.07	100.07
25	Union Bank TL-VI_2009-10	122.02	-	122.02	-	122.02
26	Union Bank-FDR Loan	132.00	-	132.00	-	132.00

27	Andhra Bank-FDR Loan	-	-	-	-	-
28	Union Bank - SOD	173.11	-	173.11	0.97	174.07
29	Andhra Bank_II_2009-10	138.29	-	138.29	-	138.29
30	Karnataka Bank_II-100cr_2009-10	66.56	-	66.56	-	66.56
31	Uco Bank -I (200 cr)_2008-09	27.80	-	27.80	-	27.80
32	Uco Bank -II (100 cr)_2008-09	30.01	-	30.01	-	30.01
33	Canara - 100 cr TL_2009-10	51.69	-	51.69	-	51.69
34	Canara - 100 cr TL_2009-10	64.92	-	64.92	-	64.92
35	Kalinga GB -50 cr_2009-10	43.69	-	43.69	-	43.69
36	Karur Vbank_I - 50 cr_2009-10	45.85	-	45.85	-	45.85
37	Karur Vbank_II - 50 cr_2010-11	50.00	-	50.00	-	50.00
38	Bond PF/99 (P.Trust)	65.26	-	65.26	-	65.26
39	Bond PF/2012 (100 cr)	100.00	-	100.00	-	100.00
	Sub total	**1,261.78**	**-**	**1,261.78**	**1.04**	**1,262.82**
	Gr. Total	**3,996.64**	**635.61**	**4,632.25**	**682.62**	**5,314.87**

Annexure 13.1

Subsidy to Agriculture and Allied Sector

Agriculture and Allied Activities	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010- 11	2011- 12
2401-Crop Husbandry										
Seeds										
Inputs subsidy on seeds, fertilizers, biofertilisers,insecticides, biopesticides etc.				168.69	178.26	421.44	974.13	1098.97	2112.94	2700
Inputs subsidy on seeds, fertilizers, biofertilisers,insecticides, biopesticides etc.(Horticulture)							25.75	9.91	61.54	59.03
Commercial Crops										
Integrated Paste management (Control of Eriophyied mite)					12.57		5.24			
Crop Insurance										
Subsidy for Indemnity of Crop Insurance				100	300	181	850.59			
Special component plan for Scheduled Castes										
Subsidy for indemnity of Crop Insurance						49	223.1			
Input subsidy on seeds, fertilisers,Bio-fertilisers, Insecticides, Bio-pesticides etc						150.19	420.6	232	354	450
Integrated Paste management					2.43		1			
Inputs subsidy on seeds, fertilizers, biofertilisers,insecticides, biopesticides etc.(Horticulture)							7.04	2	15.9	17.52
Management of Acidic Soil										100
Tribal Area Sub-Plan										
Subsidy for Indemnity of Crop Insurance						70	320.7			
Input subsidy on seeds, fertilisers,Bio-fertilisers, Insecticides, Bio-pesticides etc						156.51	422.73	319	283.06	350
Inputs subsidy on seeds, fertilizers, biofertilisers,insecticides, biopesticides etc.(Horticulture)							9.81	3	22	22.86
Management of Acidic Soil										50
Other Expenditure										
Subsidy on popularisation of Agricultural implements, equipments, diesel pump sets						270	1500.89	2310.48	4398.65	8227.34
Management of Acidic Soil under CM's package Subsidy						187	30.5			350
Deduct Recoveries of Overpayments Assistance for Fertiliser Promotion					-1		-5			
Total - 2401				268.69	492.26	1485.14	4787.08	3975.36	7248.09	12326.75
2405-Fisheries										
Marine Fisheries										
Reimbursement of Central Excise Duty on HSD oil used by Fishing Vessel below 20m length-Subsidy				155	220		100			
Special component plan for Scheduled Castes										
Assistance for Mechanisation Programme Subsidy				46	80					
Grant-in-aid on Saving-cum-Relief Fund under Welfare					70	9.84	89.64		33.96	267.1

Programme for fishermen-Subsidy										
National welfare Fund of low cost houses subsidy					325.08	100				239.83
Motorisation of traditional Craft-Subsidy						40	50	50	50	54.08
Welfare Programme for fishermen-Subsidy to fisherman on accident insurance				8.41	25					116
Total - 2405				209.41	720.08	149.84	239.64	50	83.96	677.01
2408-Food, Storage and Warehousing										
Food										
Food Subsidies	4180.36	2020.12	4496.79	4502.55	3995.84	3783.86	53683.9	84786.85	92977.71	97627.63
BPL Rice Subsidy							3000			
Special component plan for Scheduled Castes										
Subsidy							99.6	97	100	104.42
Tribal Area Sub Plan										
Subsidy						114.54	114.5	110	115	120.08
Total - 2408	4180.36	2020.12	4496.79	4502.55	3995.84	3998	56898	85277.2	93192.71	97852.13
2425-Co-operation										
Information and Publicity										
Subsidy to Orissa State Co-op Union				3.01	3	3	5	10	10	20
Training subsidy to Co-op Training Colleges				6.2						
Assistance to Credit Co-operatives										
Subsidy to Integrated Co-operative Dev Projects in Angul, Dhenkanal										44
Interest subsidy/subvention to the Co-op. Banks/PACs for providing Crop loan at 5% interest to the farmers										5424
Subsidy to Integrated Co-operative Development							25.33	18.33	23.16	
Special Component Plan for Scheduled Castes										
Subsidy to Integrated Co-operative Development							6.64	4.8	8	
Subsidy to Integrated Co-operative Dev Projects in Angul, Dhenkanal										16
Interest subsidy/subvention to the Co-op. Banks/PACs for providing Crop loan at 5% interest to the farmers										1994.29
Tribal Area Sub-Plan										
Subsidy to Integrated Co-operative Development					25.21	-0.39	9.55	6.9	8.85	
Subsidy to Integrated Co-operative Dev Projects in Angul, Dhenkanal										18
Interest subsidy/subvention to the Co-op. Banks/PACs for providing Crop loan at 5% interest to the farmers										2683.39
Total - 2425				9.21	28.21	2.61	46.52	40	50.01	10199.68
Total Agriculture and Allied Activities	4180.36	2020.12	4496.79	4989.86	5236.39	5635.59	61971.24	89342.56	100574.77	121055.57