OUTCOME EVALUATION OF STATE FINANCES IN THE CONTEXT OF RECOMMENDATIONS OF THE 14TH FINANCE COMMISSION

(Sponsored by 15th Finance Commission)

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Foreword

The 15th Finance Commission had entrusted Nabakrushna Choudhury Centre for Development Studies (NCDS) to take up a study on "Outcome evaluation of the State Finances in the context of recommendations of the 14th Finance Commission: Determination of a Sustainable debt roadmap for 2020-25", taking into account impact of GST and other tax/non tax trend forecasts. The study covers a number of issues relating to state finance of Odisha for a decade, 2006-07 to 2015-16. In particular, it looks into aspects of revenue receipts, expenditure deficit financing, debt burden, financial decentralization of local bodies, performance of state public enterprises and impact of power sector reforms among others.

I take this opportunity to state that the State of Odisha is uniquely positioned on three counts. First, nearly two-fifth of its population are scheduled (22.85% Scheduled Tribes and 17.13% Scheduled Castes).

Second, out of the 30 districts of the state, 7 districts are fully and 6 districts are partly covered under the scheduled areas. In fact from the 21 Parliamentary Constituencies and 147 Assembly Constituencies 8 and 57 respectively, are reserved for the scheduled population.

Third, in 2013-14, the percentage of net irrigated area to net cultivated area was 27.7% implying that the remaining 72.3% of net cultivated area was largely rainfed. In some of this rainfed areas millets which we may refer to as scheduled crops need to be encouraged to be grown. This is so because millets are climate resilient and nutritious. In fact, the Government of Odisha has started an important programme on revival of millets. The Government of India also declared 2018 as the year of millets. Hence, it is my submission that the 15th Finance Commission may consider to give some weight to scheduled population, scheduled areas and rainfed areas in the devolution of funds.

Independent of the above submission, the study is as per the terms and conditions of the 15th Finance Commission. I hope that this will be of help to the Commission.

DIRECTOR

Preface

Outcome Evaluation of State Finances in the context of the recommendations of the Fourteenth Finance Commission with respect to Odisha presents a critical analysis of the financial health of the State, Odisha during the period 2006-07 to 2015-16. This report covers a range of issues relating to State finance, such as the revenue receipts and expenditure; deficit; debt; the fiscal decentralization to local bodies; performance of State Public Enterprises and its impact on the financial health; impact of Power Sector Reforms on state's fiscal health; managing contingent liabilities; subsidies; etc. Besides, it deals with the progress in implementation of reforms on public expenditure and financial management in the State.We heavily depend on the earlier report "Evaluation of State Finances with Reference to State of Odisha" which was prepared by Nabakrushna Choudhury Centre for Development Studies (NCDS) and submitted to Fourteenth Finance Commission(FoFC) in 2013.

The report is the outcome of the task entrusted to Nabakrushna Choudhury Centre for Development Studies, Odisha by the Fifteenth Finance Commission (FFC) constituted to recommend the principles of the devolution of resources between the Union and States. The study has been carried out during the months of June to October 2018 on the Terms of Reference decided by the Commission and the MoU signed between the Commission and the Centre. In this context, we take the opportunity to convey our sincere gratitude to the Fifteenth Finance Commission for assigning the study to NCDS.

Mr. Shaktikanta Das, Honourable member, FFC, visited NCDS on 18th September, 2018 and reviewed the progress of the work in a meeting chaired by Mr. R. Balakrishnan, IAS, Development Commissiomer-cum-Additional Chief Secretary and Chairman, NCDS. we are all very thankful to them for their suggestions.

We express our profound sense of reverence to Professor Srijit Mishra, Director, NCDS who entrusted this work to us and for his constant guidance, support, motivation, valuable suggestions and comments, untiring help and keen involvement in each stage of this research work.

We also express our gratitude to Professor Shibalal Meher and Dr. Amarendra Das, who prepred the previous report and alsofor theiradvise, support, suggestions & valuable comments. We are also thankful to Professor Subata Dutta, who quickly reviewed the report and gave valuable comments.

The study would not have been possible without the support and cooperation of the Finance Department, Government of Odisha. In this context, we express our sincere thanks to Dr. D.K. Jena, the then Additional Secretary, Mr. Rupa Narayana Das, Joint Secretary, Mr. Debipriya Biswal, Joint Secretary, Dr.Satyapriya Rath, Joint Secretary, and to Mr. Sahadev Sahoo, Additional Secretary. We are all very thankful to them for their cooperation and suggestions.

The staff of the Finance Department, Government of Odisha and NCDS helped us directly or indirectly in preparing this report. We express our heartfelt thanks to all of them.

Biswabas Patra

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Terms of Reference (ToR)

The study provides an analysis of State Finances of Odisha over a period of 10 years starting from 1st April 2006. The terms of reference of the study broadly covers 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 the last 5years.Suggestions for improving efficiency in public spending.
iv. Analysis of Deficits- Fiscal and Revenue.
v. 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 borrowing 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 State's transfers to urban and rural local bodies in the State.Major decentralization initiatives.
viii. Impact of State Public Enterprises finances on the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.
ix. Impact of Power Sector Reforms on State's fiscal health. In case reforms have not been implemented, the likely outcome on the State's fiscal health.
x. Analysis of contingent liabilities of the State.
xi. Subsidies given by the States (other than Central subsidies), its targeting and evaluation.
xii. Outcome Evaluation of State Finances in the context of recommendations of 14th Finance Commission.
xiii. Determination of sustainable debt roadmap for 2020-25, taking into account impact of introduction of GST and other tax/non-tax trend forecasts.

Executive Summary

The summary of the findings of the study are as follows.

1. Revenue receipts of Odisha as a percentage of Gross State Domestic Product (GSDP) have increased from 17.2 per cent in 2006-07 to 20.8 per cent in 2015-16. While the own revenue receipts of the State as a percentage of GSDP has increased from 8.5 per cent to 9.4 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 has increased from 3.1 per cent to 4.3 per cent during the study period (2006-07 to 2015-16). Share of own tax revenue in total own revenue receipt has increased from 70 per cent in 2006-07 to 72 per cent in 2015-16, while the share of own non-tax revenue has decreased from 30 per cent to 28 per cent during that period. Own tax revenue as a percentage of GSDP (own tax/GSDP) in Odisha has increased from 6 per cent in 2006-07 to 6.8 per cent in 2015-16. Nonetheless, Odisha's tax-GSDP ratio remains much lower compared to other general category states, except Jharkhand, Bihar and Rajasthan.

2. The total revenue has grown at a greater proportion than that of GSDP during the period between 2006-07 and 2015-16 as revenue buoyancy is observed to be more than unity. However, State's own revenue is more responsive to GSDP as compared to total revenue of the State. The buoyancy of grants-in-aid is less 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 0.8 in 2007-08 increased to 1.2 in 2011-12 before it declined to 0.7 in 2012-13. Further the revenue buoyancy increased to 4 in 2015-16. The State's own revenue however, behaved slightly in different manner. While the buoyancy of the State's own revenue was lowest at 0.4 during 2007-08, it increased to 1.2 in 2008-09 before it came down to 0.9 during 2009-10. Subsequently it increased to 2.3 in 2015-16. It also observed that the buoyancy of own revenue remained lower than buoyancy of total revenue after 2013-14, indicating that State's own revenue has become less responsive to GSDP but, more responsive than that of the revenue transfer from Central Government after 2013-14.

3. State's own tax revenue has grown proportionately with the GSDP over the period from 2006-07 to 2015-16 leaving aside year wise buoyancy. However, revenue from individual taxes has shown different buoyancy in different years. This indicates inconsistency in realising revenue from individual taxes.

4. Odisha's aggregate own tax effort is poor compared to other non-special category states. With an estimated annual taxable capacity of Rs.205421.9crore, the State has raised an average Rs.197489.5 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 not performed well in raising Stamps and Registration fee, Motor Vehicle tax, Land Revenue tax, State Excise. Its State excise tax effort is lower than average State excise effort of all major non-special category States in India. With an estimated taxable

capacity of Rs.2829.1crore, the State has been able to raise Rs.2120.7 crore from State Excise. With an estimated taxable capacity of Rs.1558.3 crore the State has raised Rs.1187.6 crore in case of Stamps and Registration fee. However, Odisha's tax effort performance of Electricity duty is remarkable. With an estimated taxable capacity of Rs.508.1 crore the State has raised Rs.1201.6 crore. In case of Land Revenue Odisha has also raised more revenue than the taxable capacity. With an estimated taxable capacity of Rs.160.8 crore, Odisha has raised Rs.555.2 crore from land revenue.

5. Non-tax revenue as a percentage of GSDP has increased from 2.5 per cent to 2.6 per cent during the period under study. It has recorded an annual compound growth rate of 20.9 per cent, while exhibiting buoyancy of more than unity 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 huge fluctuations noticed during the period under study. The major source of non-tax revenue is mining royalty having 66.6 per cent of share in total non-tax revenue during 2015-16 with high rate of cost recovery, followed by major and medium irrigation with 7.9 per cent of the share in total non-tax revenue.

6. So far Public Sector Undertakings in the State are concerned, in majority cases no dividend is received. Only six PSUs have contributed dividends to the government during 2006-07 to 2015-16 with Odisha Mining Corporation (OMC), Odisha Power Generation Corporation (OPGC) and Odisha Hydro Power Corporation (OHPC) being three major contributors. However, the State has not received any dividends from OPGC in the year 2014-15. The dividends and profits exhibit growth rate of only 6.2 per cent per annum during the period 2006-07 to 2015-16. The share of profits and dividends in State's Own Non-tax Revenue (ONTR) has declined from 34 per cent in 2014-15 to 17 per cent in 2015-16.

7. Recovery of operational cost in case of most of the social and economic services is not encouraging due to lower user charges. While recovery rate in case of mining royalty and forest and wild life is more than 100 per cent in 2011-12. It is much less in case of other sources of non-taxrevenue except major and medium irrigation where the recovery rate is 63.5 per cent during 2015-16. The effort of the State Government in raising the operational cost of major and medium irrigation is encouraging as there is higher increase since 2011-12. 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 of 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 could 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 resources. Therefore, the State should levy higher user charges for provision of these public services. It should be determined according to economic status of the user so that at least the operational cost is met.

8. Total expenditure as a percentage of GSDP has increased from 17.2 per cent in 2006-07 to 23 per cent in 2015-16. Total expenditure as a percentage of GSDP decreased to 16.8 per cent in 2012-13 and then onwards increased gradually and reached at 23 per cent in 2015-16. Revenue expenditure as a percentage of GSDP has decreased from 15.5 per cent in 2006-07 to 13.7 per cent in 2007-08 and in the subsequent years it has increased and reached at 17.7 per cent in 2015-16. Capital expenditure (outlay) as percentage of GSDP which was at 1.4 per cent in 2006-07 was increased to 2.5 per cent in 2008-09 and thereafter started increasing in the subsequent years and reached at 5.2 per cent in the year 2015-16. Higher growth of capital is essential for growth of the economy. However, the share of capital expenditure still remains at low level hence there is need to increase capital outlay in order to accelerate economic growth.

9. The plan expenditure of the State has grown at a higher rate than the growth of total expenditure. The annual average growth rate of plan expenditure was 30.3 per cent against 17.9 per cent growth of total expenditure during the period 2006-07 to 2015-16. Due to the higher growth of plan expenditure its share in total expenditure increased from 24 per cent in 2006-07 to about 53.2 per cent in 2015-16. The non-plan expenditure as a proportion of GSDP, on the other hand, has declined from 76 per cent in 2006-07 to 46.8 per cent in 2015-16. Its annual growth rate was 12 per cent lower than the growth rate of overall expenditure.

10. Expenditure on general services as a percentage of GSDP has declined from 7.4 per cent in 2006-07 to 4.7 per cent in 2015-16. On the other hand, the combined share of social services and economic services, representing developmental expenditure, as a percentage of GSDP has increased from 9.2 per cent in 2006-07 to 18 per cent in 2015-16. The increase in the percentage of expenditure on social and economic services is in right direction so as toenhance the quality asset base (both physical and human).

11. Share of expenditure on salaries in revenue receipts has declined from 24.8 per cent in 2006-07 to 21.9 per cent in 2015-16. However, the amount spent during 2011-12 is still higher than the assessment made by the ThFC. Interest as a proportion of revenue receipts has declined from 17.6 per cent in 2006-07 to 4.8 per cent in 2015-16, and remained lower than the projection made in MTFP, ThFC and FFC. Subsidy as a proportion of revenue receipts has increased from 0.9 per cent in 2006-07 to 13.4 per cent in 2015-16.

12. Expenditure allocation for general services in total expenditure has declined sharply from 28.3 per cent in 2011-12 to 20.3 per cent in 2015-16, while it has decreased for social services from 37.9 per cent in 2011-12 to 36.1 per cent in 2015-16 and for economic services; it has increased from 22.5 per cent in 2011-12 to 41.9 per cent in 2015-16. 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 8.3 per cent in 2015-16. 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 3.5 per cent of GSDP on education during 2015-16. Similarly, against the recommendation ICSSR and ICMR panel for spending 6 per cent of income on health, Odisha had spent only 1.1 per cent of GSDP on health during 2015-16. These two components are majorindicators of human development and thus the allocation of these sectors needs to beenhanced. At the same time, the technical/operational efficiency of these two sectors is very low with cost recovery of 3.2 per cent of non-plan revenue expenditure in case of health sector and 1 in case of education. This needs to be improved.

13. 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 2009-10 and 2013-14 when it was only 0.7 and 1.1 per cent respectively. Fiscal deficit of the State has remained below the targeted rate. The State has recorded fiscal surplus in 2006-07, 2007-08 and 2011-12. The State has recorded primary surplus up to 2012-13 and thereafter, it has primary deficit. Primary surplus as a percentage of GSDP decreased from 3.4 per cent in 2006-07 to 1.1 per cent in 2012-13. During 2015-16, the share of primary deficit as a percentage of GSDP was 1.1 per cent.

14. Total public debt of The State as a percentage of GSDP has gone down substantially from 36.6 per cent in the year 2006-07 to 15.7 per cent in 2015-16. Similarly, the aggregate public debt and outstanding liabilities as a percentage of GSDP has gone down from 38.7 per cent in 2006-07 to 18 per cent in 2015-16. This is much below the target set by 12th Finance Commission at 28 per cent of GSDP and 25 per cent target set by 13th and 14th Finance Commission for all the States in aggregate.

15. The share of internal debt (which includes Market Loans, WMA(Ways and Means Advances) from Reseve Bank of India (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) decreased from 46.7 per cent in 2006-07 to 44.4 per cent in 2015-16. The share of Central Government loan (which includes Non-Plan Loans, Loans for State Plan Scheme, Loans for Central Plan Schemes, Loans for Centrally Sponsored PlanSchemes and Pre 84-85 Loans) in the total PDOL has declined steadily from 22.1 per cent in 2006-07 to 12.1 per cent in 2015-16. The State Government is relying more upon the Small 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 26.1 per cent in 2006-07 per cent to 30.5 per cent during 2015-16 showing almost 4 percentage points rise. The share of other obligations in the total PDOL showing a rising trend in the subsequent years to record 13 per cent in 2015-16.

16. The share of market loan in the total public debt has gone down from 29.1 per cent in 2008-09 to 24.08 per cent in 2015-16. Similarly, the share of bonds has declined from 3.1 per cent in 2008-09 to Zero per cent in 2015-16. The government of Odisha is no more relying upon the Ways and Means Advance from the Reserve Bank of India.

17. Capital outlay as a percentage of total expenditure went up from 7.5 per cent in 2006-07 to 21.6 per cent in 2015-16. 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.

18. The Odisha Fiscal Responsibility and Budget Management Act was assented by the Governor on the 11th of May 2005 and was published for general information as Odisha Act 6 of 2005. Subsequently, on 11th August 2005, the Finance Department, Government of Odisha notified the Odisha 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 per cent.

19. The State Government has over-complied with the FRBM targets imposed by its own legislation and the MTFP roadmap drawn by the 14thFinance Commission.

20. The 73rd constitutional amendment enlists 29 subjects to be transferred to the Panchayat Raj Institutuions (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.

21. 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 896.2 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 4480.9 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.

22. The Fourth State Finance Commission (FSFC) submitted its final report on 30th September, 2014, recommended to transfer 10 per cent of divisible pool of state taxes projected for the award period, 2015-20. The Commission was recommended Rs.1986.3 crore, Rs.2290.9 crore, Rs. 2620.1 crore, Rs.2730.6 crore and Rs.3012.1 crore for 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20.

23. The government of Odisha in its budget 2018-19 has announced to transfer funds to the Local Bodies as follows: 1) A sum of Rs.2906.4 crore has been provided as grant-in-aid to local bodies on the recommendation of the 14th Finance Commission which is Rs.2083.3crore. 2) Rs.1709 crore have been provided in the budget towards assistance to Panchayati Raj Institutions as per the recommendation of the 4th State Finance Commission. 3) Rs.1197.4 crore have been provided as grants to ULBs under 14th Finance Commission Award which is 314.8 crore. 4) Assignment of share from Entry Tax to ULBs has been enhanced from Rs.307.4 crore in 2012-13 to Rs.500 crore in 2013-14.

24. Between 2011-12 and, 2015-16, 26 to 28 State Public Enterprises (SPEs) have operated and out of which maximum number of Public Sector Undertakings (PSUs) have recorded profit and 5 to 6 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 Odisha Mining Corporation (OMC), Odisha State Cashew Dev. Corporation (OSCDC), Odisha Construction Corporation (OCC), Odisha Power Generation Corporation (OPGC), Odisha State Road Transport Corporation (OSRTC), Idco, Idcol Ferro Chrome & Alloys Limited have recorded profit during 2011-12 to 2015-16. 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 decline from 1.2 per cent in 2011-12 to 0.01 per cent in 2015-16.

25. In order to ensure timely spending and maintaining 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. Outlay-outcome budgets of four departments viz. Fisheries and Animal Resources Development, Panchayati Raj, Rural Development and Water Resources Departments were reviewed for the year 2015-16 and it was seen that the financial and physical targets were mostly not achieved. 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.

26. Outlay-outcome budgets of four departments viz. Fisheries and Animal Resources Development, Panchayati Raj, Rural Development and Water Resources Departments were reviewed for the year 2015-16 and it was seen that the financial and physical targets were mostly not achieved.

27. The impact of power sector reform on State's fiscal health can be summarised 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.121.3 crore in 1995-96 to Rs.1212.2 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.

28. 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 47.6 per cent in 2006-07 to 15.8 per cent in 2015-16. Similarly, the outstanding guarantee as a percentage of revenue receipts has reduced from almost 28 per cent in 2006-07 to 2 per cent in 2015-16.

29. The total subsidy of the State Government has increased from Rs.170.2 crore in 2006-07 to Rs.2581 crore in 2015-16. There is sudden jump in the subsidy from Rs.148.3 crore in 2007-08 to Rs.743 crore in 2008-09 and Rs.2075.8 crore in 2014-15 to Rs.2581.4 crore in 2015-16. Economic service sector has received the major share of subsidy. During 2015-16, the subsidy to this sector was 71 per cent against 29 per cent subsidy to social sector. Subsidy to social sector remained below 10 per cent from 2007-08 to 2009-10. Thereafter the share of subsidy to this sector increased rapidly. It increased to 26 per cent in 2011-12 and 29 per cent in 2015-16. On the other hand, subsidy to economic sector declined with the increase in subsidy to social sector. During 2015-16, the economic sector still has the lion's share in the total subsidy and food subsidy having overwhelming component within it.

30. 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 2006-07 to 2015-16, the total subsidy as a percentage of GSDP has increased from 0.2 per cent to 0.9 per cent. The share of subsidy in GSDP in case of economic service sector has remained at 0.5 per cent (with agriculture and allied at 0.5 per cent) and social service sector at 0.2

per cent during 2015-16. Food subsidy has highest share of 0.3 per cent in GSDP during 2015-16.

31. In targeting food subsidy, both inclusion and exclusion errors are observed. However, exclusion error is found to be more than inclusion error, indicating that the percentage of poor who ought to be included but are excluded from the Public Distribution System (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 digitisation of ration cards.

32. The receipts under State's tax revenue and non-tax revenue were less than the assessment of FFC by 10 per cent and 3 per cent respectively. But, the State's own tax revenue was more than assessment made in MTFP by Rs.1247 crore (six per cent) and non-tax revenue increased by Rs.2699 crore (fourteen per cent) over previous year. There was decrease in Centrally Sponsored Schemes (Rs.1628.9 crore). Percentage share of grants to revenue receipts was increased from 20.2 per cent in 2011-12 to 20.5 per cent in 2015-16.

33. There was increase in total expenditure of Rs.13611 crore in 2015-16 over the previous year on account of increase in revenue expenditure and capital expenditure by Rs.7670 crore and Rs.5693 crore respectively. The interest payment during 2015-16 was increased by Rs.533 crore over the previous year.

34. In Odisha, Goods and Services Tax (GST) subsumes the taxes like Value Added Tax (VAT), Central Sales Tax, Entertainment Tax, Entry Tax, Forest Development Tax, Advertisement Tax and Luxury Tax. Odisha incurs loss on account due to major structural changes in GST structure. The state may incur loss on account even after five years because of the changes in rate structure, abolition of CST, Entry tax etc. The gain from service tax is not enough to make up the loss. Due to GST, the growth rate of tax revenue has decreased since July, 2017.

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
FFC	Fourteenth 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
KFW	KreditanstaltFürWiederaufbau
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	Odisha 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 crores(as per Census 2011). The State is accounting for about 4.75 per cent of the geographical area and about 3.6 per cent of the total population of the country. The State economy present an overwhelming rural scenario with 83 per cent of the people living in villages and more than 60 per cent of work force drawing their livelihood sustains from agriculture. The crop sector has improved in the study period particularly in the later half due to State Government's intervention on certified quality seed provision, improved agricultural implements, farmers' extention etc. During this period, the industrial sector has recovered notably. State specific Index of Industrial Production (IIP) increased by 17 per cent. Metalic industry production is the major driver of growth.In recent years, 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 State's population is below poverty line (2011-12). Unemployment rate both rural and urban is higher in the state over the all India average. The state rank 12 (in ascending order) among the major 17 states in the India states Hunger index, 2008. More than 50 per cent children below the age of five are malnourished. Disparities among the 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 & human) development as compared to Costal 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 sector like health, education and sanitation. The real challenge is thus to mobilize resources for investment in these critical sector.

1.2 State's Fiscal Position

The revenue surplus of Rs.28 crore of Odisha government recorded in 1981-82 disappeared in the following two decades due to rapid growth in revenue expenditure without the commemsurating rise in the revenue collection. Revenue expenditure of the state as a percentage of the GSDP rose almost two fold from 10.3 per cent in 1981-82 to 19.1 per cent in 2001-02. Revenue receipt, during this period, saw only a moderate rise from 10.8 percent of GSDP in 1981-82 to 13.6 percent in 2001-02.The mismatch between the expenditure behaviour 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 analysing 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 13.7 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 18.6 percent in 2011-12 and has shown a moderate slow down in 2012-13 and it has remained at 16.9 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 2006-07 to2015-16 is summarised in Table 1. 1. The surplus in revenue account has been maintained from 2006-07 to 2015-16. Fiscal Deficit could also be contained within 3 per cent of GSDP. Debt-GSDP ratio came down from 36.6 per cent in 2006-07 to 15.5 in 2015-16. Tax-GSDP ratio remained at 5 to 6 per cent during 2006-07 to 2010-11 and increased to 6.2 per cent in 2011-12. Again it became less than 6 per cent in 2012-13 & 2013-14 and again it increased to 6.3 & 6.8 in period 2014-15 & 2015-16.

The Thirteenth Finance Commission (ThFC) recommendedthat 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 brought amendment (February, 2012) to the States 'Fiscal Responsibility and Budget Management (FRBM) Act, 2005 which set the following fiscal targets;

(i) Revenue deficit during 2011-12 and onwards to be maintained at Zero

(ii) Fiscal deficit to be contained within 3 per cent of GSDP from 2011-12 and onwards.

(iii) In order to bring the debt stock to a sustainable level, interest payment as a per cent 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 2006-07 to 2015-16 and analyses critical changes in the major fiscal aggregate.

The Fourteenth Finance Commission recommended that the State Government may amend its FRBM Act to provide for the statutory flexible limit and fiscal deficit. It has also recommended that the state may amend its FRBM Act to provide a statutory ceiling onthe sanction of new capital works to an appropriate multiple of the annual budget provision.

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.

For the analysis, the GSDP figures with base year 2004-05 has been utilised. Directorate of Economics and Statistics, GoO has calculated the GSDP figures for Odisha for different years upto 2014-15. The GSDP for 2015-16 with base year 2004-05 has been calculated by the institute.

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 and revenue capacity.

Table 1.1: Financial position of the State Government (Rs. In Crores)

Sl. No.	Items	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Revenue Receipts	18032.6	21967.2	24610.0	26430.2	33276.2	40267.0	43936.9	48946.8	56997.9	68941.4
2	Tax Revenue	12285.5	14702.6	16275.2	17501.0	21689.5	25671.9	28999.1	32138.8	36009.5	46100.8
	(Out of which State's share in Union Tax)	6220.4	7846.5	8280.0	8518.7	10496.9	12229.1	13956.0	15247.2	16181.2	23573.8
3	Non-Tax Revenue	5747.1	7264.6	8334.9	8929.2	11586.6	14595.2	14937.8	16808.0	20988.4	22840.7
	(Out of which Grant-in-aid from Centre)	3159.0	4611.0	5158.7	5717.0	6806.3	8152.2	6859.7	8429.4	12917.5	14129.5
4	Capital Receipts	2331.7	862.2	1387.9	2006.5	2301.4	1485.8	2022.0	2547.5	7737.5	10018.3
5	Recoveries of Loans	285.8	355.3	236.2	356.4	33.8	132.1	142.5	157.2	91.9	228.5
6	Borrowings and other liabilities	2045.9	506.9	1151.7	1650.1	2267.6	1353.8	1879.6	2290.3	7645.6	9789.8
7	(Out of which W & M Adv. &overdraft	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1082.1	0.0
8	Total - Receipts (1 + 4)	20364.3	22829.4	25997.9	28436.7	35577.6	41752.9	45958.9	51494.3	64735.4	78959.7
	(a) Total Receipts without W&M Adv.	20364.3	22829.4	25997.9	28436.7	35577.6	41752.9	45958.9	51494.3	63653.3	78959.7
9	Non-Plan Expenditure (10 + 11)	15141.2	15798.5	17989.9	21639.1	24502.1	27947.6	29918.8	33161.2	36486.9	38526.2
10	On Revenue Account (Out of which)	13045.4	13634.2	15883.2	19676.5	21975.3	24940.5	26645.2	30610.1	32258.7	35535.4
	(a) Interest Payments	3188.4	3169.5	2889.8	3044.2	3061.5	2576.4	2807.2	2888.2	2810.3	3343.3
11	On Capital Account (Out of which)	2095.8	2164.3	2106.6	1962.6	2526.9	3007.1	3273.6	2551.1	4228.2	2990.8
	(a) Debt Repayment	1850.7	1845.0	1492.6	1488.7	2083.6	2327.8	3179.9	2293.2	4111.5	2881.4
	(b) W & M Adv. and overdraft to RBI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1082.1	0.0
	(c) Capital Outlay	111.6	187.2	208.5	391.1	128.6	60.7	18.7	157.8	71.0	14.7
	(d) Loans & Advance	133.4	132.1	155.5	82.8	109.0	386.6	75.0	100.1	98.8	94.7
12	Plan Expenditure (13 + 14)	4204.8	7045.9	8933.0	8901.5	11549.2	14157.5	17336.8	22965.7	30192.9	40587.9
13	On Revenue Account	2726.6	4089.1	5306.9	5615.1	7392.7	9719.8	11592.3	15007.7	18877.1	23270.3
14	On Capital Account (Out of which	1478.2	2956.8	3626.1	3286.5	4156.5	4437.8	5744.5	7962.0	11315.8	17317.6
	(a) Capital Outlay	1339.9	2656.2	3570.6	3256.8	4156.5	4435.4	5603.5	7598.6	11056.7	17075.7
	(b) Loans & Advance	138.4	300.6	55.5	26.7	0.0	2.3	143.0	363.5	259.2	241.8
15	Total - Expenditure (9 + 12)	19346.0	22844.3	26922.9	30540.6	36051.3	42105.1	47255.6	56130.9	66679.8	79114.1
	(a) Total Exp. without W&M Adv. & Overdraft to RBI)	19346.0	22844.3	26922.9	30540.6	36051.3	42105.1	47255.6	56130.9	65597.8	79114.1
16	Revenue Expenditure (10 +13)	15772.0	17723.3	21190.1	25291.6	29367.9	34660.2	38237.6	45617.8	51135.7	58805.7

17	Capital Expenditure (11 + 14)	3574.0	5121.1	5732.7	5249.1	6683.4	7444.9	9018.1	10513.2	15544.1	20308.4
	(a) Capital Expenditure without W&M Adv. and overdraft to RBI (11a+11c+14a)	3574.0	5121.1	5732.7	5249.1	6683.4	7444.9	9018.1	10513.2	14462.0	20308.4
	(b) Capital Outlay without W&M Adv. and	1451.5	2843.4	3779.2	3647.9	4285.1	4496.1	5622.2	7756.4	11127.6	17090.5
18	Revenue Deficit(-)/ Surplus(+) (1-16)	2260.6	4243.9	3419.9	1138.6	3908.2	5606.8	5699.4	3329.1	5862.1	10135.7
19	Fiscal Deficit(-)/ Surplus(+)	823.2	1323.1	-584.0	-2265.4	-657.8	621.8	3.6	-4633.6	-5478.6	-7062.8
20	Primary Deficit(-)/ Surplus(+)	4011.6	4492.6	2305.8	778.8	2403.8	3198.2	2810.9	-1745.5	-2668.4	-3719.5
21	GSDP at current prices	101839.5	129274.5	148490.7	162946.4	197530.0	230987.0	261670.0	296475.0	314267.1	330873.8
22	As percentage of GSDP										
`	(a) Revenue Deficit(-)/ Surplus(+)	2.2	3.3	2.3	0.7	2.0	2.6	2.2	1.1	1.8	3.1
	(b) Fiscal Deficit(-)/ Surplus(+)	0.8	1.0	-0.4	-1.4	-0.3	0.3	0.0	-1.6	-1.7	-2.1
	(c) Primary Deficit)-)/ Surplus(+)	3.9	3.5	1.6	0.5	1.2	1.5	1.1	-0.6	-0.9	-1.1
	(d) Debt Stock	36.6	28.1	24.5	23.2	19.8	16.7	14.5	13.0	13.8	15.7
	(e) Capital Outlay	1.4	2.2	2.6	2.2	2.2	2.1	2.2	2.6	3.5	5.2
	(f) Own Tax	6.0	5.3	5.4	5.5	5.8	6.2	5.8	5.7	6.3	6.8

Source: Budget at a Glance of different year, GoO

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 45 per cent of revenue came from State's own resources during 2015-16 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 decreased from 48 per cent in 2006-07 to 45.3 per cent in 2015-16, the share of central tax transfer has increased over time. But, in 2015-16, there was an increase in share of central tax to 34.2 per cent from 28.4 per cent in 2014-15.The share of central grants has increased from 17.5 per cent in 2006-07 to 20.5 per cent in 2015-16. Share of central transfer through tax devolution in State‘s total revenue receipt has remained constant during the study period, but the share of grants-in -aid from centre to the state in the total revenue receipts of the state increased from 17.5 per cent in 2006-07 to 20.2 per cent in 2011-12. In 2012-13, there was decrease in the share of grants-in-aid to the total receipts of the state i.e. 15.6 per cent. After 2012-13, the share of grants-in-aid has also increased, but in 2015-16, there was again decline in the share of grants-in-aid to total receipts.

Total revenue receipts of the State show a progressive increase from Rs.18032.6 crore in 2006-07 to Rs.68941.4 crore in 2015-16 (Table 2.1),registering a high annual compound growth rate of 17.4 per cent over the period 2006-07 to 2015-16 (Table 2.2). However, there is high fluctuation in year-wise growth of revenue during this period ranging from 9.1 per cent to 28.0 per cent in 2006-07. The growth rates in different years have remained higher than the overall growth of revenue receipt during 2006-07 to 2015-16, except in 2008-09, 2009-10, 2012-13 and 2014-15. The lower growth of revenue in 2008-09 and 2009-10 was due to the 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 of shared tax in each and every year after 2007-08, 2009-10 and 2013-14, which could be due to more mobilisation of non-tax revenue. The trends of revenue receipts over the period 2006-16 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 17.7 per cent in 2006-07 to 20.8 per cent in 2015-16. While own revenue relative to GSDP has increased from 8.5 per cent to 9.4 per cent during 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 Govt. (Rs. in Crore)

Year	Total Revenue Receipts	Own Revenue	Shared Tax	Grants from Centre
2006-07	18032.6 (100.0)	8653.2 (48.0)	6220.4 (34.5)	3159.0 (17.5)
2007-08	21967.2 (100.0)	9509.7 (43.3)	7846.5 (35.7)	4611.0 (21.0)
2008-09	24610.0 (100.0)	11171.4 (45.4)	8280.0 (33.6)	5158.7 (21.0)
2009-10	26430.2 (100.0)	12194.5 (46.1)	8518.7 (32.2)	5717.0 (21.6)
2010-11	33276.2 (100.0)	15973.1 (48.0)	10496.9 (31.5)	6806.3 (20.5)
2011-12	40267.0 (100.0)	19885.7 (49.4)	12229.1 (30.4)	8152.2 (20.3)
2012-13	43936.9 (100.0)	23121.2 (52.6)	13956.0 (31.8)	6859.7 (15.6)
2013-14	48946.9 (100.0)	25270.2 (51.6)	15247.2 (31.2)	8429.4 (17.2)
2014-15	56997.9 (100.0)	27899.2 (49.0)	16181.2 (28.4)	12917.5 (22.7)
2015-16	68941.4 (100.0)	31238.2 (45.3)	23573.8 (34.2)	14129.5 (20.5)

Note: Figures in the parentheses indicate percentage share of total receipts

Source: Finance account, Govt. of Odisha

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

Year	Total Revenue Receipts	Own Revenue	Shared Tax	Grants from Centre	GSDP
2006-07	28.0	32.4	27.6	18.2	19.7
2007-08	21.8	9.9	26.1	46.0	26.9
2008-09	12.0	17.5	5.5	11.9	14.9
2009-10	7.4	9.2	2.9	10.8	9.7
2010-11	25.9	31.0	23.2	19.1	21.2
2011-12	21.0	24.5	16.5	19.8	16.9
2012-13	9.1	16.3	14.1	-15.9	13.3
2013-14	11.4	9.3	9.3	22.9	13.3
2014-15	16.5	10.4	6.1	53.2	6.0
2015-16	21.0	12.0	45.7	9.4	5.3

Note: The Growth rates in different years are percentage change over the previous year.
Sources:1) Finance account, Govt. of Odisha, 2) Reserve Bank of India

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

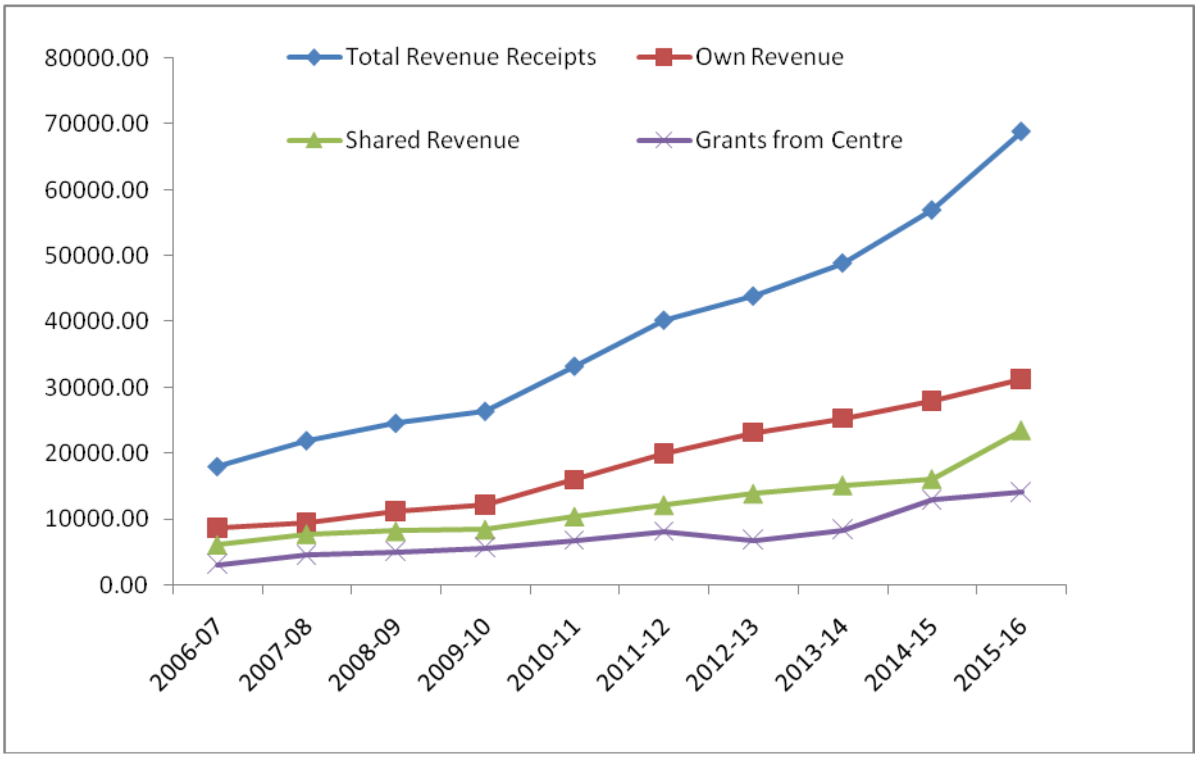


Table 2.3: Components of Revenue Receipts as a % of GSDP

Year	GSDP (Rs. in Crore)	Total Revenue Receipts /GSDP (%)	Own Revenue/GSDP (%)	Shared Revenue/GSDP (%)	Grants from Centre/GSDP (%)
2006-07	101839.5	17.7	8.5	6.1	3.1
2007-08	129274.5	17.0	7.4	6.1	3.6
2008-09	148490.7	16.6	7.5	5.6	3.5
2009-10	162946.4	16.2	7.5	5.2	3.5
2010-11	197530.0	16.9	8.1	5.3	3.5
2011-12	230987.0	17.4	8.6	5.3	3.5
2012-13	261670.0	16.8	8.8	5.3	2.6
2013-14	296475.0	16.5	8.5	5.1	2.8
2014-15	314267.1	18.1	8.9	5.2	4.1
2015-16	330873.8	20.8	9.4	7.1	4.3

Sources:1) Finance account, Govt. of Odisha, 2) Reserve Bank of India

Revenue buoyancy (change in revenue– automatic and discretionary – due to change in GSDP) with respect to GSDP can be seen from Table 2.4. Buoyancy of total revenue is more than unity over the period of 2006-07 to 2015-16, indicating that total revenue of the state grows more than proportionately to the growth of GSDP. However, state's own revenue is also more than unity during the study period, also indicating owns revenue of the state has grown more than proportionately to the growth of GSDP. On the other hand, shared tax and grants-in-aid are 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 2008-09, 2009-10 and 2012-13 pushed the revenue buoyancy down. Revenue buoyancy which was the lowest at 0.7 in 2009-10 increased to 1.2 in 2010-11. Further, the lower revenue buoyancy of 0.7 and 0.8 in 2012-13 and 2013-14 respectively increased to 2.7 and in 2014-15 and subsequently to 3.9 in 2015-16. The State's own revenue, however behaved in a slightly different manner. While the buoyancy was lowest at 3.2 during 2007-08, it increased to 1.9 in 2008-09 though came down to 0.9 during 2009-10. It is also observed that the buoyancy of own revenue remained higher than buoyancy of total revenue from 2008-09 to 2012-13 and after that it is less buoyant to that buoyancy in total revenue, indicating that state's own revenue has become more responsive to GSDP than total revenue from 2008-09 to 2012-13 than total revenue from 2008-09 to 2012-13. Buoyancy in shared tax was less responsive to GSDP than the State's own revenue from 2008-09 to 2014-15. In 2015-16, buoyancy in shared tax has increased in a higher proportion due to increase in proportion of shared tax by the Fourteenth Finance Commission. Similarly, buoyancy in grants-in-aid becomes more responsive to GSDP than the State's own revenue during the study period.

In 2007-08, the own revenue growth rate was 9.9 per cent, whereas, the GSDP growth rate was 27 per cent. In 2006-07 it was 32.43 per cent. So, the base of own revenue growth in 2007-08 was high. On the otherhand, the GSDP growth rate in 2006-07 was 19.68 per cent, lower than the growth rate of own revenue. This was mainly due to crop failure in different parts of the State. So, the base of GSDP in 2007-08 was low. Therefore, buoyancy of own revenue with respect to GSDP was 0.37. In 2015-16, the growth rate of own revenue was nearly 12%. The base for 2015-16 was low and growth was high. On the other hand, the growth rate of GSDP in 2015-16 was 5.28 per cent. The base was high but growth rate of GSDP was low. Hence, the buoyancy of own revenue with respect to GSDP was 2.26 per cent.

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 Share tax with respect to GSDP	Buoyancy of Grants with respect to GSDP
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	1.22	1.46	1.09	0.90
2011-12	1.24	1.45	0.97	1.17
2012-13	0.69	1.22	1.06	-1.19
2013-14	0.86	0.70	0.70	1.72
2014-15	2.74	1.73	1.02	8.87
2015-16	3.97	2.26	8.65	1.78
2006-07 TO 2015-16	1.25	1.16	1.24	1.56

Note: Buoyancy for 2006-07 to 2015-16 has been calculated by regressing revenue and GSDP
Sources:1) Finance account, Govt. of Odisha, 2) Reserve Bank of India

2.2 State's Own Revenue

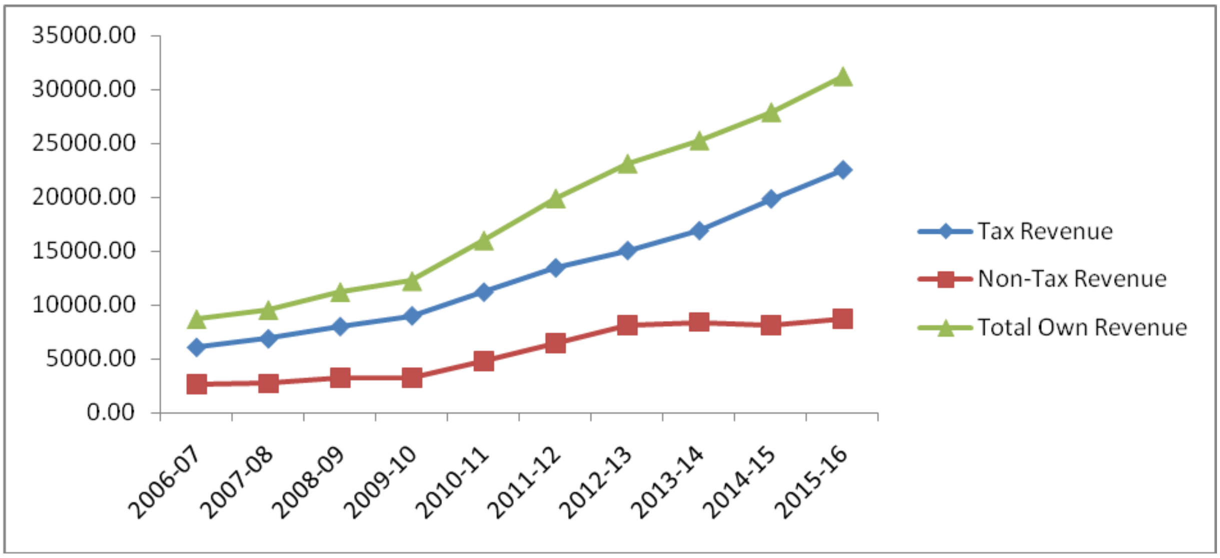
The State's own revenue comprised revenue receipts from its own tax and non-tax sources. Table 2.5 presents the composition of own revenue receipts of the State Government, while Chart 2.2 depicts the trends in the tax and non-tax revenues. There is an increasing trend in both tax and non-tax revenue (in absolute amount) over the period 2006-07 to 2015-16. However, in percentage terms share of tax revenue in total own revenue has increased from 70.1 per cent in 2006-07 to 72.1 per cent in 2015-16, while the share of non-tax revenue has decreased over time in the State.

Table 2.5: Composition of Own Revenue of the State Govt. (Rs.in Crore)

Year	Tax Revenue	Non-Tax Revenue	Total Own Revenue
2006-07	6065.1 (70.1)	2588.1 (29.9)	8653.2 (100.0)
2007-08	6856.1 (72.1)	2653.6 (27.9)	9509.7 (100.0)
2008-09	7995.2 (71.6)	3176.2 (28.4)	11171.4 (100.0)
2009-10	8982.3 (73.7)	3212.2 (26.3)	12194.5 (100.0)
2010-11	11192.7 (70.1)	4780.4 (29.9)	15973.1 (100.0)
2011-12	13442.7 (67.6)	6443.0 (32.4)	19885.7 (100.0)
2012-13	15043.1 (65.1)	8078.0 (34.9)	23121.2 (100.0)
2013-14	16891.6 (66.8)	8378.6 (33.2)	25270.2 (100.0)
2014-15	19828.3 (71.1)	8070.9 (28.9)	27899.2 (100.0)
2015-16	22527.0 (72.1)	8711.2 (27.9)	31238.2 (100.0)

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

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



2.3 Own Tax Revenue

The gross collection in respect of State's major taxes and duties during the years 2006-07 to 2015-16 is presented in Table 2.6. Sales tax is the main source of tax revenue of the State Government during the period 2006-16. Its share has increased from 62.1 per cent in 2006-07 to 63.5 in 2015-16. But in 2014-15 and 2015-16, the share has declined to 59.6 per cent and 58.1 per cent respectively. 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 oftaxes on vehicle have been declining continuously from 7.0 per cent in 2006-07 to 4.6 per cent in 2015-16. While the share of taxes and duties on electricity has declined after a peak of 5.1 per cent in 2009-10, the share of land revenue has been fluctuating around 2 to 3 per cent.

Own tax revenue has made a progressive increase from Rs.6064.7 crore in 2006-07 to Rs.22544.9 crore in 2015-16 (Table 2.6) with an annual compound growth rate of 16.3 per cent (Table 2.7). The taxes which have more than average annual growth of total taxes are land revenue (34.8 per cent), state excise (20.9 per cent) and taxes and duties on electricity (20.1 per cent). The sluggish tax revenue is taxes on vehicles with an annual compound growth rate of 10.1 per cent. While the taxes on goods and passengers grow at the annual compound growth of 14.3 per cent. The trends of different tax revenues over the period of 2006-16 are shown in Chart 2.3.

The trends in Own Tax Revenue (OTR) relative to GSDP are presented in Table 2.8. The tax-GSDP ratio of Odisha has increased from 5.9 per cent in 2006-07 to 6.8 per cent in 2015-16. Sales tax as a percentage of GSDP has increased from 3.7 per cent in 2006-07 to 3.9 per cent in 2015-16. The other tax revenues have a very low share. However, OTR as percentage of GSDP has remained lower as compared to many other major general category States (Table 2.9) except Jharkhand, Bihar and Rajasthan.

Chart 2.3: Trends of Own Tax Revenue

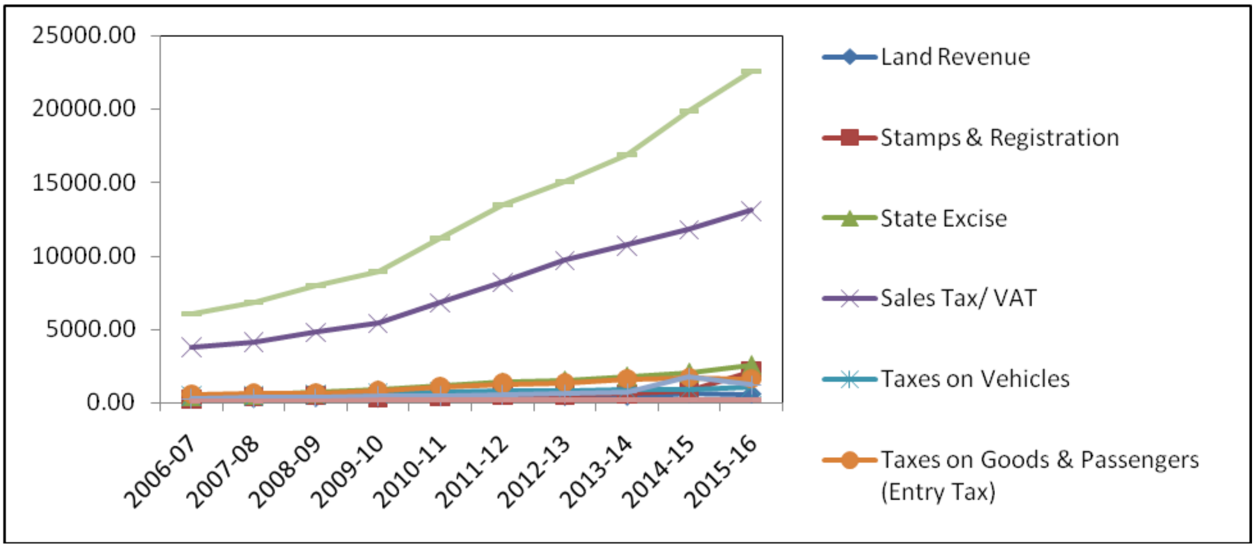


Table 2.6: Tax Revenue of the State Government (Rs.in Crore)

Year	Land Revenue	Stamps & Registration	State Excise	Sales Tax/ VAT	Taxes on Vehicles	Taxes on Goods & Passengers (Entry Tax)	Taxes and Duties on Electricity	Other Taxes and Duties (ET & LT	Total Own-Tax Revenue
2006-07	226.4 (3.7)	260.5 (4.3)	430.1 (7.1)	3764.8 (62.1)	426.5 (7.0)	574.0 (9.5)	282.6 (4.7)	99.8 (1.7)	6064.7 (100.0)
2007-08	276.2 (4.0)	404.8 (5.9)	524.9 (7.7)	4118.4 (60.1)	459.4 (6.7)	626.9 (9.1)	327.5 (4.8)	117.7 (1.7)	6855.8 (100.0)
2008-09	348.8 (4.4)	495.7 (6.2)	660.1 (8.3)	4803.3 (60.1)	524.4 (6.6)	638.3 (8.0)	365.0 (4.6)	159.2 (2.0)	7994.9 (100.0)
2009-10	292.2 (3.3)	360.0 (4.0)	849.1 (9.5)	5408.8 (60.2)	611.2 (6.8)	815.3 (9.1)	460.0 (5.1)	185.9 (2.1)	8982.3 (100.0)
2010-11	390.7 (3.5)	415.8 (3.7)	1094.3 (9.8)	6806.8 (60.8)	727.6 (6.5)	1111.4 (9.9)	458.1 (4.1)	188.1 (1.7)	11192.7 (100.0)
2011-12	521.5 (3.9)	498.2 (3.7)	1379.0 (10.3)	8196.9 (61.0)	788.0 (5.9)	1312.4 (9.8)	551.7 (4.1)	195.3 (1.5)	13442.8 (100.0)
2012-13	420.2 (2.8)	544.9 (3.6)	1498.6 (10.0)	9684.7 (64.4)	746.2 (5.0)	1342.5 (8.9)	590.5 (3.9)	206.6 (1.4)	15034.2 (100.0)
2013-14	431.3 (2.6)	605.5 (3.6)	1780.1 (10.5)	10728.6 (63.5)	859.7 (5.1)	1613.5 (9.6)	670.1 (4.0)	203.1 (1.2)	16891.7 (100.0)
2014-15	645.6 (3.3)	800.2 (4.0)	2035.2 (10.3)	11816.7 (59.6)	910.3 (4.6)	1710.9 (8.6)	1722.6 (8.7)	186.8 (0.9)	19828.4 (100.0)
2015-16	588.8 (2.6)	2157.1 (9.6)	2546.9 (11.3)	13097.0 (58.1)	1043.7 (4.6)	1663.0 (7.4)	1212.2 (5.4)	236.2 (1.1)	22545.0 (100.0)

Note: Figure in the parentheses indicate percentages share of total taxes
Sources: Finance Accounts, Govt. of Odisha

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

Year	Land Revenue	Stamps & Registration	State Excise	Sales Tax/ VAT	Taxes on Vehicles	Taxes on Goods & Passengers (Entry Tax)	Taxes and Duties on Electricity	Other Taxes and Duties	Total Own-Tax Revenue
2006-07	225.2	10.4	10.5	25.0	5.1	-20.0	23.9	36.6	21.3
2007-08	22.0	55.4	22.1	9.4	7.7	9.2	15.9	18.0	13.0
2008-09	26.3	22.5	25.7	16.6	14.2	1.8	11.5	35.3	16.6
2009-10	-16.2	-27.4	28.6	12.6	16.6	27.7	26.0	16.8	12.4
2010-11	33.7	15.5	28.9	25.9	19.0	36.3	-0.4	1.2	24.6
2011-12	33.5	19.8	26.0	20.4	8.3	18.1	20.4	3.8	20.1
2012-13	-19.4	9.4	8.7	18.2	-5.3	2.3	7.0	5.8	11.8
2013-14	2.6	11.1	18.8	10.8	15.2	20.2	13.5	-1.7	12.4
2014-15	49.7	32.2	14.3	10.1	5.9	6.0	157.1	-8.0	17.4
2015-16	-8.8	169.6	25.1	10.8	14.7	-2.8	-29.6	26.4	13.7

Note: The growth rate of different years is percentage change in previous year

Source: Finance account, Govt. of Odisha.

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

Year	Land Revenue	Stamps & Registration	State Excise	Sales Tax/ VAT	Taxes on Vehicles	Taxes on Goods & Passengers (Entry Tax)	Taxes and Duties on Electricity	Other Taxes and Duties (ET & LT	Total Own-Tax Revenue
2006-07	0.22	0.26	0.42	3.70	0.42	0.56	0.28	0.10	5.96
2007-08	0.21	0.31	0.41	3.19	0.36	0.48	0.25	0.09	5.30
2008-09	0.23	0.33	0.44	3.23	0.35	0.43	0.25	0.11	5.38
2009-10	0.18	0.22	0.52	3.32	0.38	0.50	0.28	0.11	5.51
2010-11	0.20	0.21	0.55	3.45	0.37	0.56	0.23	0.10	5.67
2011-12	0.23	0.22	0.60	3.55	0.34	0.57	0.24	0.08	5.82
2012-13	0.16	0.21	0.57	3.70	0.29	0.51	0.23	0.08	5.75
2013-14	0.15	0.20	0.60	3.62	0.29	0.54	0.23	0.07	5.70
2014-15	0.21	0.25	0.65	3.76	0.29	0.54	0.55	0.06	6.31
2015-16	0.18	0.65	0.77	3.96	0.32	0.50	0.37	0.07	6.81

Source: Own Calculation.

Table 2.9: Own Tax Revenue as % of GSDP among Major non- special category states during 2014-15

Sl. No.	States	OTR/GSDP
1	Andhra Pradesh	8.1
2	Bihar	6.05
3	Chhatisgarh	6.68
4	Goa	8.15
5	Gujarat	6.65
6	Haryana	6.32
7	Jharkhand	4.74
8	Karnataka	7.69
9	Kerala	6.87
10	Madhya Pradesh	7.62
11	Maharastra	6.49
12	Odisha	6.31
13	Punjab	7.2
14	Rajasthan	6.28
15	Tamilnadu	7.33
16	Telengana	7.33
17	Uttar Pradesh	7.33

Source: Reserve Bank of India

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 has 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 have been presented below.

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 particularly determines the overall tax effort of the State. Odisha's performance in raising sales tax revenue is however poor. Its sales tax effort is however 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.12583.0crore, the State has been able to raise Rs.11880.7 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 even able to raise half of its estimated taxable capacity of stamps duty and registration fee but it does not match with the estimated figure. With an estimated taxable capacity of Rs.1558.3 crore the State has been able to raise Rs.1187.6 crore (Annexure 2.3). It is interesting to observe that 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 Vehicle Tax

Odisha's performance in tax effort of motor vehicles tax is not satisfactory. With an estimated taxable capacity of Rs.1019.8 crore the State has raised only Rs.937.0 crore (Annexure2.4). The State's tax effort is more than some major non-special category States like Haryana, Tamil Nadu etc. But, its performance is lower than other poor states MV tax effort. However, the State's taxable capacity is very low compared to other States and this need to be raised sizeably.

2.4.4 Excise Duty

Odisha has measurable taxable capacity in excise duty. With an estimated taxable capacity of Rs.28293.1crore, the State has been able to raise Rs.2120.8 crore (Annexure 2.5). It is interesting to observe that tax effort of Odisha in raising the excise duty is one of the lowest among the major non-special category States in India, except Gujarat, Jharkhand and Kerala. 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 taxable capacity of electricity duty. With an estimated taxable capacity of Rs.508.1crore, Odisha has raised Rs.1201.4 crore from electricity duty (Annexure 2.6). Its performance is much better compared to many States in India. Its better performance could be due to 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 revenue than the taxable capacity of land revenue. With an estimated taxable capacity of Rs.160.9 crore, Odisha has raised Rs.555.3 crore from land revenue (Annexure 2.7). Its performance is much better compared to all other States except 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 Property Tax

The property tax is not yet implemented in the State. The constitution of the State Municipality Corporation Valuation Committee is under process. Once this committee is constituted, the property tax rate will be finanlised and then the property tax will be imposed.

2.4.8 Total Own Tax

Odisha's aggregate own tax effort is poor. With an estimated taxable capacity of Rs.20542.3 crore, the State has raised Rs.19748.9 crore (Annexure 2.8). Its tax effort is much lower than the average tax effort of major non-special category States, except Bihar and Jharkhand Therefore, Odisha needs to make more effort to increase its own 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 Excise Duty. These three taxes have a share of more than 70 per cent of total own tax revenue in the State.

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 has been evaluation the basis of estimates of tax buoyancy and elasticity.

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

Year	Land Revenue	Stamps and Registration	State Excise	Sales Tax	Taxes on Vehicle	Taxes and Duties on Electricity	Taxes on Goods & passengers	Total Tax
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	1.70	2.67	2.85	1.27
2010-11	1.59	0.73	1.36	1.22	0.90	-0.02	1.71	1.16
2011-12	1.98	1.17	1.54	1.21	0.49	1.21	1.07	1.19
2012-13	-1.46	0.71	0.65	1.37	-0.40	0.53	0.17	0.89
2013-14	0.20	0.84	1.41	0.81	1.14	1.01	1.52	0.93
2014-15	8.28	5.36	2.39	1.69	0.98	26.17	1.01	2.90
2015-16	-1.67	32.09	4.76	2.05	2.77	-5.61	-0.53	2.59
2006-07 to 2015-16	0.71	3.24	2.19	1.10	0.64	1.46	0.84	1.20

Sources:Computed from 1) Finance account, Govt. of Odisha, 2) Reserve Bank of India

Table 2.10 presents the year wise buoyancy of own tax revenues from 2006-07 to 2015-16. The table shows that except during 2007-08, 2012-13 and 2013-14 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 2007-08, except stamps and registration fee during 2007-08. The buoyancy of land revenue is found to be more than unity in almost all years, except 2007-08 and 2013-14.

There is growth of land revenue compared to GSDP during 2014-15, but due to decline in land revenue during 2009-10, 2012-13 and 2015-16, there is negative buoyancy. State excise and sales tax show buoyancies of more than unity in almost all the years except 2007-08, 2012-13 and 2013-14. 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 wide fluctuation in the buoyancy and taxes on goods and passengers show buoyancy of less than unity during threeyears. In short, there is varying productivity of different tax revenues in the state during the different years from 2006-07 to 2015-16.

Table 2.11: Partial buoyancy of Own Tax Revenue

Revenue Head	Real GSDP	Implicit Price Index	R^2	F
Land Revenue	2.45*** (2.25)	0.18 (-0.43)	0.86	20.06*
Stamps & Registration	1.3 (0.96)	0.23 (0.44)	0.79	11.35*
Sale Tax/VAT	0.96** (2.53)	0.73* (4.92)	0.99	320.43*
Excise Duty	2.43* (5.07)	0.48** (2.54)	0.99	324.24*
Motor Vehicles Tax	1.59* (3.25)	0.07*** (0.39)	0.96	77.53*
Electricity Duty	2.61 (1.12)	0.19 (0.2)	0.77	10.22**
Goods & Passengers Tax	1.04 (1.34)	0.68*** (2.25)	0.96	74.90*
Total Tax	**1.31*** **(3.8)**	**0.57*** **(4.29)**	**0.99**	**372.2***

Notes: 1)Figures in the parentheses are t-values

*- Represent 1% level of significance

**- 5% level of significance

***- represent 10% level of significance

2)The 2004-05 series does not have GSDP values of 2015-16; we have constructed the values of this year using deflator method. However, we have also constructed consistent series of GSDP taking 2011-12 as base year using splicing method. The splicing method captures GSDP data with 2011-12 base year for 2006-07 to 2010-11.This has been placed in annexure 2.9 of the report.

Sources:1) Finance account, Govt. of Odisha, 2) Directorate of Economics and Statistics, Odisha

Table 2.11 shows the buoyancy of own tax revenues over the period 2006-07 to 2015-16. It is revealed from the table that buoyancy of state's total own tax revenue has remained above unity over the period from 2006-07 to 2015-16 except sale tax, indicating that the total own tax revenue responds proportionately to the growth of GSDP. About six taxes have buoyancy more than unity, indicating that they respond more than proportionately to the growth of GSDP during the period under study. It is also observed from the table that the buoyancy of total own revenue is mostly influenced by the buoyancy of land revenue, sale tax/VAT, excise duty and motor vehicle tax.

2.6 Benchmark on Own Tax Revenue

The benchmark of own tax revenue for the year 2015-16 shows that among the 17 states, Odisha's position is 13 and it constitues 7.7 per cent of the GSDP. The details has been given in table-2.12.

Table 2.12: Benchmark on Own Tax Revenue (2015-16)

Sl. No.	States	Per Capita Own Tax Revenue	Rank of Per Capita Tax Revenue	Per Cent of GSDP
1	Andhra Pradesh	8,080.4	9	8.1
2	Bihar	2,451.6	17	8.6
3	Chhatisgarh	6,685.5	10	8.7
4	Goa	27,271.1	1	8.6
5	Gujarat	10,375.2	7	7.0
6	Haryana	12,199.3	3	7.7
7	Jharkhand	3,479.7	16	6.6
8	Karnataka	12,358.8	2	9.1
9	Kerala	11,679.5	4	8.7
10	Madhya Pradesh	5,539.3	12	9.6
11	Maharastra	11,266.8	5	7.6
12	**Odisha**	**5,370.3**	**13**	**7.7**
13	Punjab	9,634.1	8	8.1
14	Rajasthan	6,224.5	11	7.7
15	Tamilnadu	11,155.7	6	8.3
16	Uttar Pradesh	4,059.1	15	8.9
17	West Bangal	4,651.7	14	7.0
	All	8,969.6		8.1

Sources:1) Finance account, Govt. of Odisha, 2) Reserve Bank of India

2.7 Suggestions for improving Tax-GSDP Ratio

Our analysis reveals that the State has performed moderately well in raising own revenue compared to the central transfer during the period from 2006-07 to 2015-16. 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 lesscompared to other major States in India. Odisha has performed well in raising MV tax, sales tax, excise duty and stamps and registration fee. It has raised much less than the estimated capacities of these taxes. The State has not taken impressive measures to mobilize additional tax revenue during last five years (2011-12 to 2015-16) under study. Except excise duty, measures taken for the 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 effort in raising revenue from stamps duty and registration fee, sales tax and motor vehicle tax 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 State Govt. has collected more than the estimated figure from electricity duty.

2.7.1 Sales Tax

Sales tax is the only broad-based tax and main component of State's own tax revenue. 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, 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 generate more revenue from this source. Due to irregular effort for raising sales tax, the State's tax-GSDP ratio remains lower compared to 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 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.

2.7.2 Stamp Duty

In order to raise revenue from stamps duty and registration fee, the State should take different measures as suggested by the Expert Committee (2011).The important measures suggested are 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 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.

2.7.3 Motor Vehicle Tax

The State has 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. to increase the revenuefrom motor vehicle tax (Expert Committee, 2011)

2.7.4 Electricity Duty

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 that the State has embarked upon reform in power sector since 1996, and therevenue from this tax should increase over the years. Electricity duties on different categories of consumers have been rationalized. The State is facing the problem of high AT&C loss (34.17 per cent during 2016-17), 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 AT&C loss. However, the achievement is not satisfactory. After reform, the State Govt. has remained away from investing funds in generation, transmission and distribution in order to reduce fiscal deficit, though 2010-11, it has decided to invest for improving the distribution system.

2.7.5 Land Revenue

There is higher growth of land revenue compared to GSDP during 2014-15, but due to decline in land revenue during 2009-10, 2012-13 and 2015-16, there is negative buoyancy. State excise and sales tax show buoyancies of more than unity in almost all the years except 2007-08, 2012-13 and 2013-14. 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 mot of the years, while taxes on stamps and registration show wide fluctuation in the buoyancy and taxes on goods and passengers show buoyancy of less than unity during three years. In short, there is varying productivity of different tax revenues in the state during the different years from 2006-07 to 2015-16.

CHAPTER THREE

OWN NON-TAX REVENUE

TOR 1.ii requires us to analyse the state's own non-tax revenues and suggest measures to enhance revenue 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 importantconstituents of the revenue receipt of Odisha. During 2006-07 to 2015-16, State's own non-tax revenue (ONTR) increased considerably from Rs.2588.1 crore to Rs.8711.2 crore (Table 3.1). Its share in total own revenue has decreased from 29.9 per cent in 2006-07 to 27.9 per cent in 2015-16. Non-tax revenue as a percentage of GSDP, which is an indicator of the efficiency in mobilisation of revenue, has increased from 2.5 per cent to 2.6 per cent over the period. It has recorded an annual compound growth rate of 20.9 per cent, while exhibiting buoyancy of more than one in the year 2006-07, 2008-09, 2010-11, 2011-12, 2012-13 and 2015-16.

Table 3.1:Trends in Own Non-tax Revenue (Rs. in Crores)

Year	Non-Tax Revenue (Rs. In Crore)	Share in Total Own Revenue (%)	% of GSDP	Buoyancy of Own Non-Tax Revenue with respect to GSDP	Year wise Growth
2006-07	2588.1	29.9	2.5	3.5	69.0
2007-08	2653.6	27.9	2.1	0.1	2.5
2008-09	3176.2	28.4	2.1	1.3	19.7
2009-10	3212.2	26.3	2.0	0.1	1.1
2010-11	4780.4	29.9	2.4	2.3	48.8
2011-12	6443.0	32.4	2.8	2.1	34.8
2012-13	8078.0	34.9	3.1	1.9	25.4
2013-14	8378.6	33.2	2.8	0.3	3.7
2014-15	8070.9	28.9	2.6	-0.6	-3.7
2015-16	8711.2	27.9	2.6	1.5	7.9

Note: (a) Buoyancy during 2006-07 to 2015-16 is 1.05

(b) Annual compound growth rate during 2006-07 to 2015-16 is 20.93

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 (Own Non-tax Revenue) of Odisha. It is observed from Table 3.1 that while State's ONTR as per cent of total own revenue has decreased and as percent of GSDP, it has increased over the years. The sources of ONTR 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. However, interest receipts grew only at 23.8 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 15.4 per cent in 2006-07 to 20.6 per cent in 2008-09 and then went down to 5.4 per cent in 2010-11, again it increased 14.8 per cent in 2013-14 and again decreased 6.4 per cent in2015-16 (Table 3.2). The decline in interest receipts 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 61.4 per cent per annum during the period 2006-07 to 2015-16. Its share to State's ONTR increased from 1.9 per cent in 2006-07 to 6.3 per cent in 2015-16 (Table 3.2). The dividends are received mostly from the departmental public undertakings and there are very less receipts from non-departmental commercial enterprises.

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 2015-16. The share of these services has shown a rising trend during the period 2006-07 to 2015-16. Among these three services, the share of economic services has remained highest, while social services have contributed the least.

While economic services have exhibited an upward trend with respect to State's ONTR over the period, 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 45.4percent to State's ONTR in 2006-07, had risen considerably in 2015-16 to 79.9 per cent (Table 3.2). It has grown at the annual compound growth of 24.3 per cent during the period as compared to the growth of social services of 10.3 per cent and general services of 137.6 per cent. As per cent to GSDP, General Services has shown decline during the period from 0.8 percent to 0.1 per cent, while social services have also shown a decline during the period from 0.1 per cent to 0.07 per cent, economic services have shown an increase from 1.1 per cent to 2.1per cent and general services have shown fluctuation between 0.07 to 0.8 per cent (Table 3.3).

Table 3.2: Own Non-Tax Revenue and Composition (Rs. In Crore)

Items	2006-07	2007-08	2008-09	2009 - 10	2010 - 11	2011 - 12	2012-13	2013-14	2014-15	2015-16	Annual Growth Rate
1. Interest Receipts	398.4 (15.4)	570.4 (21.5)	654.7 (20.6)	379.2 (11.8)	260.8 (5.5)	576.4 (9.0)	588.3 (7.3)	1241.2 (14.8)	330.7 (4.1)	560.4 (6.4)	24.9
2. Dividends and Profits	49.4 (1.9)	140.9 (5.3)	252.9 (8.0)	250.8 (7.8)	101.6 (2.1)	286.2 (4.4)	564.5 (7.0)	452.4 (5.4)	1076.4 (13.3)	553.4 (6.4)	49.4
3. General Services (out of which)	858.8 (33.2)	498.0 (18.8)	491.4 (15.5)	182.7 (5.7)	552.4 (11.6)	206.0 (3.2)	363.4 (4.5)	287.9 (3.4)	313.2 (3.9)	399.4 (4.6)	137.7
a. Public Works	25.0 (1.0)	31.6 (1.2)	38.3 (1.2)	42.0 (1.3)	48.8 (1.0)	47.2 (0.7)	49.8 (0.6)	7.6 (0.1)	39.8 (0.5)	77.5 (0.9)	54.8
4. Social Services (out of which)	106.2 (4.1)	119.2 (4.5)	114.2 (3.6)	111.0 (3.5)	128.5 (2.7)	149.3 (2.3)	190.6 (2.4)	207.1 (2.5)	156.8 (1.9)	233.3 (2.7)	10.4
a. Education,sports, Art& Culture	41.9 (1.6)	42.0 (1.6)	10.7 (0.3)	14.9 (0.5)	26.0 (0.5)	21.2 (0.3)	89.1 (1.1)	75.9 (0.9)	18.9 (0.2)	66.9 (0.8)	50.4
b. health	13.1 (0.5)	14.5 (0.6)	32.4 (1.0)	13.1 (0.4)	19.9 (0.4)	37.2 (0.6)	10.6 (0.1)	29.1 (0.4)	33.3 (0.4)	52.8 (0.6)	42.9
c. Water Supply,sewerage& Sanitation	32.1 (1.2)	40.2 (1.5)	48.7 (1.5)	54.9 (1.7)	54.0 (1.1)	56.7 (0.9)	56.0 (0.7)	62.0 (0.7)	66.8 (0.8)	74.2 (0.9)	10.0
d. Housing	12.0 (0.5)	12.1 (0.5)	12.2 (0.4)	11.9 (0.4)	12.2 (0.3)	12.7 (0.2)	13.0 (0.2)	14.4 (0.2)	14.3 (0.2)	14.1 (0.2)	1.8
5. Economic Services (out of which)	1175.3 (45.4)	1325.1 (49.9)	2268.6 (71.4)	2288.4 (71.2)	3737.0 (78.2)	5225.1 (81.1)	6371.3 (78.9)	6190.0 (73.9)	6193.7 (76.7)	6964.7 (80.0)	24.3
a. Forestry and Wild life	130.6 (5.1)	82.7 (3.1)	139.3 (4.4)	2.0 (0.1)	157.7 (3.3)	192.4 (3.0)	188.9 (2.3)	95.1 (1.1)	61.5 (0.8)	153.0 (1.8)	797.4
b. Major & medium Irrigation	1.5 (0.1)	43.7 (1.7)	47.4 (1.5)	65.5 (2.0)	133.7 (2.8)	323.0 (5.0)	387.6 (4.8)	436.3 (5.2)	615.5 (7.6)	686.2 (7.9)	307.0
c. Minor Irrigation	4.5 (0.2)	5.0 (0.2)	5.3 (0.2)	4.4 (0.1)	9.1 (0.2)	9.9 (0.2)	8.9 (0.1)	15.1 (0.2)	13.7 (0.2)	20.6 (0.2)	21.0
d, Non ferrous mining & Metallurgical Industries	936.6 (36.2)	1126.1 (42.4)	1380.6 (43.5)	2020.8 (62.9)	3329.3 (69.6)	4571.6 (71.0)	5695.7 (70.5)	5518.8 (65.9)	5310.1 (65.8)	5799.0 (66.6)	23.5
Total Own Non-Tax Revenue	2588.1 (100.0)	2653.6 (100.0)	3176.2 (100.0)	3212.2 (100.0)	4780.4 (100.0)	6443.0 (100.0)	8078.0 (100.0)	8378.6 (100.0)	8070.9 (100.0)	8711.2 (100.0)	20.9

Note: Figures in Parentheses indicate percentage to the respective total.
Source: Finance Accounts of different years, Govt. of Odisha.

Table 3.3: Own Non-Tax Revenue as percentage of GSDP

Year	Interest Receipts	Dividends and Profits	General Services	Social Services	Economic Services	Total Own Non-Tax Revenue
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	1.53	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	1.89	2.42
2011-12	0.25	0.12	0.09	0.06	2.26	2.79
2012-13	0.22	0.22	0.14	0.07	2.43	3.09
2013-14	0.42	0.15	0.10	0.07	2.09	2.83
2014-15	0.11	0.34	0.10	0.05	1.97	2.57
2015-16	0.17	0.17	0.12	0.07	2.10	2.63

Source: Own calculation.

3.1.4 Components of General Services

Receipts from general services originate from (a) public service commission, (b) police, (c) jails, 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 0.96 per cent in 2006-07 to 0.89 per cent in 2015-16. It has grown with an annual rate of 54.8 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 rose at the annual compound rate of 50.4 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 10 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 42.9 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 1.6 per cent in 2006-07 to 0.8 per cent in 2015-16, while the medical, public health, and family welfare has risen from 0.5 per cent to 0.6 per cent, water supply and sanitation from 2.4 per cent to 0.9 per cent, and housing from 1.2 per cent to 0.8 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.

3.1.6 Components of Economic Services

The revenue from economic services comprisesof receipts from different departments such as(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, (o) 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 36.2 per cent in 2006-07 to 66.6 per cent in 2015-16 with a higher annual growth rate of 23.4 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 5.0 per cent in 2011-12 up from 2.3 per cent in 2002-03 and a growth rate of 25.3 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 10.1 per cent in 2002-03 to 3 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.

3.1.7 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 imporatant 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):

(i)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.

(ii) 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 3.4 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 1.98 per cent in 2006-07 to 0.95 per cent in 2015-16, though it had the lowest average rate of 0.3 per cent in 2014-15 (Table 3.4). At the same time, in case of medical, public health and family welfare it has increased from 2.7 per cent to 3.2 per cent and it had the highest average rate of 4.8 per cent in 2008-09. Water supply and sanitation has declined from 26.8 per cent to 15.6 per cent during the period with the highest rate of 37.3 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 12.2 per cent in 2006-07 to 4.6 per cent in 2015-16. 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.

Within the economic services, the average recovery is highest in the case of non-ferrous mining and metallurgical industries. It has increased 6535.6 per cent in 2006-07 to 15040 in 2015-16. It had the highest rate of 19377.9 percent in the year 2012-13. 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 50.2 per cent during 2015-16, 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 2006-07 to 2015-16, 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 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.

Table 3.4: Average NTR/NPRE of Selected Social and Economic Services (In %)

Services	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Education*	2.0	1.7	0.3	0.3	0.5	0.5	1.8	1.4	0.3	1.0
Health#	2.8	2.8	4.8	1.6	2.2	4.0	1.0	2.2	2.3	3.2
Water Supply	26.8	36.2	37.4	32.8	20.2	18.9	17.5	16.7	16.5	15.7
Housing	12.2	9.5	8.4	7.9	7.1	8.0	6.3	6.1	5.2	4.6
Forest &	153.1	81.6	104.5	70.4	92.9	121.8	91.0	29.3	17.7	50.3
Major &	1.3	25.9	23.4	26.7	42.8	73.9	81.8	81.4	110.9	106.5
Minor	9.9	7.4	6.7	4.4	6.5	5.8	4.4	3.8	5.5	7.5
Non-Ferrous	6535.6	7036.	6108.3	7757.5	11560.	16597.	19377.9	13896.	14987.8	15040.9
Road & Bridges	483.9	552.9	708.3	617.4	717.4	655.2	435.4	460.8	340.2	343.2
Power	35.7	24.1	11.7	46.6	41.6	55.2	34.3	70.4	42.9	60.0

Note: *: Also indicates sports, art and culture; #: Include medical, public health and welfare
Source: Calculated from Table 3.2.

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 3.5 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 2006-07 to 2015-16, 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 1.4 and 1.6 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 3.5: Buoyancy of Select Non-Tax Revenue with respect to GSDP

Items	2006-07	2007-08	2008-09	2009 – 10	2010 - 11	2011 - 12	2012-13	2013-14	2014-15	2015-16
Interest receipts	1.71	1.60	0.99	-4.32	-1.47	7.14	0.16	8.34	-12.22	13.15
Dividends & Profits	-3.00	6.88	5.34	-0.08	-2.80	10.73	7.32	-1.49	22.99	-9.20
Education	-0.12	0.00	-5.02	4.08	3.51	-1.09	24.13	-1.12	-12.52	48.16
Medical	2.09	0.34	8.43	-6.13	2.39	5.31	-5.39	12.94	2.58	11.16
Water Supply and Sanitation	0.48	0.93	1.44	1.29	-0.08	0.29	-0.09	0.80	1.29	2.08
Housing	0.04	0.03	0.04	-0.24	0.14	0.20	0.22	0.77	-0.11	-0.22
Forest and Wild	6.15	-1.36	4.61	-2.23	2.10	1.30	-0.14	-3.73	-5.89	28.14
Major & Medium Irrigation	1.4	7.01	0.57	3.91	4.91	8.36	1.51	0.95	6.84	2.17
Minor Irrigation	-0.37	0.42	0.49	-1.78	5.05	0.48	-0.74	5.27	-1.57	9.51
Non-ferrous Mining & Metallurgical Industries	0.83	0.75	1.52	4.76	3.05	2.20	1.85	-0.23	-0.63	1.74
TOTAL	3.5	0.09	1.32	0.12	2.30	2.06	1.90	0.28	-0.61	1.50

Source: Calculated from Table 3.2

3.3 Benchmark on own non-tax revenue

The benchmark of own non-tax revenue for the year 2015-16 shows that among the 17 states, Odisha occupaies fourth position and it constitues three per cent of the GSDP. The details has been given in Table-3.6.

Table 3.6: Benchmark on Own Non-Tax Revenue (2015-16)

Sl. No.	States	Per Capita Non-Tax Revenue	Rank of Per Capita Non-Tax Revenue	Per Cent of GSDP
1	Andhra Pradesh	996.2	13	1.0
2	Bihar	210.6	16	0.7
3	Chhatisgarh	2,041.8	5	2.6
4	Goa	16,683.1	1	5.3
5	Gujarat	1,688.1	7	1.1
6	Haryana	3,277.1	2	2.1
7	Jharkhand	1,774.3	6	3.3
8	Karnataka	876.0	15	0.6
9	Kerala	2,523.5	3	1.9
10	Madhya Pradesh	1,180.3	11	2.1
11	Maharastra	1,194.5	10	0.8
12	**Odisha**	**2,076.7**	**4**	**3.0**
13	Punjab	956.6	14	0.8
14	Rajasthan	1,592.5	8	2.0
15	Tamilnadu	1,236.3	9	0.9
16	Uttar Pradesh	1,157.8	12	2.5
17	West Bangal	203.8	17	0.3
	All	2,333.5		1.8

Sources:1) Finance account, Govt. of Odisha, 2) Reserve Bank of India

3.4 Suggestions to Enhance Own Non Tax Revenue

The analysis of State's own non-tax revenue reveals that there is higher 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. During 2011-12, the non-tax revenue is realised mostly from economic services, with mining royalty having more than two-thirds share in total non-tax revenue with higher 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 three-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 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 be classified on the basis of‘plan and non-plan expenditure’. Table 4.1presents the broad composition of state expenditure in terms of economic classification over period of ten years (2006-16), while Chart 4.1 presents the trends in consumption of expenditure. It is observed that total expenditure of the State has increased from Rs.17495.3 crore in 2006-07 to Rs.76232.7 crore in 2015-16 at the annual compound growth of 15.8 per cent.

4.1.1 Revenue and Capital Expenditure

Revenue Expenditure (RE) is incurred to maintain the current level of services and payment of the posy obligations. It has increased from Rs.15772.0 crore in 2006-07 toRs.58805.7 crore in 2015-16 (Table 4.1).It has also predominant share in the total expenditure throughout the period from 2006-07 to 2015-16.Its share hovered more than 80 per cent during the study period. The revenue expenditure grows at the annual rate of 15.8 per cent, which is lower than the overall growth rate of total expenditure (Table 4.1). The growth of total expenditure is influenced by the growth of revenue expenditure due to its higher share in total expenditure.

Non-Plan Revenue Expenditure (NPRE) has grown at a lower rate than total expenditure, because of which its share in Total Revenue Expenditure has declined from 82 per cent 2006-07 to 63 per cent in 2015-16, which is welcome development (Table 4.1).

Table 4.1: Economic Classification of Total Expenditure (Rs. In Crore)

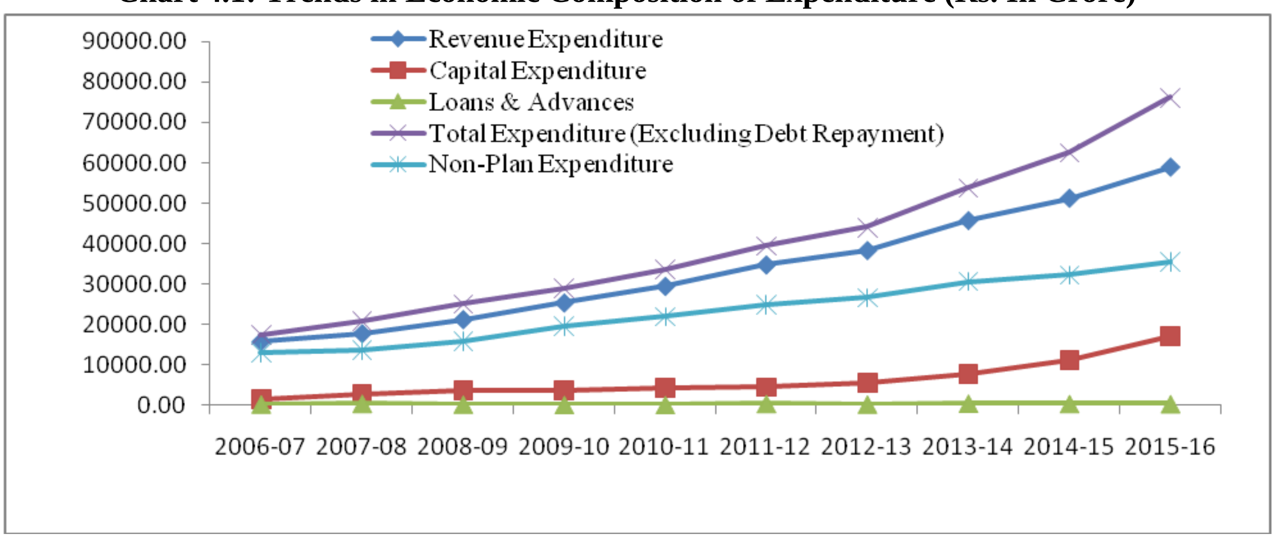
Year	Revenue Expenditure	Capital Expenditure	Loans & Advances	Total Expenditure (Excluding Debt Repayment)	Non-Plan Expenditure
1	2	3	4	5	6
2006-07	15772.0 (90.2)	1451.5 (8.3)	271.8 (1.6)	17495.3 (100.0)	13045.4 (82.7)
2007-08	17723.3 (84.4)	2843.4 (13.5)	432.7 (2.1)	20999.4 (100.0)	13634.2 (76.9)
2008-09	21190.1 (84.2)	3779.2 (15.0)	211.0 (0.8)	25180.3 (100.0)	15883.2 (75.0)
2009-10	25291.6 (87.1)	3647.9 (12.6)	109.5 (0.4)	29049.0 (100.0)	19676.5 (77.8)
2010-11	29367.9 (87.0)	4285.1 (12.7)	109.0 (0.3)	33762.1 (100.0)	21975.3 (74.8)
2011-12	34660.2 (87.7)	4496.1 (11.4)	388.9 (1.0)	39545.2 (100.0)	24940.5 (72.0)
2012-13	38237.6 (86.8)	5622.2 (12.8)	218.0 (0.5)	44077.8 (100.0)	26645.2 (69.7)
2013-14	45617.8 (84.7)	7756.4 (14.4)	463.6 (0.9)	53837.7 (100.0)	30610.1 (67.1)
2014-15	51135.7 (81.7)	11127.6 (17.8)	358.0 (0.6)	62621.4 (100.0)	32258.7 (63.1)
2015-16	58805.7 (81.7)	17090.5 (17.8)	336.5 (0.6)	76232.7 (100.0)	35535.4 (63.1)
Annual Compound Growth Rate (%)	15.8	34.8	56.1	17.9	12.1

Note: (a) figure in parentheses from col.2 to col.5 indicate percentage to total expenditure

(b) Figure in parentheses in col.6 indicate percentage to total revenue expenditure

Source: Finance Accounts, Govt. of Odisha.

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



The capital expenditure has increased from Rs.1451.5 crore in 2006-07 to Rs.17090.4 crore in 2015-16 (Table 4.1) with annual growth rate of 20.0 per cent. Due to higher annual growth of capital expenditure compared to the revenue expenditure, its share has increased from 8.3 per cent in 2006-07 to 17.7 per cent in 2015-16. 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 hence there is a need to substantially increase capital expenditure in order to accelerate economic growth.

The total expenditure as percentage of GSDP has increased from 17.1 per cent in 2006-07 to 23.0 per cent in 2015-16(Table 4.2). Initially expenditure has decreased to 16.2 per cent of GSDP in 2007-08 and then increased gradually. In 2012-13, again, the total expenditure decreased to 16.8 per cent and then gradually increased and reached 23.0 per cent in 2015-16.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 initially from 15.5 per cent in 2006-07 to 13.7 per cent in 2007-08. After 2008-09, revenue expenditure has increased gradually and reached at 17.8 per cent in 2015-16. Capital expenditure which was low in 2006-07 at 1.4 per cent of GSDP increased to 2.5 per cent in 2008-09 and then decreased to 1.9 per cent in 2011-12.It has started an increasing trend from 2012-13 and reached at 5.2 per cent in 2015-16. Loans and advances issued by the government as a percentage of GSDP declined from 0.33 per cent to 0.06 per cent in 2010-11and then increased to 0.10 per cent in 2015-16.

Table 4.2: Expenditure as Proportion of GSDP (%)

Year	Revenue Expenditure	Capital Outlay	Loans & Advances	Total Expenditure	Non-plan Revenue Expenditure
2006-07	15.5	1.4	0.3	17.2	12.8
2007-08	13.7	2.2	0.3	16.2	10.6
2008-09	14.3	2.6	0.1	17.0	10.7
2009-10	15.5	2.2	0.1	17.8	12.1
2010-11	14.9	2.2	0.1	17.1	11.1
2011-12	15.0	2.0	0.2	17.1	10.8
2012-13	14.6	2.2	0.1	16.8	10.2
2013-14	15.4	2.6	0.2	18.2	10.3
2014-15	16.3	3.5	0.1	19.9	10.3
2015-16	17.8	5.2	0.1	23.0	10.7

Source: Finance Accounts, Govt. of Odisha.

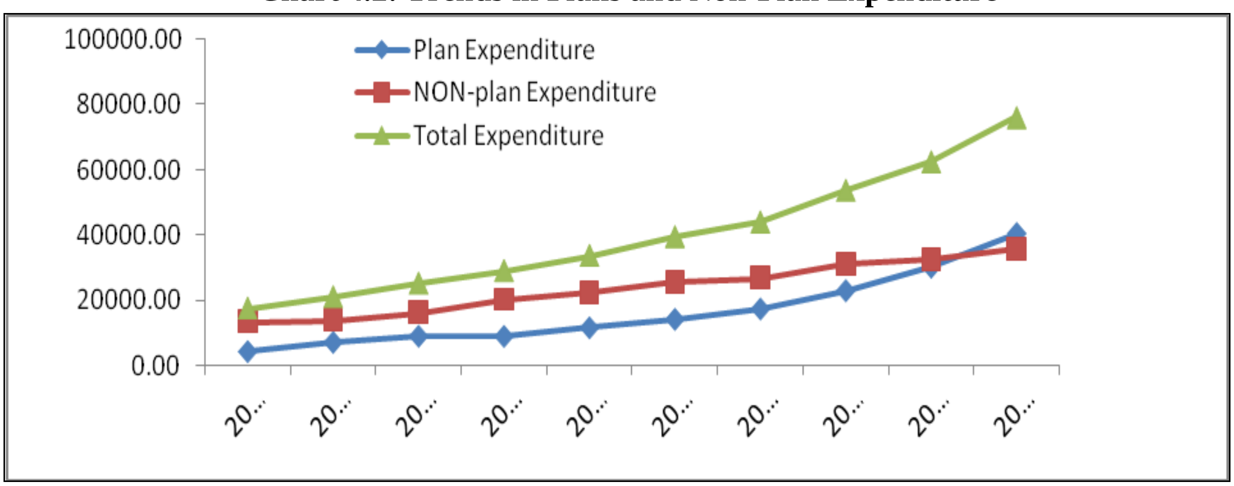
The plan expenditure has grown at a higher rate than overall growth of total expenditure. Its annual average growth rate is 30.3 per cent against 17.9 per cent growth of total expenditure during the period 2006-07 to 2015-16 (Table 4.3). Due to the higher growth of plan expenditure its share in total expenditure has increased from 24.0 per cent in 2006-07 to about 53.2 per cent in 2015-16. 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 12.0 per cent against the growth of plan expenditure of 30 per cent. As a result of slow growth, its share its share in total expenditure has declined from 75 per cent in 2006-07 to 46.7 per cent in 2015-16. The trends in plan and non-plan expenditure can be seen from Chart 4.2.

Table 4.3: Plan and Non-Plan Expenditure (Rs. in Crores)

Year	Plan Expenditure	NON-plan Expenditure	Total Expenditure	Plan Exp as % of GSDP	Non-Plan EXP as%of GSDP
2006-07	4204.8 (24.0)	13290.5 (76.0)	17495.3 (100.0)	4.1	13.1
2007-08	7045.9 (33.6)	13953.5 (66.5)	20999.4 (100.0)	5.5	10.8
2008-09	8933.0 (35.5)	16247.3 (64.5)	25180.3 (100.0)	6.0	10.9
2009-10	8901.5 (30.6)	20147.4 (69.4)	29049.0 (100.0)	5.5	12.4
2010-11	11549.2 (34.2)	22212.9 (65.8)	33762.1 (100.0)	5.9	11.3
2011-12	14157.5 (35.8)	25387.7 (64.2)	39545.2 (100.0)	6.1	11.0
2012-13	17336.8 (39.3)	26740.9 (60.7)	44077.8 (100.0)	6.6	10.2
2013-14	22965.7 (42.7)	30872.0 (57.3)	53837.7 (100.0)	7.8	10.4
2014-15	30192.9 (48.2)	32428.4 (51.8)	62621.4 (100.0)	9.6	10.3
2015-16	40587.9 (53.2)	35644.9 (46.8)	76232.7 (100.0)	12.3	10.8
Annual	30.3	12.0	17.9		

Source: Budget at a Glance of different years

Chart 4.2: Trends in Plans and Non-Plan Expenditure



The plan expenditure as a proportion of GSDP has increased from 4.1 per cent in 2006-07 to 12.3 per cent in 2015-16. However, its share in GSDP has decreased from 2008-09 to 2009-10 and thereafter showed an increasing trend. The non-plan expenditure as a proportion of GSDP, on the other hand, has declined from 13.0 per cent in 2006-07 to 10.8 per cent in 2015-16.

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 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 organisations & institutions including State's Share in different Government Schemes and loans & advances. Relative share of these components in total expenditure is indicated in Table 4.4.

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 53.6 per cent in 2006-07 to 78.0 per cent in 2015-16. The share of general services (including interest payment), considered as non-developmental expenditure decreased from43.2 per cent in 2006-07 to 20.3 per cent in 2015-16. The relative share of social services increased from 31.1 per cent in 2006-07 to 36.2 per cent in 2015-16while the relative share of economic services which has shown an increasing trend and increased to 41.9 per cent in 2015-16. Grants-in-aid have decreased from 1.5 per cent in 2006-07 to 0.4 per cent in 2015-16 while loans and advances revealed longer-term decline with fluctuations during the period 2006-16.The trends in functional composition of expenditure can be seen from Chart 4.3.

The general services as a percentage of GSDP have declined from 7.4 per cent in 2006-07 to 4.7 per cent in 2015-16 (Table 4.5). On the other hand, the combined shares of social services and economic services, which constitute developmental expenditure, as a percentage of GSDP has increased from 9.2 percent in 2006-07 to 18 per cent in 2015-16. At the same time, grants-in-aid as percentage of GSDP have hovered around 0.06 to 0.30 per cent.

Table 4.4: Functional Composition of Total Expenditure (Rs. in Crores)

Year	General Services	Social Services	Economic Services	Developmental Expenditure (Social+Eco)	Grants-in-aid	Loan & Advances	Total
2006-07	7566.8 (43.3)	5440.3 (31.1)	3944.1 (22.5)	9384.4 (53.6)	271.8 (1.6)	272.3 (1.6)	17495.3 (100.0)
2007-08	7359.6 (35.1)	7059.8 (33.6)	5796.4 (27.6)	12856.2 (61.2)	432.7 (2.1)	350.9 (1.7)	20999.4 (100.0)
2008-09	7146.8 (28.4)	9208.0 (36.6)	8221.7 (32.7)	17429.7 (69.2)	211.0 (0.8)	392.8 (1.6)	25180.3 (100.0)
2009-10	9462.9 (32.6)	10400.9 (35.8)	8669.8 (29.9)	19070.8 (65.7)	109.5 (0.4)	405.8 (1.4)	29049.0 (100.0)
2010-11	10170.9 (30.1)	12706.5 (37.6)	10344.0 (30.6)	23050.5 (68.3)	109.0 (0.3)	431.6 (1.3)	33762.1 (100.0)
2011-12	11186.8 (28.3)	14994.9 (37.9)	12313.5 (31.1)	27308.4 (69.1)	388.9 (1.0)	661.1 (1.7)	39545.2 (100.0)
2012-13	12774.5 (29.0)	15001.3 (34.0)	15442.5 (35.0)	30443.8 (69.1)	218.0 (0.5)	641.5 (1.5)	44077.8 (100.0)
2013-14	14159.3 (26.3)	20446.3 (38.0)	17876.3 (33.2)	38322.7 (71.2)	463.6 (0.9)	892.2 (1.7)	53837.7 (100.0)
2014-15	14918.7 (23.8)	23252.5 (37.1)	23274.8 (37.2)	46527.3 (74.3)	358.0 (0.6)	817.4 (1.3)	62621.4 (100.0)
2015-16	15483.7 (20.3)	27571.7 (36.2)	31925.0 (41.9)	59496.7 (78.1)	336.5 (0.4)	915.8 (1.2)	76232.7 (100.0)
Growth	8.8	19.5	28.1	23.1	34.1	44.9	17.9

Note: Figure in the parentheses indicate percentage share of total expenditure.

Source: Finance Accounts, Govt. of Odisha

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

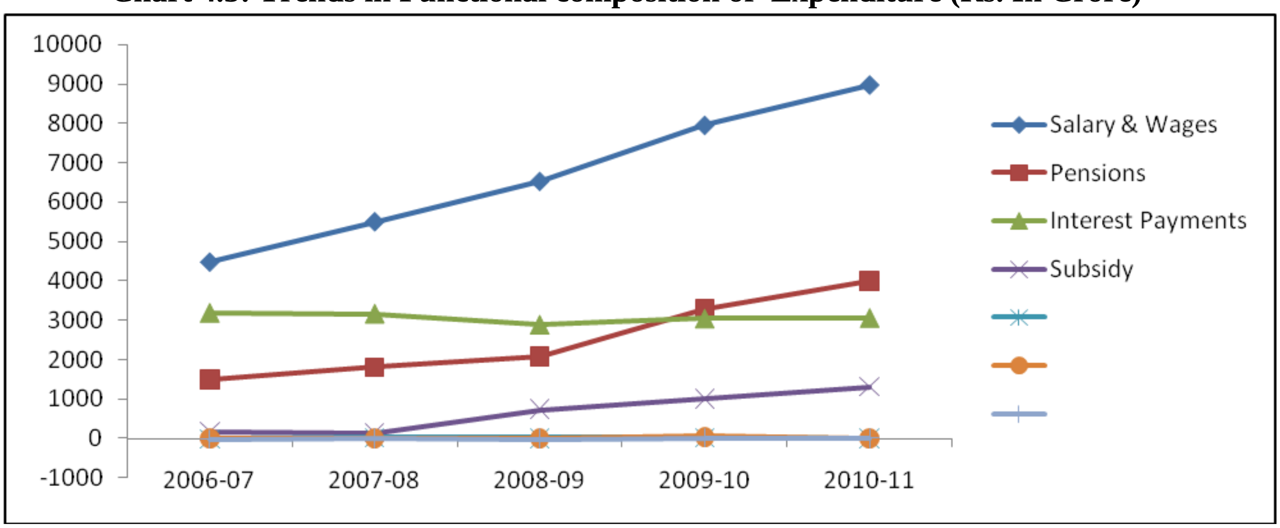


Table 4.5: Functional Composition of Expenditure as a percentage of GSDP

Year	General Services	Social Services	Economic Services	Developmental Expenditure (Social+Eco)	Grants-in-aid	Loan &Advances	Total
2006-07	7.4	5.3	3.9	9.2	0.27	0.27	17.2
2007-08	5.7	5.5	4.9	9.9	0.33	0.27	16.2
2008-09	4.8	6.2	5.5	11.7	0.14	0.26	16.9
2009-10	5.8	6.4	5.3	11.7	0.07	0.25	17.8
2010-11	5.1	6.4	5.2	11.7	0.06	0.22	17.1
2011-12	4.8	6.5	5.3	11.8	0.17	0.29	17.1
2012-13	4.9	5.7	5.9	11.6	0.08	0.25	16.8
2013-14	4.8	6.9	6.0	12.9	0.16	0.30	18.1
2014-15	4.7	7.4	7.4	14.8	0.11	0.26	19.9
2015-16	4.7	8.3	9.6	18.0	0.10	0.28	23.0

Source: Calculated from Table 4.4.

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 4.6 presents the composition of these expenditures.

4.3.1 Salaries

Expenditure on salaries has increased from Rs.4477 crore in 2006-07 toRs.14188 crore in 2015-16 at the annual compound growth of 13 per cent(Table 4.6). However, its share in revenue receipt has declined from 24.8 per cent in 2006-07 to 20.6 per cent in 2015-16. The decline in share of salary and wages in revenue receipts has increased the space for more spending on development expenditures.To achieve the target, the State Government is therefore required to reduce further on salary and wages of employees.

4.3.2 Interest Payments

Interest payment has increased from Rs.3188 crore in 2006-07 to Rs.3343 crore in 2015-16 (Table 4.6). Initially it has decreased to Rs.2889 crore in 2008-09 and thereafter increased to Rs.3061 crore in 2010-11. Again, in 2011-12, it has declined to Rs.2576 crore and thereafter increased and reached to Rs.3343 crore. However, the interest payment in 2018-19 has remained lower than the projections made in MTFP.It has also remained lower than the projection of FFC (Rs.6504crore) and budget estimate (Rs.5500 crore) for 2018-19. The interest as proportion of revenue receipts was 5.6 per cent during 2018-19. All these show that the state has performed well in reducing interest payments.

Table 4.6: Components of Committed Expenditure (Rs. Crore)

Year	Salary & Wages	Pensions	Interest Payments	Subsidy
2006-07	4477.0 (24.8)	1485.0 (8.2)	3188.0 (17.7)	170.0 (0.9)
2007-08	5501.0 (25.0)	1801.0 (8.2)	3169.0 (14.4)	148.0 (0.7)
2008-09	6524.0 (26.5)	2075.0 (8.4)	2889.0 (11.7)	743.0 (3.0)
2009-10	7945.0 (30.1)	3283.0 (12.4)	3044.0 (11.5)	1008.0 (3.8)
2010-11	8969.0 (27.0)	4011.0 (12.1)	3061.0 (9.2)	1310.0 (3.9)
2011-12	8868.0 (22.0)	4741.0 (11.8)	2576.0 (6.4)	1744.0 (4.3)
2012-13	9612.0 (21.9)	5380.0 (11.0)	2807.0 (6.4)	1951.0 (10.8)
2013-14	10713.0 (21.9)	5935.0 (10.4)	2888.0 (5.9)	2061.0 (9.4)
2014-15	12553.0 (22.0)	6416.0 (11.3)	2810.0 (4.9)	2075.0 (8.4)
2015-16	14188.0 (20.6)	6346.0 (9.2)	3343.0 (4.9)	9268.0 (13.4)
Annual Growth rate (%)	13.0	17.7	-0.5	95.8

Note: Figures in the parentheses indicate percentage to revenue receipts.

Source: Finance Accounts, Govt. of Odisha.

4.3.3 Pensions

Expenditure on pension has increased steeply from Rs.1485 crore in 2006-07 to Rs.6346 crore in 2015-16 registering an annual compound growth rate of 17.7 per cent (Table 4.6). 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.

4.3.4 Subsidies

The total subsidy of the State Government has increased from Rs.170 crore in 2006-07 to Rs.9268 crore in 2015-16 at the annual compound growth rate of 95.7 per cent (Table 4.6). There is a sudden jump in the subsidy to Rs.9268 crore during 2015-16 from Rs.2075 crore in 2014-15. The subsidy as a proportion of revenue receipts has increased from 0.9 per cent in 2006-07 to 13.4 per cent in 2015-16.

Table 4.7: Functional Composition of Major Heads in Total Govt. Expenditure

Different Exp.	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
General Services	43.3	35.1	28.4	32.6	30.1	28.3	29.0	26.3	23.8	20.3
Interest Payments	18.2	15.1	11.5	10.5	9.1	6.5	6.4	5.4	4.5	4.4
Social Services	31.1	33.6	36.6	35.8	49.5	37.9	36.3	38.0	37.1	36.2
Education, Sports,	14.2	15.6	17.9	19.1	19.6	17.5	16.6	15.7	16.3	15.2
Health & Family	3.5	3.6	3.7	4.0	3.8	3.4	3.8	3.6	5.1	4.8
Water Supply	2.2	3.8	3.9	2.3	1.7	1.7	1.8	2.4	2.5	3.5
Housing	0.7	1.0	0.9	0.7	0.8	0.7	0.9	0.7	0.8	0.8
Welfare of SC,ST & OBC	2.5	2.7	2.7	2.9	3.6	3.2	3.8	3.3	2.4	3.2
Others	8.0	7.0	7.5	6.8	20.0	11.4	9.8	12.8	11.2	9.2
Economic Services	22.5	27.6	32.7	29.9	30.6	31.1	32.4	33.2	37.1	41.9
Agri& allied	4.1	4.5	7.6	7.9	8.5	8.4	9.4	9.0	9.2	8.1
Rural Dev	3.5	4.1	4.9	4.1	4.4	4.7	5.0	5.5	7.1	9.7
Irrigation	5.5	8.6	8.0	6.7	6.7	6.1	6.3	5.8	5.9	6.9
Industry	0.7	0.8	0.7	1.8	0.8	0.6	0.6	0.6	0.6	0.6
Transport	5.5	6.3	7.4	6.5	7.0	6.2	7.1	7.3	10.3	12.3
Others	3.4	3.4	4.2	3.0	3.3	5.3	5.8	7.8	6.2	7.4

Source: Calculated using data from Finance Accounts, Govt. of Odisha.

4.4 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 efficiency within individual lines of public expenditure (Mundle and Rao, 1997). The former can be said as allocative efficiency and 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 4.7 that the share of general services declined sharply from 43.2 per cent in 2006-07 to 20.3 per cent in 2015-16. Interest payment, which is major component of general service sector, also shows similar trend. Its share declined sharply from 18.2 per cent in 2006-07 to 4.4 per cent in 2015-16.

The share of social services increased from 31.10 per cent in 2006-07 to 36.2 per cent in 2015-16. Among the different heads of this sector, education (and allied) has always received a major portion compared to other heads. Its share increased from 14.2 per cent in 2006-07 to 19.6 per cent in 2010-11 and thereafter, it has declined to 15.1 per cent in 2015-16. However, the health and water supply received less attention. While the share of health has remained below 4 per cent except in 2009-10, 2014-15 and 2015-16, the share of water supply declined from 2.2 per cent in 2006-07 to 1.6 per cent in 2011-12 and thereafter, it has increased and reached at 3.5 per cent in

2015-16. At the same time, the share of expenditure for welfare of SC, ST & OBC has increased from 2.5 per cent in 2006-07 to 3.2 per cent in 2015-16.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 areverynecessary due to low level of human development in the state.

Table 4.8: Major Heads of Functional Govt. Expenditure as a % of GSDP

Different Exp.	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
General Services	7.4	5.7	4.8	5.8	5.2	4.8	4.9	4.8	4.8	4.7
Interest Payments	3.1	2.5	2.0	1.9	1.6	1.1	1.1	1.0	0.9	1.0
Social Services	5.3	5.5	6.2	6.4	8.5	6.5	6.1	6.9	7.4	8.3
Education, Sports, Art &	2.4	2.5	3.0	3.4	3.4	3.0	2.8	2.9	3.2	3.5
Health & Family Welfare	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.7	1.0	1.1
Water Supply	0.4	0.6	0.7	0.4	0.3	0.3	0.3	0.4	0.5	0.8
Housing	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.2	0.2
Welfare of SC,ST & OBC	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.7
Others	1.4	1.1	1.3	1.2	3.4	2.0	1.7	2.3	2.2	2.1
Economic Services	3.9	4.5	5.5	5.3	5.2	5.3	5.5	6.0	7.4	9.7
Agri& allied	0.7	0.7	1.3	1.4	1.5	1.4	1.6	1.6	1.8	1.9
Rural Dev	0.6	0.7	0.8	0.7	0.8	0.8	0.8	1.0	1.4	2.2
Irrigation	0.9	1.4	1.4	1.2	1.2	1.0	1.1	1.1	1.2	1.6
Industry	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.2
Transport	0.9	1.0	1.3	1.2	1.2	1.1	1.2	1.3	2.1	2.8
Others	0.6	0.6	0.7	0.5	0.6	0.9	1.0	1.4	1.2	1.7

Source: Calculated using data from Finance Accounts, Govt. of Odisha.

There is increase in the share of economic services from 22.5 per cent 2006-07 to 41.9 per cent in 2015-16. This increase is observed mainly in agriculture and allied sectors from 4.1 per cent in 2006-07 to 8.1 per cent in 2015-16. At the same time, the share of rural development has increased to 9.7 per cent and the share of irrigation has increased to 6.8 per cent. These shares are not sufficient. Therefore, there is 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 7.4 per cent in 2006-07 to 4.7 per cent in 2015-16 (Table 4.8). On the other hand, the allocation of expenditure for social services as a percentage of GSDP has increased from 5.3 per cent in 2006-07 to 8.3 per cent in 2015-16. Odisha has spent 3.5 per cent of GSDP during 2015-16 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 1.1 per cent during 2015-16. 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 2006-07 to 2015-16. Rural development and irrigation, which are vital for economic development, each has less than 2 per cent except in 2015-16, the share of rural development has exceeded 2 per cent of GSDP.

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 differentheads 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 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 though cost recovery in the public provision of various gods and services. The estimates show that not only is the rate of recovery low in case of selected social services like education and health but also it is fluctuating for these social services. This low rate recovery has ultimately resulted in a massive increase in amount of implicit subsidies. This implicit subsidy is not necessarily targeted only to the poor. In the case of education, it is found that cost recovery is very low, in fact exactly one, and has declined within a period of five years from 1.8 in 2012-13 per cent to 1 per cent in 2015-16 (Table 4.9). Similarly, in the health services the rate of recovery has decreased from 4 per cent in 2011-12 to 3.2 per cent in 2015-16.

Table 4.9: Cost Recovery of Selected Services

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

Item	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
A. Social services of which									
(a) Education	1.65	0.3	0.34	0.54	0.45	1.78	1.4	0.3	1
(b) Health	2.77	4.77	1.58	2.20	4.00	0.97	2.24	2.28	3.17
(c) Water supply and Sanitation	36.21	37.35	32.78	20.24	18.91	17.51	26.36	24.27	24.10
B. Economic Services of which									
(a) Irrigartion	15.50	12.68	15.70	25.14	46.43	49.14	41.54	63.75	63.55
(b) Power	24.06	11.72	46.55	41.63	55.19	34.26	70.42	42.87	59.98
(c) Roads	5.53	7.08	6.17	7.17	6.55	4.35	4.61	3.40	3.43

Source: Finance Accounts, Govt. of Odisha.

In selected economic services like irrigation, power and roads, the rate of recovery has increased within five years from 2011-12 to 2015-16 (Table 4.9). While the rate of recovery in case of irrigation and power has increased, in case of roads there is fluctuation between 6.4 per cent and 3.4 per cent in the rate of recovery during this period.

The above trends in the rare 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 of 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 the state economy, By pre-empting resources, subsidies in a way result in reducing the size 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 Departments, in order to link outlays and measurable outcomes.

(ii) Cash management system has been introduced in 15 Departments, in order to ensure timely spending of the budgeted outlay.

(iii) Formulation of annual maintenance plan has been put in place, 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. A performance-measuring tool helps in better service delivery; decision-making; evaluating programme performance and results; communicating programme goals; and improving programme effectiveness. The excise is primarily meantfor converting financial outlay into measurable and monitorable outcome. The idea is to make programme-implementing agencies more result oriented by shifting the focus from ‘Outlay’ to ‘Outcome’.

Outlay-outcome budgets of five departments viz. Fisheries and Animal Resources Development, Rural Development, Energy, Agriculture and Works department were reviewed for the financial year 2015-16 and it was seen that the financial and physical targets were not fully achieved. In fisheries and Animal Resources Development, through the financial target has been fully achieved, the physical target has not been achieved to that extent in the following schemes.

(i) In assistance to MastsyajibiBasagruhaYojana, the financial target was achieved but the physical achievements were just 3 per cent of the target of 1066 houses. Though Rs.8 crore was spent, only 31 houses were completed during the period.

(ii) In interest subvention on Short Term Credit Support to Fish Farmers Scheme., the financial target was fully achieved, but the physical target was not achieved. The achievement was only 151.2 hectares (8 per cent) of land against target of 2000 hectares of land.

(iii) In interest Subvention on Long Term Credit Support the Fish Farmers Scheme, the financial target has been full achieved, but the physical target achieved was 349.5 hectares (35 per cent) against target of 1000 hectares.

In Rural Development Department, the financial and physical achievements are given below.

(i) In Mukhya Mantri SadakaYojana, against the financial target achievement of Rs.19.50 crore, the physical target achieved was 27 per cent (136.14 Km completed against the target of 500 Km)

(ii) In construction of buildings by Rural Development Department, the financial target was Rs.3.22 crore, whereas the physical target achieved was 40 per cent (84 out of the targeted 209 buildings)

(iii) In case of improvement of R.D. Roads, the physical target achievement was 37 per cent(15 out of targeted 40 roads)

(iv) In construction of Bailey bridges, financial target was fully achieved, whereas the physical target achievement was 45 per cent (41 out of targeted 92 bridges)

In Energy Department, the financial and physical achievements are given below.

In State Capital Improvement of Power Scheme, the financial target was fully achieved but physical progress of work was limited to engagement of consultants of OPTCL.

In Agriculture Department, the financial and physical achievements are given below.

Under development of Potato, Vegetables and Spices Scheme, the financial achievement for Subsidised Sale of vegetable seeds was Rs.9.84 crore (51 per cent) against the targeted Rs.19.23 crore, whereas the physical achievements was 5 per cent (24922 seeds against the target 500000 seeds).

In Work Department, the financial and physical achievements are given below.

In Odisha State Road Project (externally Aided Project), the financial achievement was Rs.79.73 crore (30 per cent) against the target of Rs.262.00 crore. The physical achievement was only 32 per cent (improvement of 26 Km road out of 80 Km road) (CAG, 2016)

4.5 Benchmark on expenditure

So far as per capita expenditure is concerned, Odisha ranked 12 among the 17 major states in 2015-16. Similarly,Per capita Expenditure-GSDP ratio in Odisha during the same year is 20.1

per cent, which is better than the States like Bihar, Chhatisgarh, Jharkhand, Madhya Pradesh and Utter Pradesh.

Table 4.10:Benchmark on Revenue Expenditure (2015-16)

Sl. No.	States	Per capita Expenditure	Rank of Per Capita Exp	Per Cent of GSDP
1	Andhra Pradesh	19,428.2	5	19.5
2	Bihar	8,055.1	17	28.3
3	Chhatisgarh	17,110.7	8	22.2
4	Goa	57,758.4	1	18.3
5	Gujarat	15,861.7	10	10.7
6	Haryana	23,364.3	3	14.8
7	Jharkhand	11,080.6	15	20.9
8	Karnataka	19,144.0	6	14.1
9	Kerala	23,568.4	2	17.5
10	Madhya Pradesh	13,743.0	13	23.9
11	Maharastra	16,941.3	9	11.5
12	**Odisha**	**14,018.9**	**12**	**20.1**
13	Punjab	18,074.3	7	15.2
14	Rajasthan	15,482.0	11	19.0
15	Tamilnadu	19,544.7	4	14.6
16	Uttar Pradesh	10,646.8	16	23.4
17	West Bangal	13,008.2	14	19.6
	AllIndia	18,637.1		18.4

Sources:1) Finance account, Govt. of Odisha; 2) Reserve Bank of India

4.6 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 of 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 22.56 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 26 government departments, namely, law, finance, commerce, works, Odisha Legislative Assembly, food supplies, health and family welfare, labour and E.S.I., water resources, transport, agriculture and farmers employment, steel & mines, information and public relation, science & technology, rural development, parliamentary affairs, textiles handloom, culture, fisheries and animal resource development, cooperation, higher education, employment and technical education and training, micro, small & medium enterprises and social security and employment of persons with disability 30 and more than 30 percentage of the sanctioned posts are lying vacant in the State. In 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 the state. In health & family welfare department around 30 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 industrialisation of the state, 55 percentages 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 sex 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.

4.7 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 2 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 1 per cent and 3.2 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 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 2012-13, the recovery rate of only 3.2 per cent in 2015-16 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 ass most of the benefits to these sectors flow to richer and middle sections of the population The state needs to maintain this trend in progressive reduction of subsidies in order to augment resources available for productive investment, leading to the growth of the state economy.

CHAPTER FIVE

ANALYSIS OF DEFICITS

ToR. 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 State Government during a specified period. The deficit in the Government Account represents the gap between 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 2006-07 to 2015-16 are presented in the following.

5.1 Trends in Deficits/Surpluses

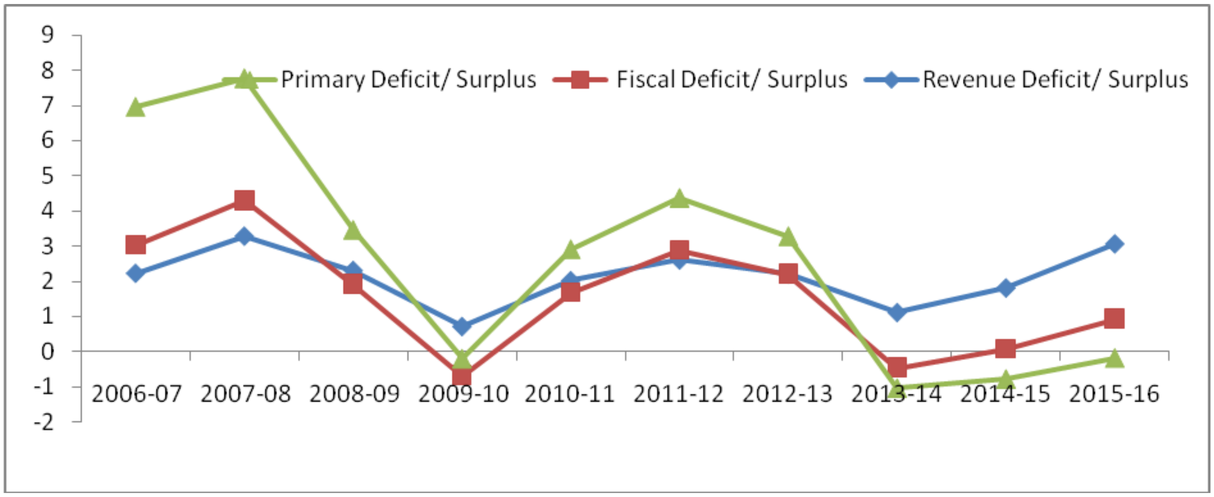
Table 5.1 and Chart 5.1 present the trends in deficits/surpluses over period 2006-16

Table 5.1: Deficit Indicator of Odisha

Year	Revenue Deficit(-)/ Surplus(+) (Rs. in Crores)	Fiscal Deficit(-)/ Surplus(+) (Rs. in Crores)	Primary Deficit(-)/ Surplus(+) (Rs. in Crores)	Revenue Deficit(-)/ Surplus(+) as a (%) of GSDP	Fiscal Deficit(-)/ Surplus(+) as a (%) of GSDP	Primary Deficit)-)/ Surplus(+) as a (%) of GSDP
2006-07	2260.6	823.2	4011.6	2.2	0.81	3.94
2007-08	4243.9	1323.1	4492.6	3.3	1.02	3.48
2008-09	3419.9	-584.0	2305.8	2.3	-0.39	1.55
2009-10	1138.6	-2265.4	778.8	0.7	-1.39	0.48
2010-11	3908.2	-657.8	2403.8	2.0	-0.34	1.24
2011-12	5606.8	621.8	3198.3	2.6	0.29	1.48
2012-13	5699.3	3.6	2810.8	2.2	0.001	1.08
2013-14	3329.1	-4633.6	-1745.4	1.1	-1.56	-0.59
2014-15	5862.1	-5478.6	-2668.3	1.8	-1.74	-0.85
2015-16	10135.7	-7062.8	-3719.5	3.0	-2.13	-1.12

Source: Budget at a Glance of different years, Govt. of Odisha.

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



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. In 2006-07, the State has attained a revenue surplus of Rs.2260.6 crore and thereafter has continued to be a revenue surplus State. In 2015-16, revenue surplus increased to Rs.10135.7 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 0.7 per cent. The trends in revenue deficit/ surplus can be seen from Chart 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 2011-12 (Table 5.1). But after three years, there was again fiscal surplus of Rs.622 crore and Rs.3.6 crore during 2011-12 and 2012-13 respectively. This is mainly due to huge surplus available in revenue account. Fiscal deficit has again observed in 2013-14 and reached at Rs.7063 crore in 2015-16. 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 Chart 5.1.

5.4 Primary Deficits/Surplus

The primary surplus in the State decreased from Rs.4012 crore in 2006-07 to Rs.2811 crore in 2012-13.Thereafter, the State has primary deficit. Primary deficit reached at Rs.3719.5 crore during 2015-16.It reached to a peak of Rs.4492.6 in 2007-08 and decreased to Rs.778 crore in 2009-10. Primary surplus's share as a percentage of GSDP was 1.5 per cent in 2011-12. In 2015-16, the share of primary deficit as a percentage of GSDP was 1.12 per cent. The trends in primary deficit can be seen from Chart 5.1.

5.5 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 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 in 2004-05 and thereafter there is no revenue deficit (Table 5.1). The bifurcation of the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productivity capacity of State's economy.

5.6 Adequacy of Revenue for Plan Financing

The State Government has been generating surplus in revenue account over the period 2006-07 to 2015-16. This revenue surplus has been utilized for plan financing in the State. The State Government was able to utilise 53.7 per cent of plan expenditure from revenue surplus (Table 5.2). This is increased 60.2 per cent in 2007-08 and then it became decreasing trends and it became 25 per cent in 2015-16. Though the revenue surplusis 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 helped the Government to support increasing percentage of plan expenditure.

Table 5.2: Adequacy of Revenue for plan Expenditure

Year	Revenue Surplus (Rs. in Crores)	Plan Expenditure (Rs. in Crores)	Revenue Surplus as (%) of Plan Expenditure
2006-07	2260.6	4204.8	53.7
2007-08	4243.9	7045.9	60.2
2008-09	3419.9	8933.0	38.3
2009-10	1138.6	8901.5	12.8
2010-11	3908.21	11549.2	33.9
2011-12	5606.8	14157.5	39.6
2012-13	5699.3	17336.8	32.9
2013-14	3329.1	22965.7	14.5
2014-15	5862.1	30192.9	19.4
2015-16	10135.7	40587.8	25.0

Source: Budget at a Glance of different years, Govt. of Odisha.

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 touted through the Central Government), liabilities in public account (small savings, provident fund etc.) and borrowing 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 Obligation*	Total outstanding Debt & Other Obligations at the end of the Year*	GSDP#	Total Public Debt as % of GSDP	Total Outstanding Debt & other Obligations as a % of GSDP
	Rupees Crore at the end of 31st March of the year				In percentage	
2006-07	26925.3	12540.7	39466.0	101839.5	26.4	38.8
2007-08	25587.2	12938.2	38525.4	129274.5	19.8	29.8
2008-09	25246.2	13921.5	39167.8	148490.7	17.0	26.4
2009-10	25407.7	15205.8	40613.9	162946.4	15.6	24.9
2010-11	25591.7	16645.0	42236.7	197530.0	13.0	21.4
2011-12	24618.0	17675.5	42293.2	230987.0	10.7	18.3
2012-13	23317.0	20027.0	43344.0	261670.0	8.9	16.6
2013-14	23315.0	21399.3	44714.3	296475.0	7.9	15.1
2014-15	26849.0	23644.7	50493.7	314267.1	8.5	16.1
2015-16	33,757.0	25996.2	59753.2	330873.8	10.2	18.1

Sources:***** Finance Accounts, Govt. of Odisha.
Budget at a Glance, Govt. of Odisha.

The total public debt of Odisha (which include internal debt of the State Government and loans and advances from central government) in absolute declined from Rs.26925.27 crore at the end of March 2006-07 to Rs.23315 crore at the end of March 2013-14. Then it started rising in the subsequent years. 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 from Rs.39466 crore at the end of March 2007 to Rs.59753.25 crore at the end of March 2016. However, the burden of the public debt is not measured in absolute terms, rather as a percentage 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 26.43 per cent in the year 2006-07 to 10.20 per cent in 2015-16. Similarly, the aggregate public debt and outstanding liabilities as a percentage of GSDP have gone down from 38.75 per cent in 2006-07 to 18.06 percent in 2015-16. This is much below the target set by 13th Finance Commission at 25 % of GSDP for all states in aggregate. However, in state specific the roadmap drawn by the 14th Finance Commission the targets set for Odisha at for the years 2015-16, 2016-17,2017-18., 2018-19 and 2019-20 are 16.98%, 18.37%, 19.58%, 20.65% and 21.58% 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 13th and 14th 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 entire period of our study. Following the recommendations of the Twelfth Finance Commission (TwFC), the central government disinter mediated State Governments borrowing from 2005-06 onwards, resulting in a sharp decline in the inflows of loan from centre in the subsequent years. The share of internal debt(Which includes Market Loans, WMA from 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) decreased from 46.1 per cent during 2006-07 to 35.9 per cent during 2014-15. Again, in 2015-16, PDOL has increases to 39.1 per cent (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 total PDOLhas steadily declined from 22.7 per cent in 2006-07 to only 14.1 per cent in 2015-16. The State Government is now relying more upon the small scale savings and provident fund (SSPF) to raise funds for the functioning of the government. The share of SSPF in the total PDOL has gone up from 26.2 per cent in 2006-07 to 32.2 per cent in 2015-16 showing almost 6 percentage points rise. The share of other obligations in the total PDOL increased from 5.6 per cent in 2006-07 to 14.3 per cent in 2015-16.

Keeping in view the changes in the reporting of public debt in finance accounts of the state, we report the detailed composition of public debt from the year 2011-12. Table 6.3 presents the detailed statement of the Nature of Borrowing by the Government of Odisha from 2011-12 to 2015-16. 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 2006-2016 (Rs in crore)

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 and Other Liabilities	Share of Central Govt. Loans as a % of Total Debt and Other Liabilities	Share of SSpf as a % of total Debt and Other Liabilites	Share of Other Obligations as a % of Total Debt and Other Liabilities
2006-07	18180.0	8745.2	10326.7	2214.0	39466.0	46..1	22.2	26.2	5.6
2007-08	17185.3	8401.9	10726.6	2211.7	38525.4	44.6	21.8	27.8	5.7
2008-09	16770.1	8476.1	11185.3	2736.2	39167.8	42.8	21.6	28.6	7.0
2009-10	17178.2	8229.5	12323.4	2882.4	40613.5	42.3	20.3	30.3	7.1
2010-11	17998.6	7593.1	13546.0	3053.6	42191.3	42.7	18.0	32.1	7.2
2011-12	17338.5	7279.2	13733.0	3876.7	42466.76	40.8	17.1	32.3	9.1
2012-13	16108.0	7208.8	14663.5	5363.6	43344.0	37.2	16.6	33.8	12.4
2013-14	16073.0	7241.5	15352.4	6046.8	44714.3	35.9	16.2	34.3	13.5
2014-15	19728.0	7120.7	16247.5	7219.4	50493.7	39.1	14.1	32.2	14.3
2015-16	26525.0	7232.2	18260.8	7735.5	59753.2	44.4	12.1	30.6	12.9

Source: Finance Accounts, Govt. of Odisha.

Table 6.3: Nature of Borrowing by Govt. of Odisha (Rs in crore)

	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15	31-Mar-16
A - Public Debt								
Internal Debt of the State Govt.	16770.15	17,178	17,999	17,338	16,108	16,073	19,728	26,525
Market Loans	7,354	6,783	6,160	5,114	3,806	2,921	4,565	8,128
WMA2 from the RBI	0	0	0	0	0	0	0	0
Bonds	772.29	662	551.71	441	330.86	220.57	110.29	0
Loans from Financial Institutions	1,162	1646.88	2180.52	2750.82	3368.35	3939.86	4972.65	6706.73
Special Securities issued to National Small Saving Funds	6,822	7432.62	8455.96	8,482	8597	8985.13	10074.7	11650.09
Other Loans	660	654	650	550	6.12	6.13	5	40
Loans and Advances from the Central Govt.	8,476	8,230	7,593	7,279	7,209	7,242	7,121	7,232
Non-Plan Loans	37	34	31	29	27	26	24	22
Loans for State Plan Schemes	8,293	8,062	7439.26	7202.04	7,135	7,167	7,096	7,210
Loans for Central Plan Schemes	24.01	20.64	17.46	0.02	0	0	0	0
Loans for Centrally Sponsored Plan Schemes	68.97	62.04	55.25	0	0	0	0	0
Pre 84-85 Loans	52.93	51.31	49.69	48.07	46	48	1	1
Total Public Debt	25246.25	25407.69	25591.7	24,618	23317	23315	26849	33,757
B - Other liabilities								
Public Accounts								
Small savings, Provident Funds etc.	11185.32	12323.39	13546	13972.39	14663.46	15352.52	16425.3	18260.77
Reserve funds bearing interest	4.84	4.84	27.33	296.14	189.15	59.43	23.44	308.88
Reserve funds not bearing interest	16.79	18.21	12.55	12.61	12.61	12.6	305.84	305.83
Deposits bearing interest	23.67	30.18	57.94	78.36	79.76	47.77	40.76	46.68
Deposits not bearing interest	2690.9	2829.17	2,956	3489.57	5082.07	5927.03	6849.4	7074.09
Total other liabilities	13921.52	15205.79	16599.64	17849.07	20027.05	21399.35	23644.74	25996.25
Total Public Debt and other liabilities	39167.77	40613.48	42191.34	42466.76	43344.05	44714.35	50493.74	59753.25

Source: Finance Accounts, Govt. of Odisha.

Table 6.4: Percentage of Public Debt to Total Public Debt

Year	Internal Debt of the State Govt.	Market Loans	WMA2 from the RBI	Bonds	Loans from Financial Institutions	Special Securities issued to National Small Saving Funds	Other Loans	Loans and Advances from the Central Govt.
2008-09	66.4	29.1	0.00	3.1	4.6	27.0	2.6	33.6
2009-10	67.6	26.7	0.00	2.6	6.5	29.2	2.6	32.4
2010-11	70.3	24.1	0.00	2.1	8.5	33.0	2.5	29.7
2011-12	70.4	20.8	0.00	1.7	11.2	34.5	2.2	29.6
2012-13	69.1	16.3	0.00	1.4	14.4	36.9	0.03	30.9
2013-14	68.9	12.5	0.00	0.9	16.9	38.5	0.03	31.6
2014-15	73.5	17.0	0.00	0.4	18.5	37.5	0.02	26.5
2015-16	78.6	24.1	0.00	0.0	19.9	34.5	0.12	21.4

Source: Compiled from Finance Accounts, Govt. of Odisha.

As mentioned earlier, the share of internal debt in public debt of Odisha has declined and that of loan and advances from central government have declined steadily. Between 2011-12 and 2015-16 the share of public debt has increased from 70.4 per cent to 78.6 per cent. During this time period share of loans and advances from central government has declined from 29.6 per cent to 21.4per cent. Within internal debt the share of Special Securities issued to National Small Saving Funds (SSNSSF) and loans from financial institutional (FIs) have gone up to compensate the fall in the share of market loans and bonds. The share of SSNSSF has gone up from 34.5 per cent in 2011-12 to 38.5 per cent in 2013-14 thereafter started declining and reached at 34.5 per cent in 2015-16. Similarly, the share of Financial Institutions has gone up from 11.2 per cent in 2011-12 to 19.9 per cent in 2015-16. The share of market loan in the total public debt has gone up from 20.8 per cent in 2011-12 to 24.0 per cent in 2015-16. Similarly, the share of bonds has declined from 1. per cent to 0 in 2015-16.The government of Odisha no more relying upon the Ways and Means Advance from the Reserve Bank of India.

6.3 Use of Public Debt

Following the Table 6.5 shows the borrowing and liabilities, capital outlay, capital expenditure from 2006-07 to 2015-16. We can observe that the annual borrowing and other liabilities have gone up substantially from Rs.2046 crore to Rs.9789.82 crore in 2015-16. Capital outlay as a percentage of total expenditure went up from 7.5 per cent in 2006-07 to 21.6 per cent in 2015-16. Capital expenditure as a percentage total expenditure has increased from 18.5 per cent in 2006-07 to 25 per cent in 2015-16. In the initial years of our analysis although government had a smaller percentage of capital expenditure a smaller amount went for debt repayment. In the recent years, however, due to increasing burden of debt repayments, capital outlay has decreased 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 parked in RBI which is invested in government treasury bills.

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 total expenditure	Capital expenditure as % of total expenditure
2006-07	2045.9	1451.5	3574.0	19346.0	7.5	18.47
2007-08	506.9	2843.4	5121.1	22844.3	12.4	22.42
2008-09	1151.7	3779.2	5732.7	26922.9	14.0	21.2
2009-10	1650.1	3647.9	5249.0	30540.6	11.9	17.3
2010-11	2267.6	4285.1	6683.4	36051.3	11.9	18.5
2011-12	1353.7	4496.1	7444.9	42105.1	10.7	17.7
2012-13	1879.5	5622.2	9018.1	47255.6	11.9	19.1
2013-14	2290.2	7756.4	10513.2	56130.9	13.8	18.7
2014-15	7645.6	11127.6	14462.0	66679.8	16.7	21.7
2015-2016	9789.8	17090.5	20308.4	79114.1	21.6	25.7

Source: Finance Accounts, Govt. of Odisha.

6.4 Benchmark of Debt

The benchmark of debt for the year 2015-16 shows that among the 17 States, Odisha's position was 15 and it constitued 7.7 per cent of the GSDP. The details has been given in table-6.6.

Table 6.6:Benchmark of Debt (2015-16)

Sl. No.	States	Per Capita Liabilities	Rank of Per Capita Liabilities	Per Cent of GSDP
1	Andhra Pradesh	29,955.4	11	30.1
2	Bihar	11,249.0	17	39.5
3	Chhatisgarh	15,371.8	16	19.9
4	Goa	1,07,359.2	1	34.0
5	Gujarat	38,339.9	5	25.9
6	Haryana	48,850.1	2	31.0
7	Jharkhand	17,294.1	14	32.6
8	Karnataka	30,377.5	10	22.3
9	Kerala	48,601.8	3	36.2
10	Madhya Pradesh	17,591.5	13	30.6
11	Maharastra	31,274.4	8	21.2
12	Odisha	15,548.1	15	19.7
13	Punjab	48,415.0	4	40.6
14	Rajasthan	30,582.5	9	37.6
15	Tamilnadu	31,677.8	7	23.6
16	Uttar Pradesh	19,285.1	12	42.5
17	West Bangal	34,455.2	6	51.9
	All	33,895.8		31.9

Source: Reserve Bank of India.

6.5 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 (12^{th} FC).

Apart from that, the 13^{th} Finance Commission has waived GoI loans from Ministries other than Ministry of Finance amounting to Rs.63.1 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 conditional ties. 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 toward targets and analyse the Medium Term Fiscal Plan (MTFP) of various departments and aggregate.

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

The Odisha Fiscal Responsibility and Budget Management (FRBM) Act was assented by the Governor on the 11th May of 2005 and was published for general information on 16th May 2005 as Odisha Act 6 of 2005. Subsequently, on 11th August 2005, the Finance Department, Government of Odisha notified the Odisha 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 deficits and sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the government and conduct 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:

(i) Reduce revenue deficit to nil within a period of five financial years beginning from the initial financial year on 1st day of April, 2004 and ending on the 31st day of March, 2009;

(ii) Reduce fiscal deficit to not more than three per cent 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;

(iii) 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);

(iv) Generate a primary surplus of over 3 per cent of Gross Sate Domestic Product (GSDP) by the year ending 31st March 2008;

(v) Other important monitorable fiscal targets are:

   a. The ratio of salary to State's Own revenue is to be reduced to 80 per cent by the year ending 31st March 2008;
   b. The ratio of non interest committed revenue expenditure to State's Own and Mandated Revenue is to be reduced to 55 per cent by the ending 31st March , 2008; and
   c. The ratio of revenue deficit to revenue receipt is to be reduced to 0 per cent by the year ending 31stMarch, 2009.

(vi) 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 per cent;

(vii) 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 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 a percentage of GSDP was 2.2 per cent in 2006-07, which increased to 3.1 per cent in 2015-16 (Table 7.1). There was no Fiscal Deficit in 2006-07. But this was converted to Fiscal Deficit and also rising over the period. However, the deficit in 2015-16 was below the target of 3 per cent of GSDP. As per FRBM Act, the State Government had to generate primary surplus of over 3 per cent of GSDP during 2005-06 to 2007-08. However, after 2007-08 this has remains less than 3 per cent of GSDP and in 2013-14 onwards, there was primary deficit occurred. Interest payment as percentage of Revenue Receipts has gradually been declined and reached to the level of 4.9 per cent in 2015-16. Similarly the outstanding debt burden has declined from 36.6 per cent of GSDP in 2006-07 to 15.7 per cent in 2015-16. The Debt-GSDP ratio remained much below the level determined as prudent by the 13th and 14th Finance Commission for the State as well as the Odisha FRBM Act.

Table 7.1 Fiscal Achievements under MTFP

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
(a) Revenue Deficit as percentage of GSDP (%)	2.22	3.28	2.3	0.7	2.01	2.6	2.2	1.1	1.8	3.06
(b) Fiscal Deficit as percentage of GSDP (&)	0.81	1.02	-0.39	-1.39	-0.34	0.29	0.001	-1.56	-1.74	-2.13
(c) Primary Deficit as percentage of GSDP (%)	3.94	3.48	1.55	0.48	1.24	1.48	1.08	-0.59	-0.85	-1.12
Interest payment as % of revenue receipts	17.68	14.43	11.74	11.52	9.20	6.40	6.39	5.90	4.93	4.85

Source: CAG Report.

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) Ace, 2011, the revenue deficit shall be maintained at zero for the financial year, 2011-12 and the 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 be limited to 15 per cent. 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.

Table 7.2: Comparative Assessment of Revenue Expenditure(RE) and Non-Plan Revenue Expenditure (NPRE) during 2015-16 (Rs in crore)

Expenditure Heads	Assessment made by FFC	Assessment made by State Government in MTFP	Actual
RE	25098	21280	22527
NPRE	9009	9014	8711

Source: Finance Accounts, Government of Odisha.

7.3 Analysis of Cash Management System and Rush of Expenditure

Pursuant to the provision of sub-section(1-a) of Section 8 of Odisha Fiscal Responsibility and Budget Management Act, Government of Odisha implemented Cash Management System in 18 departments for 2015-16. As per Finance Department Circular No. 12453/F, dated 20 April 2015, the level of expenditure at the end of third quarter was not to be less than 60 per cent and during the month of March, the same should not be more than 15 per cent of the budget provision.However, it was observed that out of 18, only 12 departments had spent minimum 60 per cent of the budget provision by the end of third quarter, while the remaining 6 departments had failed to achieve the norm during 2015-16. Similarly, 12 departments exceeded 15 per cent of the budget provision for the month of March 2016.

Table 7.3: MTFP Roadmap drawn by the 14th Finance Commission (% of GSDP)

Indicators	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Deficit	-1.07	-1.32	-1.6	-1.84	-1.88
Fiscal Deficit	2.76	2.77	2.77	2.73	2.74
Debt Stock	21.9	22.06	22.21	22.3	22.38

Source: CAG Report.

CHAPTER EIGHT

FISCAL DECENTRALISATION

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

8.1 History of PRIs in Odisha

Panchayati Raj Institutions in Odisha got the first legal entitlement in the year 1948 with the legislation of Odisha GramaPanchayatAct which prescribed for the constitution of GramaPanchayats and described the power and functioning of GramaPanchayats. 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, The experiment however did not succeed because in many villages people were misled the propaganda that people had to pay some of 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 Panchayat from certain areas was deleted by the Odisha Grama Panchayats (2^{nd} amendment) Act, 1957. Initially, a Panchayatwasbeing formed in a single village having minimum of population of 155 or a group of villages having minimum of population 1000.

It was soon noticed that such a small unit is not operationally viable. Therefore, some of the Panchayats established in such 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 institution of Self-Government.

Similarly, the 74^{th} constitutional amendment empowered the Urban Local Bodies (ULBs) with more power. Article 243W provides 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 73^{rd} constitutional amendments empowered the Panchayats further with regularization of election and devolution of more power. The Constitution (73^{rd} Amendment) Act, 1992 described that through the Panchayat 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 condition 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

Pursuant to the mandate of the 73rd Amendment, various Acts governing PRIs were amended in 1994 and functions in 29 areas were assigned to PRIs in the Eleventh Schedule. These functions include activity, the administration of which was being looked after by the respective line departments of the State Government. Panchayat Raj Institutions were as more as independent elected bodies, not having allegiance to any line department and not amenable to the commands of its hierarchical structure. There was a lot of scepticism, unwillingness and even resistance to place functionaries at the disposal of PRIs and the same situation still continues. Functions have been entrusted to them to perform by law without placing the functionaries at their command Bureaucracy, for obvious reasons. Is concerned about financial administration. Release of Funds, availing central share of a scheme and submission of utilisation certificates in time to avoid surrender of budgeted amount are some of the key concerns of routine administration. Release of Funds, availing central share of a scheme and submission of utilisation certificates in time to avoid surrender of budgeted amount are some of key concerns routine administration.

Notification No.8430/PR, dt.25.10.05 was practically the first effective measure for decentralisation and devolution of powers and functions to PRIs through activity mapping in nine departments. The activity mapping spells out the activities in respect of each devolved function to be performed at various levels of 3-tier Panchayat Raj systems. The guiding principle here is the principle of subsidiary i.e. activities which can be performed at a lower level should be undertaken only at that level and should not be scaled up to a higher level.

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

One more anomaly is also observed in the transfer of power. Although the Panchayat Raj department and the report of state finance commission mention that 21 subjects out of the 29 subjects listed in the Schedule-XI are not transferred, those are as follows: 1) Social Forestry and farm forestry, 2) Small Scale Industries, including food processing industries, 3) Khadi, vi9llage 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.

The Fourth State Finance Commission recommends that the State Government should constitute a committee headed by the Chief Secretary with Development Commissioner, Finance Secretary, PR Secretary and H&UD Secretary as members to meet quarterly to recommendations in a time bound manner. The committee may be serviced by Finance Department.

In P.R. Department, the District Rural Development Agency (DRDA) has emerged as a powerful parastatal and all the centrally sponsored programmes/schemes of the Ministry of Rural Development are routed through them in contrary to the spirit of 73rd Constitutional amendment. The Commission feels that dichotomy in the way of empowerment of PRIs will come to an end if DRDA is dissolved and its office merges in ZP. This will not only convey a determined attitude of the State Government to strengthen local governance, but will also inspire the line departments to realign their schemes, programmes and administrative structure in tandem with the new reality.

In order to make the Gram Panchayats more effective in providing services in a meaningful way and to ensure accountability of the key functionaries, services of Executive Officers, Junior Engineers, Rojagar Sahayaks, Jogan Sahayaks and Officials involved in disbursement of pension should be placed by the Panchayats. Further all users' committees like the ones for primary schools, anganwadis and health centres work under the guidance of specially created parastatals under the direct supervision of departmental officers in contravention to Eleventh Schedule of the Constitution. As a first step services of ANMs and anganwadi workers can be placed with the GPs to make them an integral part of the institution of Gram Panchayat.

In order to make Panchayats viable units of local self-governance, number of Panchayats should be contained; each shall be a viable unit of local self-governance. Spitting of a Gram Panchayat always may not be in its best interest. The Commission is of the view that, lesson should learnt from experience of Kerala for evolving strong and efficient panchayats; and

(i) New Panchayatsshould be created where population has exceeded 10,000.

(ii) The existing panchayats having more than 7,500 population should be strengthened by placing technical and other functionaries exclusively for them while smaller panchayats may continue to share functionaries for the time being as the practice now.

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 the financial position of the Panchayats and to make recommendations of the Governor as to improve their financial position. Following this constitutional provision the Governor of Odisha has appointed Four 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 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 State Government to the Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) and submitted its final report on 27th January. The Fourth State Finance Commission was constituted by the State Government vide Notification dated October 13, 2013 with Sri Chinmay Basu as Chairman. The Commission submitted its report to Governor on 30th September, 2014. The Fifth State Finance Commission (FSFC) has been constituted by the State Govt. vide a notification dated 5th May 2018 with Shri Rabi Narayan Senapati as the Chairman. It was supposed to submit the report within six months. However, it has taken another six months of extension for submission of the report.

In keeping with the spirit of the Constitutional provisions, the Commission has treated transfer of resources to the PRIs and ULBs under the recommendations of the Central Finance Commission as a supplementation to the amount recommended by the State Finance Commission. Accordingly, the Commission recommends to the Central Finance Commission to provide for the gap in the estimated resource requirements of the State. The Commission is sensitive to the cost of disadvantage suffered by the remote Tribal Sub-Plan (TSP) areas to provide equal level of services. Institutions in these areas tend to spend more amount because of low level of access, higher transportation cost etc. Therefore, the Commission proposed to provide 20 % additional fund to the TSP areas for different components of grants.

The Commission has recommended to limit the total transfer to 10 % of the net total tax revenue forecasted for the period 2015-20. After recommending the funds towards devolution and assignment of taxes, the Commission recommended grants-in-aid to meet the fund requirement partly or fully for the selected focus areas. It has decided to exclude Entry Tax, Entertain Tax and Motor Vehicle Tax from the sharable pool and assign a part of these taxes to the Local bodies directly. The net tax revenue, thus available for devolution during the period 2015-20 is estimated at Rs.109750.01 crore. The Commission has recommended that 3% of the above amount be devolved and distributed between PRIs and ULBS.

The approaches of the Commission with regard to the devolution are as follows-

(i) The devolution is to be united.
(ii) It is to be divided between RLBs and ULBs in the proportion of 75:25.
(iii)*Inter se* distribution amongst three tiers of PRIs & ULBs is based on population, category and number of units like GPs, PSs etc.

The amount to be devolved to the PRIs and ULBs is based on the criteria of size and density of population, percentage of persons below poverty line (Tendulkar Methodology), literacy rate and SC & ST concentration. Devolution to PRIs and ULBs are Rs.2468.9 crore and Rs.823 crore respectively out of total of Rs.3291.9 crore. The fund to be devolved to 6227 Gram Panchayats comes to Rs.1743.3 crore. The Commission has allotted an additional amount of 20% to the Panhayats under the TSP areas. Allocation to PanchayatSamities has been made on the basis of number of Gram Panchayats in a PanchayatSamiti and for each of the G.Ps. Rs.1.5 lakh crore per year provided over the award period. The total amount is Rs. 498.2 crore. The Commission has accordingly recommended Rs. 498.2 crore for the 314 Panchayat Samities. The total devolution recommended are Rs.1852.9 crore to Gram Panchayats, Rs.498.2 crore to Panchayat Samities and Rs. 117.8 crore to Zila Parishads during the award period. The distribution of devolution amongst the three tiers of the PRIs works out to be in the ratio of 75:20:5.

The major criterion based on which the municipal bodies are categorised is the population. Problems, complexities, quality and nature of services of the ULBs are all dependent on population size. Fund transfers to different levels of ULBs, therefore has been based on population criterion as per 2011 census. The Commission recommends Rs.258 crore to Municipal Corporation, Rs.430.5 crore to Municipalities and Rs.133.7 crore to NACs. The Commission is of the opinion that devolved fund is the right of the Local Bodies to be used as per their own priority and decision. The administrative departments should desist from giving any direction indicating the purposes for which such fund should be utilised. The utilisation of fund should not be limited to only construction related activities. The Local Bodies should consider areas in health services, primary education, anganwadi, children park and other sectors while taking decision to use the devolved fund. Only purposes for which the fund should not be utilised are donation to any organisation or any religious activity or related construction.

The assignment policies followed for decades have lost their imporatance and fraud placed is to little that it has so little that it has rather become symbolic. Therefore, the Commission recommended discontinuance of such assignments, like Kendu Leaf, Cess, Sairat, Minor Forest produce Grants etc. for rural areas. The stamp duty, which is being erroneously projected as grants to urban local bodies but goes to special planning authorities etc. should not be part of the assignment. The Commission emphasized on assigning Entertainment Tax to the rural and urban local bodies to enable them to levy and collect the taxes. The total requirement of funds towards salary, establishment and enhanced entitlements of elected representatives of the local bodies during the period 2015-20 works out to Rs.2234.1 crore for PRIs and Rs.2100 crore for the ULBs.

According to Article 280(3) (bb) and (c) of the Constitution, the Central Finance Commission has to supplement the resources of the rural and urban local bodies in addition to transfer recommended by the State Finance Commission from the State's resources. The total fund requirement assessed for the five year period of 2015-20 is Rs.25325.03 crore. Total fund proposed for transfer from the State's Taxes and Consolidated Fund is Rs.12740.1 crore. This leaves a gap of Rs.12584.9 crorewhichis required to be met in next five years period. The 4th SFC therefore, recommends that the 14th Finance Commission may consider to augment the State's Consolidated Fund by Rs.12584.9 crore, to supplement the resources of the Local Bodies over and above the fund recommended for transfer from the State's resources.

8.4 Transfers by State Government

The State Government has decided to accept the recommendations of the State Finance Commission and to transfer a total sum of Rs.12792.77 crore. A sum of Rs.2468.85 core under the devolution mechanism will be given to the Panchayat Raj Institutions (PRIs) for the period 2015-2020. During this 5 year, each year a sum of Rs.493.77 crore will be allocated. Similarly, for Urban Local Bodies (ULBs), a sum of Rs.823 crore will be allocated during the same period. Each year Rs.164 crore will be provided to the ULBs. The total amount for PRIs & ULBs will be Rs.3291.85 crore.

Under the mechanism of assignment of taxes, the State Govt. has decided to allocate a sum of Rs.2675.93 crore. For PRIs in 2015-2020. On the other hand, for ULBs, it will be Rs.3907.26 crore for the same period. The total amount including PRIs and ULBs will be a sum of Rs.6583.19 crore.

Similarly, a sum of Rs.2234.52 crore, the State Govt. has decided to allocate to PRIs as grant-in-aid. For ULBs, it will be a sum of Rs.683.21 crore. The total fund allocated under this mechanism to PRIs and ULBs will be Rs.2917.73 crore. The resources allocated to PRIs will be Rs.7379.30 crore and for ULBs, it will be Rs.5413.47 crore.

8.5 Transfers by Union Government

By taking into account the recommendation of 14th Finance commission, the Union Govt. has decided to allocate the resources as basic grants for Rural Local Bodies (RLBs) of Odisha State a sum of Rs.7965.28 crore for 2015-20. Similarly for Urban Local Bodies (ULBs) the basic grants will be Rs.1417.98 crore for the same period.

The Union Govt. has also allocated resources to RLBs & ULBs under performance grants a sum of Rs.865.03 crore and Rs.354.50 crore respectively for period 2015-20. For 2016-17, 2017-18, 2018-19 & 2019-20 the funds are Rs.173.55 crore, Rs.196.40 crore, Rs.223.04 crore and Rs.292.05 crore respectively for RLBs and for ULBs allocated funds are Rs.69.52 crore, Rs.78.67 crore, Rs.89.34 crore and Rs.116.98 crore respectively.

The analysis of OTR, NTR, Revenue expenditure and total expenditure of the PRIs and ULBs has been provided in annexure 8.1 & 8.2

8.6 Audit Mechanism of PRIs and ULBs

In view of voluminous transactions, particularly in the Panchayat Samitis, maintenance of accounts by the PRIs has become a measure concern on account of manpower shortage, lack of capacity and non-implementation of IT in GPs. Introduction of PAMIS software by the State Govt. has brought some improvement in account keeping system of Panchayat Samitis. In compliance with the recommendations of the 13th Finance Commision, the Govt. has engaged Chartered Accountant Farms from among those empanelled with the C&AG for the compilation of Gram Panchayat accounts since 2012-13. Besides, the State Govt. has taken decision to engage an Accountlant-cum-Computer Asst. in each GP. Substantial changes have been made in the methods and structure of audit system for the local bodies as per the recommendations of the 13th Finance Commission. The C&AG has been entrusted with technical guidance and supervision (TGS) and of accounts of PRIs and ULBs. The statutory audition of the local bodies i.e. the examiner of local accounts has been given the status of an independent directorate with necessary support system.

8.7 List of Functions Devolved to PRIs

On 21 subjects the State Govt. has devolved functions to the PRIs. These are given below.

1. Agriculture, including Agricultural Extension
2. Land Improvement, Implementation of land reforms, land consolidation and soilconservation
3. Minor irrigation, water management and watershed Development
4. Animal Husbandry, dairying and poultry
5. Fisheries
6. Minor Forest Produce
7. Rural Housing
8. Drinking water
9. Roads, culverts, bridges, ferries, waterways, and other means of communication
10. Non-conventional energy sources
11. Poverty Alleviation Programme
12. Primary Education
13. Adult and non-formal education
14. Markets and Fairs
15. Health and sanitation, including hospitals, primary health centres and dispensaries
16. Family welfare
17. Women and Child Development
18. Social welfare, including welfare of the handicapped and mentally retarded
19. Welfare of the weaker sections, and in particular , of the Scheduled Castes and Scheduled Tribes
20. Public distribution system
21. Maintenance of community assets

8.8 Number of functions has been devolved to ULBs

List of functions devolved to ULB under the Twelfth Schedule of the Indian Constitution are as follows.

1. Regulation of land use and construction of land buildings.
2. Urban planning including the town planning.
3. Planning for economic and social development
4. Urban poverty alleviation
5. Water supply for domestic, industrial and commercial purposes
6. Public health sanitation, conservation and solid waste management
7. Slum improvement and Up-gradation
8. Safeguarding the interests of the weaker sections of society, including the physically handicapped and mentally unsound
9. Urban forestry, protection of environment and promotion of ecological aspects
10. Constructions of roads and bridges
11. Provision of urban amenities and amenities and facilities such as parks, gardens and playgrounds
12. Promotion of cultural, educational and aesthetic aspects
13. Burials and burials grounds, cremation and cremation grounds and electric playgrounds
14. Cattle ponds, prevention of cruelty to animals
15. Regulation of slaughter houses and tanneries
16. Public amenities including street lighting, parking spaces, bus stop and public conveniences
17. Vital statistics including registration of births and deaths

Table 8.1: Revenue Account Grants-In-Aid and contribution to the urban and Local bodies

Compensation and Assignments to Local Bodies & PRIs	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Assistance to M. C's	6323.4	7351.2	9050.1	10876.7	12389.3	13604.3	14762.2	23455.7	23607.0	34757.7
Assistance to Municipalities/M.C's	7864.6	8585.9	10350.4	10917.2	11371.0	15864.6	16999.5	24093.3	23653.6	34099.7
Assistance to NAC's	5514.2	6332.1	6961.5	7413.0	7742.1	9540.0	10154.1	13993.3	14109.2	17561.7
Assistance to ZillaParishad	647.4	681.1	714.6	807.8	823.9	858.1	881.7	978.8	1014.4	589.4
Assistance to Block Panchayat	737.3	2842.1	3260.7	3302.3	3497.4	19301.3	15450.9	17863.6	12871.2	1205.2
Assistance to Gram Panchayats	5823.9	5497.6	7138.9	6965.4	7067.4	6711.5	5592.6	6331.1	6315.1	3369.6
Other Misc. Compensation &	315.3	3800	1800	300	300	300	415	4000	300	0
Deduct-Recovery of Overpayments					-30.1	-68.3	-106.7	-1436.1	-133.3	-7.4
Total - 3604	27226.0	35090.0	39276.1	40582.4	43161	66111.5	64149.4	89219.6	81737.2	91575.8
Aid Materials & Equipments										
Total Grants-in-aid	27226.0	54242.9	39276.1	40582.4	43160.98	66111.5	64149.4	89219.6	81737.2	91575.8
Total Expenditure	1577202	1772327	2119012	2529159	2936795	3466024	3823756	4561775	5113574	5880571

Source: Finance Accounts, Govt. of Odisha.

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 alternatives of closure, disinvestment etc.

9.1 Impact of State 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 2015-16. During this period 28 SPE have operated and out of which maximum number of PSUs have recorded profits and only Six 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 Odisha Mining Corp., Odisha Cashew Dev. Corp., Odisha State Seed Corp., Odisha Construction Corp., Odisha Power Generation Corp., Odisha State Warehousing Corp., Odisha Tourism Dev. Corp., IDCOL Software Ltd., Odisha Hydro Power Corp., Odisha State Beverages Corp. etc. have recorded profit during 2011-12 to 2015-16. Others firm 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. OPGC and 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 of the State went up from 1.7 per cent in 2011-12 to 3.03 per cent in 2012-13 and started falling from 2013-14 onwards. In the year 2015-16 the net profit of SPEs in TRR was only 0.01 per cent.

In order to improve the financial position of SPEs the 14^{th} Finance Commission has given the following recommendations:

(i) The National Investment Fund in Public Account should be wound up in consultation with the Controller General Accounts (CGA) and Comptroller & Auditor General (CA & G).

(ii) Monitoring and evaluation of PSEs take into account the institutional constraint within which their management operate.

(iii) The governance arguments be reviewed, especially in regard to separation of regulatory functions from ownership, role of the nominee as well as independent directors, and above all, the framework of governance conducive to efficiency.

(iv) A Financial Sector Public Enterprises Committee be appointed to examine and recommend parameters for appropriate future fiscal support to financial sector public enterprises, recognising the regulatory needs, the multicity of units in each activity and the performance and functioning of the DFIs.

(v) The route of transparent auctions be adopted for the relinquishment of unlisted sick enterprises in the category of non-priority public sector enterprises.

Table 9.1: Financial Position of State Public Sector Undertakings

Sl. No.	*Name of the Corporations*	***Profit & Loss***		***Profit & Loss***		***Profit & Loss***		***Profit & Loss***		***Profit & Loss***	
		2011-12	***Cumulative up to 2011-12***	***2012-13***	***Cumulative up to 2012-13***	***2013-14***	***Cumulative up to 2013-14***	***2014-15***	***Cumulative up to 2014-15***	***2015-16***	***Cumulative up to 2015-16***
1	*Odisha Agro Industries Corporation*	892.39	-2966.68	1151.53	-2358.48	15.57	-9.84	19.22	9.69	22.5	32.19
2	*Odisha State Seeds Corporation*	158.49	2268.57			9.61		0.74	26.28	0.6	25.83
3	*Odisha State Cashew Dev. Corporation*	148	1585.87	141.18	1587.97	2.86	18.25	3.52	21.4	2.8	24.06
4	*Odisha Forest Development Corporation*	1481.46	-14956	675.85	-14504.8	12.23	-141.58	16.14	-18.22	0.16	1.35
5	*Odisha Mining Corporation*	126938.5	514927.3	89610.05	506739.2	867.82	5864.17	963.94	2727.86	623.45	344.64
6	*Odisha Construction Corporation*	168.97	899.9	193.77	1152.38	2.05	13.26	3.41	17.03	0.42	0.22
7	*Odisha Bridge & Construction Corpn*	225.39	-320.85	203.8	-46.37	2.13	0.55	0.71	0.95	2.95	3.95
8	*Odisha Power Generation Corporation*	13708.86	93145.62	16743	656970	127.57	747.26	1150.57		112.45	966.04

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Sl. No.	Name of the Corporations	Profit & Loss 2011-12	Cumulative up to 2011-12	Profit & Loss 2012-13	Cumulative up to 2012-13	Profit & Loss 2013-14	Cumulative up to 2013-14	Profit & Loss 2014-15	Cumulative up to 2014-15	Profit & Loss 2015-16	Cumulative up to 2015-16
9	*GRIDCO*	-93681.1	-177245	3178.78	-174066	59.24	-1681.43	-270.8	-3475.81	-32.57	-3357.92
10	*Odisha Power Transmission Corporation*	2763.9	-15705.1			77.6	620.1	40.08	-106.82	30.04	9.94
11	*IPICOL.*	252	-1435	353	-1081	0.07	0.58	0.85	-8.92	6.32	0.93
12	*Odisha Small Industries Corporation*	824.74	475.08	1010	1834	7.8	24.17	8.46	33.41	7.96	29.31
13	*Odisha Film Development Corporation*	-19.04	60.75								0.56
14	*Konark Jute Limited*										
15	*Odisha Rural Housing & Dev. Corporation*									-38.69	-392.29
16	*Odisha Pisciculture Dev. Corporation*	-2.19	-440.37	6.82	-357.94	0.29	-1.65			-0.17	-2.98
17	*Odisha State Road Transport Corpn*	638.37	-19872.5	720.48	-19298.4	-0.18	-193.17	5.13	175.84	2.86	-171.25
18	*Odisha State Financial Corporation*	52.57	-40038.8	59.81	-39990.4	5.12	-399.5	-77.4	-476.9	-1.67	-478.56
19	*IDCO*	533.76	46542.83	7707.13	54249.26	77.6	620.1	14.73	634.83	30.02	694.35
20	*Odisha Lift Irrigation Corporation*	30.38	172.81	19.49	-22.82	-0.29	-0.62				
21	*APICOL*	15	35.1								
22	*Odisha Tourism Dev. Corporation*	247.68	256.85	276.07	538.93	2.41	6.22	6.09	14.74	6.24	19.81

Contd...

Sl. No.	Name of the Corporations	***Profit & Loss***		***Profit & Loss***		***Profit & Loss***		***Profit & Loss***		***Profit & Loss***	
		2011-12	***Cumulative up to 2011-12***	***2012-13***	***Cumulative up to 2012-13***	***2013-14***	***Cumulative up to 2013-14***	***2014-15***	***Cumulative up to 2014-15***	***2015-16***	***Cumulative up to 2015-16***
23	*Odisha State Warehousing Corporation*	1288	7200	1405.39	6718	18	104.79	19.95	124.74	12.06	137.06
24	*IDCOL Software Limited*	45.05	8.01	21.05	29.07	0.33	0.62	0.3	0.81		1.1
25	*Industrial Dev. Corporation Of Odisha*	-184	3558	848	4310	2.15	45.07	14.73	634.83	3.81	49.84
26	*IDCOL Kalinga Iron Works*	-2754	-11557	2000	12382	21.62				-21.18	-146.75
27	*IDCOL Ferro Chrome & Alloys Limited*	243	3440			-12.85	-12.85			-4.1	21.17
28	*Odisha State Civil Supplies Corporation*		299.71		299.71	0	0	0	0	0	0
29	*Odisha Hydro Power Corporation*	7630.8	50531.02	4713.4	56261.58	8.8	610.41	15.59	578.12	87.3	478.98
30	*Odisha State Police Housing & Welf. Corpn*	653.5	4041.37	1172		13.35	65.48			15.51	86.63
31	*Kalinga Studios Limited*										
32	*Odisha State Beverages Corporation*	7222.69	16774.22	748.37	24322.58	56.28	226.79	22.96	237.65	36.3	260.82
Total Loss of PSUs		-96640.3	-284537	0	-251726	-13.32	-2438.99	-348.2	-4086.67	-98.38	-4549.75
Total Profit of PSUs		165271.2	746223	132960	1327395	1390.5	8967.82	2307.1	5238.18	1003.7	3188.78
Net Profit/Loss of PSUs		68630.8	461685.9	132960	1075668	1377.8	6528.83	1958.9	1151.51	905.37	-1360.97
TRR of State		402670		439369		48946		569978		68941	
Share of PSU net profit in TRR of State		1.7		3.03		0.03		0.03		0.01	
Number of Firms Recorded in loss		5	10	0	9	3	7	2	5	6	6
No. of PSUs in Operation		28	29	23	23	27	24	22	21	26	28

Source: Budget at a Glance of different years, Govt. of Odisha.

9.2 Dividend Policy of PSEs in Odisha

The State Govt. has implemented a divided policy for profit making State PSUs based on a Guidelines issued by Government of India in 2016. Under this policy, the State PSUs would pay an annual dividend of 30% to the State Govt. The State PSUs, which have arrears, are mentioned below (Add Table). The PSUs which have arrears are Odisha Film Development Corporation Ltd (OFDCL), Odisha Small Industrial Corporation Ltd (OSICL), Odisha State Cashew Development Corporation (OSCDC), Kalinga Studio Ltd., Odisha State Civil Supplies Corporation Ltd. (OSCBCL), Odisha State Seeds Corporation Ltd (OSSCL), Odisha Rural Housing & Development Corporation Ltd. (ORHDCL), Odisha Agro Industries Corporation Ltd. (OAICL), and Odisha Pisciculture Development Corporation Ltd. (OPDCL).

Reasons of accounts of PSUs in arrears:-

There are some reasons which are responsible for arrears in PSUs accounts. These are:

(i) Lack of qualified personnel

(ii) Timely not enrolling/completing accounts

(iii) Lack of computerization in PSUs

9.3 Measures taken by the Government of Odisha for improving the financial status of the SPEs

9.3.1 Corporate Governance Manual for the State PSUs

The State Government has adopted the "Corporate Governance Manual for the State PSUs" as a policy to institute a system of good corporate Governance practices for public Enterprises to as to enhance transparency, accountability and certain measure of autonomy in their operations and improving their performance.

9.3.2 Odisha State Renewal Fund Society (OSRFS)

In order to continue the Public Enterprise Reform Programme the State Public Sector Undertaking the Department is taking necessary steps through Odisha State Renewal Fund Society (OSRFS) with a corpus of RS.50 crore over a period of five years i.e. from 2009-10 to 2014. After the completion of the project period, a further period of 5 years from 2014-15 to 2018-19 has been extended with budgetary provision of Rs.63 crore.

9.4 Categorisation of the PSUs

Government of Odisha has initiated a pioneering step to categorize its PSEs and delegate certain level of autonomy to the Board of Directors of the State PSUs. Considering the parameters stipulated in the categorisation frame work, the following State PSEs have been categorize as follows in the year 2011. The process of categorization of PSEs would be an ongoing exercise.

9.5 Memorandum of Understanding with the State PSUs

The process of signing MOU between the concerned PSUs and their Administrative Departments was started since 2011-12. Accordingly, MOU for 2012-13 have been signed between 20 nos. of PSUs with their Administrative Departments. 23 PSUs during 2013-14, 24 PSUs during 2014-15, 25 PSUs during 2015-16 and PSUs during 2016-17 have signed MOUs with their concerned 25 Administrative Departments.Final Review of the MOU for the FY. 2012-13 was made during January, 2014. Similarly, review of MOU for the FY. 2013-14 has also been made during December, 2014. Review of MOU for the FY. 2014-15 has been made by Department of Public Enterprises during December, 2015.

For monitoring assessment of the achievement of the PSUs who have assigned MOU a task committee has been constituted under the Chairmanship of the ACS, Finance, Principal Secretaries/Commissioner-cum-Secretaries of different Administrative Department of the State PSUs, Chief Executives of the State PSUs and Prof. D.V. Ramana, Xavier Institute of Management, Bhubaneswar are the members of the Committee. They will make half yearly and annual review of the achievements of the PSUs who have signed MOU with their Administrative Departments during a particular financial year.

9.6 Induction of Independent Directors in the Board of PSUs

As part of Corporate Governance measure, Department of Public Enterprises have empanelled a list of eminent persons of various fields/professionals as independent Directors and hoisted the same in the Department website and intimated the same to the PSUs out of which PSUs can select independent Directors to be in their Boards. 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 list which was developed by DPE is not final and mandatory. PSUs may induct other eminent persons with varied experience in different fields by verifying their antecedents/integrity, with due approval of their Administrative Department.

9.7 Voluntary Retirement Scheme (VRS) for the State PSUs

There is a budgetary provision of Rs.30 crore for financial assistance to implement the Voluntary Retirement Scheme by the individual State Owned Enterprises during the operating period of OSRFS for five years i.e. up to 02.12.2019. The financial assistance for VRS will be extended to only those entities undertaking restructuring initiatives to improve operational efficiency and not closing down operations.

Accordingly the request for financial assistance for VRS of the PSU/APEX-Cooperative Enterprises shall be considered in accordance with the provisions of assistance on first come first serve basis.

9.8 Technical Support to State PSUs

Steps are being taken to provide technical support to need based PSUs for Restructuring, Financial Restructuring & preparation of Business Plan etc.

9.9 Workshop & Training

(i) One workshop was organised by the Department of Public Enterprise (DPE) on 02.09.2015 on “Explore of the possibility of Fish Production in Odisha” and 35 participants attended the workshop.

(ii) A workshop on “Recent Changes in Companies Act, 2013” was also organised by DPE on 08.09.2015. In total, 90 participants including Secretaries and other related officials of the State PSUs had attended the said workshop.

(iii) Similarly another workshop in “Companies Act & Amendments made during 2013 was organised on 07.10.2015” for MDs, CMDs, Department Nominee Directors, Functional Directors and Independent Directors. 64 participants attended the workshop.

(iv) A training programme for the employees of State PSUs regarding use of Computers, basic knowledge of hardware and software was held on 08.10.2015. Besides training on Tally, MS-Word and MS-Excel were imparted to the employees of State PSUs during 2017-18.

(v) Workshop on “Adoption of Key Performance 0indicators for State PSUS” on HR matter was organised on 03.11.2015. 87 participants attended the workshop.

9**.10 Recruitment of Professionals through Public Enterprise Selection Board**

Government have re-constituted the Public Enterprise Selection Board with the provision to co-opt experts to the PESB for selection of top professionals of the PSUs. The PESB has selected Managing Directors for Odisha State Financial Corporation (OSFC), APICOL, OAIC, OSCDC, GRIDCO, OPTCL and OHPC Ltd.To ensure better functioning of the PSUs, keeping in view of the Corporate Governance Manual.

9.11 Audit of PSUs

Department of Public Enterprises, Govt. of Odisha in the presence of the Administrative Department of the State PSUs and A.G., Odisha have reviewed the audit position of the PSUs and advice the defaulting PSUs to complete compilation of annual accounts and audit time.

9.12 Computerization of accounting systems in different State PSUs

In order to complete the annual accounts and audit of the State PSUs in time it was felt that utmost priority should be given for computerization of the accounts of different State PSUs, for which information on the current computerization status of different State PSUs were collected. It was decided that necessary need based support in hardware, software and implementation of the computerization will be provided by the Department of Public Enterprises to the deserving PSUs. The Selection Committee for computerization of accounts was formed in the Department of Public Enterprises under the Chairmanship of the Commissioner-cum-Secretary, D.P.E.

10 nos. of PSUs have been identified to computerize their accounts during the extended period of OSRFS from 2014-15 to 2018-19.During the FY. 2016-17, financial assistance to the tune of Rs. 28,02,251/- has already been provided to 6 nos. of PSUs namely OAIC, OSCDC, APICOL, OSSC, OPDC and OSWC for procurement of need based Hardware

9.13 Listing of PSUs in Stock Exchanges

As compliance to the Corporate Governance Manual, processes has been initiated for listing the State PSUs in 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.

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 Dev. Corporation	2.Industrial Dev. 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 & Welf. Corpn	4.IDCO	
5.Odisha State Cashew Dev. Corporation	5.Odisha State Beverages Corporation		
	6.Odisha Small Industries Corporation		
	7.Odisha State Warehousing Corporation		

Source: Budget at a glance, Govt. of Odisha.

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.

10.1 Introduction of Cash Management System: In order to ensure timely spending andmaintaining 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.

10.2 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 of 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.

10.3 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.

10.4 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 evaluating the impact of Power Sector Reforms on State's fiscal health.

Before the Odisha Electricity Reform Act, 1995 came into force from 1.04.1996, the generation, transmission and distribution of electricity was the responsibility of the State Government through erstwhile Odisha 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 of 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.257.6 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 the following.

(i) State Government realized Rs.159 crore by diverting 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 diverting its stake in OPGC.

(ii) State Government received Rs.356 crore by selling TTPS (Talcher Thermal Power Station) to NTPC, which was adjusted against erstwhile OSEN's overdue payments to NTPC.

(iii) Collection of electricity duties has increased from Rs.121.4 crore in 1995-96 to Rs.1212.2 crore in 2015-16.

(iv) 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 surplus State.

While the revenue accounts of State Government continues to record surpluses, despite recent moderation witnessed in some of them, this need to be seen in the light of the mounting accumulated losses in state power distribution companies (DISCOMs), estimated at Rs.3340.9 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 short-term borrowing from banks and financial institutions to cover cash losses, it has raised serious concern not only for the DISCOMs but also for banks/financial institutions that have lent to them. State Governments extended support to the DISCOMs through various direct and indirect channels. Budgetary support by the State Governments in the nature of subsidies and grants 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.

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 31st March 2016 amounted to Rs.1160.15 crore, which was 98.24 per cent of total guarantee extended by the State Government to different Statutory Corporations and Boards. The huge outstanding guarantees were also observed during 2006-07 to 2015-16. The outstanding guarantee to power sector utilities during 2006-07 was 96 per cent of total guarantees provided by the State Government. In all the period, the outstanding guarantee was above 90 per cent except in 2010-11. In 2010-11, the outstanding guarantee was 87 per cent of the total guarantee. 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 11.1: Outstanding Guarantee to Power Sector(Rs.Crore)

Year	Outstanding Guarantee to Power Sector	Total Guarantee	% of Total Guarantee
2006-07	1351.1	1408.3	95.9
2007-08	1102.2	1139.8	96.7
2008-09	712.8	724.3	98.4
2009-10	151.1	162.6	92.9
2010-11	1814.7	2066.2	87.8
2011-12	2442.5	2510.5	97.3
2012-13	2182.0	2251.4	96.9
2013-14	1614.7	1705.4	94.7
2014-15	1518.9	1551.0	97.9
2015-16	1160.2	1181.0	98.2

Source: Finance Accounts, Govt. of Odisha.

CAPEX Programme: 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.420.8 crore by the end of 31st March 2012. In the Expenditure Finance Committee (EFC), it was decided to close the CAPEX programme so to complete the ongoing projects; a provision of Rs.122 crore has been made in the supplementary budget for the financial year 2016-17.

11.1 Involvement of Private Sector in Power Distribution

Odisha is the first State to involve private sector in power distribution. Their involvement started in the early 90's. However, due to various reasons, private sector companies have left the State since last two years.

11.2 UDAY Scheme

In 2015, three DISCOMs i.e. WESCO, NESCO AND SOUTHCO were under private companies. The State Govt. did not want to invest on Private Companies and the UDAY Scheme was not subscribed by the State Govt. at that time. Now, these three DISCOMs are under CESU which is regulated and operated by the State Govt. Recently, the State Govt. has given a proposal to the Centre for technical up gradation in power distribution under this scheme

11.3 AT & C and T&D losses

Transmission and distribution (T&D) loss and AT & Closs in the state have declining over the period. In 2011, the T&D loss was 40.98 per cent and AT&C loss was 43.24 per cent whereas, in 2015-16, these losses reduced to 35.03 per cent and 36.69 per cent.

Table 11.2: AT & C loss (in %)

Year	T & D Loss	Distribution Loss	Collection Efficiency	AT & C Loss
2010-11	40.98	38.34	92.05	43.24
2011-12	40.96	38.56	92.69	43.06
2012-13	40.17	37.81	92.69	42.25
2013-14	38.32	35.88	94.27	36.52
2014-15	36.92	34.46	94.37	37.98
2015-16	35.03	32.5	93.8	36.69

Source : Budget at a glance 2018-19

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 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 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 direct burdens on the state exchequer and therefore, its volume needs to be controlled. As per the guidelines of the 11th Finance Commission of 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 of default of these organisations and place in the Odisha Legislative Assembly. The statement will also indicate the working of the Escrow Account opened by the PSUs/ Cooperatives/Urban Local Bodies.

12.2 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 organisations 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 organisations for servicing the debt on behalf of the State Government. This is called off budget borrowing. Since1991-92 an amount of Rs.250.4 crores has been raised through off budget borrowings (SPVs) and the entire borrowings have been liquidated by 31stMarch, 2008.

Table 12.1:Guarantees given by the Government of Odisha (Rs. In Crore)

Year	Maximum amount guaranteed during the Year	Revenue Receipt	(%) of maximum amount guaranteed to total revenue receipt of current year	Outstanding amount of guarantees at the end of the year	(%) of outstanding guarantee to total revenue receipt of 2nd preceding year less grants-in-aid
2006-07	8588.9	18032.6	47.6	2647.6	27.9
2007-08	8585.9	21967.2	39.1	2168.4	19.0
2008-09	8380.3	24610.0	34.1	1386.4	9.3
2009-10	8388.6	26430.2	31.7	1026.9	5.9
2010-11	9788.6	33276.2	29.4	2066.2	10.6
2011-12	10578.6	40267.0	26.3	2510.4	12.1
2012-13	10578.6	43936.9	24.1	2251.2	5.1
2013-14	10624.6	48946.8	21.7	1705.3	3.5
2014-15	10885.6	56997.9	19.1	1671.8	2.9
2015-16	10890.6	68941.4	15.8	1290.3	1.9

Source: Finance Accounts, Govt. of Odisha

12.3 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.

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

In order to inspire confidence of the Bankers/Financial Institutions, the State Government have responded in positive manner by paying guaranteed loans of the borrowing institutions who have defaulted to service their debt time. Due to invocation of guarantee by the Banks/ Financial Institutions, the State Government have so far paid Rs.672.1 crore (Prior to 1999-200 Rs.85.8 crore + 2001-02 Rs.4.9 crore + 2002-03 Rs.45.1 crore + 2003-04 Rs.23.2 crore + 2004-05 Rs.95.2 crore + 2005-06 Rs.24.5 crore + 2006-07 Rs.129.8 crore + 2007-08 Rs.188.76 crore + 2008-09 Rs.59.61 crore + 2010-11 Rs.3.5 crore + 2014-15 Rs.8.1 crore + 2015-16 Rs.3.6 crore) to them under One Time Settlement(OTS) scheme resulting waiver pf portion of interest, penal interest, other discharges and sizeable portion of principal amount. Simultaneously, the OSFC has paid Rs.69.7 crore, IDC Ltd has paid Rs.14.9 crore, OCHC has paid Rs.4.8 crore and ABCFDCC has paid Rs.1.1 crore to the various Banks/Financial Institutions under One Time Settlement Scheme. Besides, the SC & ST Development Department infused Share Capital of Rs.10 crore in OSFDC during 2007-08 and W & C.D. Department provided Grants-in-Aid of Rs.5 crore to MSVN Ltd. During 2009-10 which was fully utilised for repayment of loan to National Corporations cover under Govt. Guarantee. In addition to the above, the H.&UD. Department have also paid Rs.457.9 crore (2006-07 Rs.122.4 crore + 2007-08 Rs.28.2 crore + 2008-09 Rs.52.5 cr. + 2009-10 Rs.47.2 cr. + 2010-11 Rs.47.2 cr. + 2011-12 Rs.163.2 cr.) to HUDCO to clear the defaulted and final loan dues of ORHDC Ltd covered under Govt. Guarantee.

Table 12.2: Composition of outstanding Guarantees (Rs. in Crore)

year	Power Sector	Co-operative	Irrigation	Roads and Transport	State Financial Corporation	Urban Development & Housing	Other Infrastructure	Any Other	Total
2010-11	1814.6	27.4	0.8	0	43.9	176.6	0	2.9	2066.2
2011-12	2442.5	27.8	0.6	0	35.9	0.9	0	2.9	2510.4
2012-13	2182.0	27.5	0	0	37.4	0.9	0.6	2.9	2251.2
2013-14	1614.7	48.6	0	0	37.7	0.9	0.6	2.9	1705.3
2014-15	1551.0	79.6	0	0	37.0	0.9	0.6	2.9	1671.8
2015-16	1181.0	75.5	0	0	29.5	0.9	0.6	2.9	1290.3

Source: Finance Accounts, Govt. of Odisha

Table 12.3: One Time settlement by the finance Department due to invocation of guarantee

Year	PSU Sector	Co-operative sector	ULB Sector	Total
Prior to 2006-07	364.2	107.3	1	331.7
2006-07	47.5	0.1	17.6	158.5
2007-08	55.8	0	141.2	188.8
2008-09	0	0	6.69	62.5
2009-10	3.5	0	0	0
2010-11	0	0	0	3.5
2011-12	0	0	0	0
2012-13	0	0	0	0
2013-14	0	0	0	0
2014-15	0	0	0	0
2015-16	0	0	0	0
Total	471.01	107.5	166.5	744.9

Source: Budget at a Glance 2017-18, Govt. of Odisha

12.3.2 Guarantee Redemption Fund

As per the recommendations of the Technical Committee of State Finance Secretaries, Reserve Bank of India, the Govt. of Odisha has created a "Guarantee Redemption Fund" during 2002-03 with initial contribution of Rs.20.00 crore. The Fund is 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 Govt. of India Securities. The accumulation in the Guarantee Redemption Fund alongwith the interest accrued thereon would be utilised for meeting the payment obligations arising out of guarantees. By the end of December-2017, Rs.480 crore have been transferred to Guarantee Redemption Fund Account of Govt. of Odisha. Further, basing on the recommendations of the Bez Baruah Committee and decision taken in the 17th Conference of State Finance Secretaries regarding eligibilities of States to avail Special Way & Means Advance (now Special Drawing Facility) equivalent to their net incremental annual investment in GRF, and acquiring the securities by the Reserve Bank of India from the secondary market (without loading any change in addition to making available securities from its own portfolio), the State Government have notified "Revised Scheme for Constitution and Administration of Guarantee redemption Fund" vide Notification No. 24515/F, dated 23.07.2013.

The State Government is now eligible for availing Special Ways & Means Advance (now Special Drawing Facilities) from the RBI to the extent of the net incremental Annual investment of the State (i.e. outstanding balance over and above the level in the corresponding period of the previous year.)

12.3.3 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 minimize the risk of 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 Govt. 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.

12.3.4 Guarantee cover only for the Principal Amount

With a view to limiting the guarantee exposure of State, the 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.

12.3.5 Risk Assessment of Outstanding Guaranteed Loans

It becomes incumbent on the State Government to discharge the guaranteed loan liability in case of invocation of the State Government Guarantee by the lending Banks/Financial Institutions consequent upon failure on part of the borrowing organisations to service their debt covered under State Government Guarantee. Taking into consideration of the various parameters such as type of borrowing institution i.e. P.S.Us/Co-operatives/Local bodies etc, financial condition of the organisation, nature of projects undertaken by them etc. risk assessment of the outstanding guaranteed loans has been made as detailed in Table 12.4

Table 12.4: Risk factor on Outstanding Government Guarantee as on 31.12.2017

Name of the Sector	Percentage of Risk factor on the Outstanding Government Guarantee					Total
	100%	**75%**	**50%**	**25%**	5% and below	
1	2	3	4	5	6	7
Public Sector Undertaking	11.5	0	0	2.9	1610.3	1624.6
Co-operative Sector	11.4	17.6	3.1	7.8	45	84.9
Urban Local Bodies	0	0	0	0	0.8	0.8
Total	22.9	17.6	3.1	10.7	1656.1	1710.5

Source: Budget at a Glance 2018-19

CHAPTER THIRTEEN

ANALYSIS OF SUBSIDY

The major subsidies under social sector during 2015-16 included Rs.743.1 crore under Relief on account of Natural Calamities mainly assistance to farmers affected by floods/cyclone for purchase of agricultural inputs, to clear sand/silt/salinity from lands etc. Subsidy also provided to Odisha Lift Irrigation Corporation and 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 instead of being reduced in all the years after 2006-07, excepting 2007-08 (Table 13.4). Moreover, the food subsidy increased remarkably from26.9 per cent in 2007-08 to 76.5 per cent in 2008-09, with the declaration of two-rupees/kg rice.

Even 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 0.04 per cent in 2006-07 to 0.3 per cent in 2015-16. The share of subsidy in GSDP in case of economic services sector has remained at 0.5 per cent (with agriculture and allied at 0.5 per cent) and social service sector at 0.2 per cent during 2015-16. Food subsidy has the highest share of 0.3 per cent in GSDP during 2015-16.

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 intend 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 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-à-vis the non-poor and second target ratio (TR2) 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 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 subsidized 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).

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 36.9 lakhs and 34.8 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 per cent (i.e. 51.5 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 48.5 per cent.

On the other hand, it is observed that only about 26.6 per cent among the poor were PDS ration card holders during 2011-12, indicating that exclusion error is high (i.e. 73.4 per cent). Comparing between inclusion error and exclusion error, it is found that exclusion error is more than inclusion error. That means the percentage of poor who ought to be included but excluded from the PDS is much more than coverage of the non-poor who ought to be excluded but are included.

13.2 Impact of Transport Sector Subsidies on State Finance

The State Govt. has allocating a sum of Rs.1.6 crore to transport sector each year. This amount of fund is provided to transport sector for physically disabled persons, concessions for students, etc. It has no any significant impact on State finances.

Table13.1: Sector wise Subsidy (Rs. In Crore)

	2006-07	2007-08	2008-09	2009-2010	2010-2011	2011-2012	2012-13	2013-14	2014-15	2015-16
A. SOCIAL SERVICES	34.7	13.6	62.2	60.2	240.6	458.3	343.3	46.4	307.3	746.7
1. Welfare of SCs,STs& OBCs	0.2	2.3	3.1	2.8	2.4	2.0	1.6	1.6	1.6	2.1
2. Labour & labour Welfare	1.1	4.2	0.0	1.7	0.0	0.0	0.0	0.0	0.0	0.0
3. SOCIAL WELFARE &	33.4	7.2	59.0	55.6	238.1	456.3	341.7	44.8	305.7	744.5
(a) Social security & Welfare	0.2	0.7	0.2	0.0	0.5	0.7	0.6	0.6	0.6	1.5
(b) Relief on Account of Natural Calamities	33.2	6.6	58.9	55.6	237.6	455.6	341.1	44.2	305.1	743.1
B. ECONOMIC SERVICES	135.6	134.8	681.3	947.5	1069.6	1286.2	1607.8	2014.7	1768.5	1834.8
1. Agriculture & AlliedActivities	52.4	56.4	619.7	893.4	1005.8	1210.6	1507.3	1776.3	1678.1	1664.0
(a) Crop Husbandry	4.9	14.9	47.9	39.8	72.5	123.3	112.6	166.5	150.1	212.1
(b) Food subsidy	40.0	40.0	569.0	852.8	931.9	978.5	1189.8	1288.6	1217.7	1123.4
(c) Co-operation	0.3	0.0	0.5	0.4	0.5	102.0	200.3	308.2	304.3	323.4
(d) Fisheries	7.2	1.5	2.4	0.5	0.8	6.8	4.6	12.9	6.0	5.2
2. Irrigation & Flood Control	20.6	46.3	28.0	28.6	30.0	30.0	30.0	186.7	30.0	32.4
3. ENERGY	27.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. INDUSTRY & MINERALS	33.1	30.5	32.0	23.8	32.2	44.0	64.3	50.1	58.8	138.3
(a) Village & SSIs	33.1	30.4	30.8	23.6	32.1	43.6	64.1	50.1	43.4	73.8
(b) Other Industries and Minerals	0.0	0.1	1.3	0.2	0.1	0.4	0.2	0.0	15.3	64.5
5. Transport	1.6	1.6	1.6	1.6	1.6	1.6	6.1	1.6	1.6	0.0
TOTAL (A+B)	170.2	148.4	743.5	1007.7	1310.1	1744.5	1951.1	2061.1	2075.8	2581.4

Sources: Finance Accounts, Govt. of Odisha.

Table13.2: Sector wise Percentage Share of Subsidy

	2006-07	2007-08	2008-09	2009-2010	2010-2011	2011-2012	2012-13	2013-14	2014-15	2015-16
A. SOCIAL SERVICES	20.4	9.2	8.4	6.0	18.4	26.3	17.6	2.3	14.8	28.9
1. Welfare of SCs,STs& OBCs	0.1	1.5	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1
2. Labour & labour Welfare	0.6	2.8	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
3. SOCIAL WELFARE &	19.6	4.9	7.9	5.5	18.2	26.2	17.5	2.2	14.7	28.8
(a) Social security & Welfare	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
(b) Relief on Account of Natural Calamities	19.5	4.4	7.9	5.5	18.1	26.1	17.5	2.1	14.7	28.8
B. ECONOMIC SERVICES	79.6	90.8	91.6	94.0	81.6	73.7	82.4	97.8	85.2	71.1
1. Agriculture &Allied Activities	30.8	38.0	83.4	88.7	76.8	69.4	77.3	86.2	80.8	64.5
(a) Crop Husbandry	2.9	10.0	6.4	4.0	5.5	7.1	5.8	8.1	7.2	8.2
(b) Food subsidy	23.5	26.9	76.5	84.6	71.1	56.1	61.0	62.5	58.7	43.5
(c) Co-operation	0.2	0.0	0.1	0.0	0.0	5.9	10.3	15.0	14.7	12.5
(d) Fisheries	4.2	1.0	0.3	0.1	0.1	0.4	0.2	0.6	0.3	0.2
2. Irrigation & Flood Control	12.1	31.2	3.8	2.8	2.3	1.7	1.5	9.1	1.5	1.3
3. ENERGY	16.4	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. INDUSTRY & MINERALS	19.5	20.6	4.3	2.4	2.5	2.5	3.3	2.4	2.8	5.4
(a) Village & SSIs	19.5	20.5	4.1	2.3	2.5	2.5	3.3	2.4	2.1	2.9
(b) Other Industries and Minerals	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.7	2.5
5. Transport	0.9	1.1	0.2	0.2	0.1	0.1	0.3	0.1	0.1	0.0
TOTAL (A+B)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Finance Accounts, Govt. of Odisha.

Table 13.3: Proportion of Food Subsidy (%)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
proportion of food subsidy to total agriculture & allied activities	76.3	70.9	91.8	95.5	92.7	80.8	78.9	72.6	72.6	67.5
Proportion of food subsidy to total economic services	29.5	29.7	83.5	90.0	87.1	76.1	74.0	64.0	68.9	61.2
Proportion od food subsidy to total subsidies	23.5	26.9	76.5	84.6	71.1	56.1	61.0	62.5	58.7	12.1

Sources: Finance Accounts, Govt. of Odisha

Table13.4: Year wise Growth of Subsidy

	2006-07	2007-08	2008-09	2009-2010	2010-2011	2011-2012	2012-13	2013-14	2014-15	2015-16
A. SOCIAL SERVICES	2165.4	-60.6	355.7	-3.2	299.8	90.5	-25.1	-86.5	562.8	2318.9
1. Welfare of SCs,STs& OBCs	-17.4	1095.1	38.1	-10.1	-14.2	-16.5	-20.6	1.0	-1.2	31.7
2. Labour & labour Welfare		285.7								
3. SOCIAL WELFARE &	2468.5	-78.4	719.3	-5.8	328.3	91.6	-25.1	-86.9	583.2	2330.9
(a) Social security & Welfare		333.3	-76.9	-100.0		30.4	-10.7	0.0	0.0	148.3
(b) Relief on Acc of natural	2790.4	-80.3	798.2	-5.6	327.3	91.7	-25.1	-87.1	591.2	2335.2
B. ECONOMIC SERVICES	67.0	-0.6	405.6	39.1	12.9	20.3	25.0	25.3	-12.2	3.8
1. Agriculture &alliedActivities	4.9	7.6	999.6	44.2	12.6	20.4	24.5	17.8	-5.5	-0.8
(a) Crop Husbandry	82.9	201.7	222.3	-17.0	82.3	70.1	-8.6	47.9	-9.9	41.3
(b) Food subsidy	-11.3	0.1	1323.2	49.9	9.3	5.0	21.6	8.3	-5.5	-7.7
(c) Co-operation	211.1	-90.8	1682.4	-14.0	25.0	20295.3	96.4	53.8	-1.3	6.3
(d) Fisheries	244.5	-79.2	59.9	-79.1	67.9	706.4	-32.7	183.9	-53.5	-14.1
2. Irrigation & Flood Control	9.0	124.7	-39.5	2.3	4.8	0.0	0.0	522.4	-83.9	8.1
3. ENERGY	828.7									
4. INDUSTRY & MINERALS	325.4	-7.9	4.9	-25.6	35.2	36.7	46.1	-22.2	17.3	135.4
(a) Village & SSIs	328.2	-8.2	1.2	-23.2	35.9	35.9	47.0	-21.9	-13.3	70.0
(b) Other Industries and Minerals	-33.3	237.5	825.6	-84.0	-50.9	306.9	-50.0	-100.0		320.7
5. Transport	0.0	0.0	0.0	0.0	0.0	0.0	281.9	-73.8	0.0	-100.0
TOTAL (A+B)	105.8	-12.8	401.0	35.5	30.0	33.2	11.8	5.6	0.7	346.5

Sources: Finance Accounts, Govt. of Odisha

Table13.5: Subsidies as Proportion to GSDP(%)

	2006-07	2007-08	2008-09	2009-2010	2010-2011	2011-2012	2012-13	2013-14	2014-15	2015-16
A. SOCIAL SERVICES	0.034	0.011	0.042	0.037	0.122	0.198	0.131	0.016	0.098	0.226
1. Welfare of SCs,STs& OBCs	0.000	0.002	0.002	0.002	0.001	0.001	0.001	0.001	0.001	0.001
2. Labour & labour Welfare	0.001	0.003	0.000	0.001	0.000	0.000	0.000	0.000	0.000	0.000
3. SOCIAL WELFARE & NUTRITION	0.033	0.006	0.040	0.034	0.121	0.198	0.131	0.015	0.097	0.225
(a) Social security & Welfare	0.000	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
(b) Relief on Acc of natural Calamities	0.033	0.005	0.040	0.034	0.120	0.197	0.130	0.015	0.097	0.225
B. ECONOMIC SERVICES	0.133	0.104	0.459	0.581	0.541	0.557	0.614	0.680	0.563	0.555
1. Agriculture &alliedActivities	0.051	0.044	0.417	0.548	0.509	0.524	0.576	0.599	0.534	0.503
(a) Crop Husbandry	0.005	0.011	0.032	0.024	0.037	0.053	0.043	0.056	0.048	0.064
(b) Food subsidy	0.039	0.031	0.383	0.523	0.472	0.424	0.455	0.435	0.387	0.340
(c) Co-operation	0.000	0.000	0.000	0.000	0.000	0.044	0.077	0.104	0.097	0.098
(d) Fisheries	0.007	0.001	0.002	0.000	0.000	0.003	0.002	0.004	0.002	0.002
2. Irrigation & Flood Control	0.020	0.036	0.019	0.018	0.015	0.013	0.011	0.063	0.010	0.010
3. ENERGY	0.027									
4. INDUSTRY & MINERALS	0.033	0.024	0.022	0.015	0.016	0.019	0.025	0.017	0.019	0.042
(a) Village & SSIs	0.032	0.024	0.021	0.015	0.016	0.019	0.025	0.017	0.014	0.022
(b) Other Industries and Minerals	0.000	0.000	0.001	0.000	0.000	0.000	0.000	0.000	0.005	0.019
5. Transport	0.002	0.001	0.001	0.001	0.001	0.001	0.002	0.001	0.001	0.000
TOTAL (A+B)	0.167	0.115	0.501	0.618	0.663	0.755	0.746	0.695	0.661	0.780

Sources: Finance Accounts, Govt. of Odisha.

CHAPTER FOURTEEN

OUTCOME EVALUATION OF STATE FINANCES

ToR 1. XII requires us to examine the outcome evaluation of State Finances in the context of recommendations of the 14th Finance Commission.

14.1 Recommendations of the Fourteenth Finance Commission

As per recommendations of the Fourteenth Finance Commission (FFC), the share of the states in the net proceeds of shareable central taxes has been increased to 42 per cent from 32 per cent. As per the reworked criteria for distribution of shares among the states, population has 17.5 per cent weightage while demographic change has 10 per cent weightage. Income distance, area and forest cover bear weightages of 50 per cent, 15 per cent, 15 per cent and 7.5 per cent, respectively. As a result, the share of Odisha is 4.64 per cent of the divisible pool, down from 4.78 per cent, recommended by the Thirteenth Finance Commission (ThFC). The commission has recommended Rs.1,84,070 crore as State's share in the net proceeds to the central taxes and duties during the period.

14.2 State's Fiscal Transactions and 14th Finance Commission's Recommendations

The following changes occurred during 2015-16, compared to previous year:

(i) Revenue Receipts of the State increased by Rs.11944 crore over the previous year. This increase was mainly contributed by State's own Tax Revenue (Rs.3339 crore, Grants-in-Aid from Central Government (Rs.1212 crore). There was also increase in own Non-Tax Revenue (Rs.640 crore).

(ii) Revenue Expenditure increase by Rs.7670 crore during 2015-16 over the previous year, mainly due to increase in expenditure in Economic Service Sector (Rs.8651 crore), Social Service Sector (Rs.4319 crore), General Service Sector (Rs.565 crore) etc.

(iii) Capital expenditure increased by Rs.5963 crore over the previous year, mainly on account of increase in expenditure on Roads & Bridges, Power Projects, Irrigation and Animal Husbandry.

(iv) Public Debt receipts increased by Rs.2144 crore while repayment of public debt decreased by Rs.1230 crore.

14.3 Review of the Fiscal Situation

The ThFC had recommended that every State needed to amend the Fiscal Responsibility and Budget Management (FRBM) Act and work out a fiscal reform path to make credible progress towards fiscal consolidation.

Keeping in line with the recommendations of ThFC, the State Government had amended (February, 2012) the State FRBM Act, 2005 which laid down the following fiscal targets.

(i) Revenue deficit during 2011-12 and onwards to be maintained zero.
(ii) Fiscal deficit to be contained within three per cent of GSDP from 2011-12 onwards.
(iii) In order to bring the debt stock to a sustainable level, interest payment as a percentage of revenue receipt to be limited to 15 per cent.
(iv) For the purpose of ensuring compliance with the provisions of the FRBM Act, the State Government shall entrust an agency independent of State Government who shall periodically make a review of such compliance and submit reports thereof to the State Government for laying the same before the State Legislature.

The State Government has got its compliance with FRBM Act reviewed by the National Institute of Public Finance.

The State has achieved the targets of Revenue, Fiscal Deficits level of debt stock and interest payment, as laid down by ThFC/FRBM Act for the year 2015-16. However, disclosures such as projection of Revenue Consequences of Capital Expenditure (RCCE), Public Private Partnerships (PPP) and related liabilities, statements on physical and financial assets and vacant public land and buildings were not included in Mid Term Fiscal Plan (MTFP), even though recommended by ThFC.

14.3.1 State's Own Resources

The State's own resources comprised Revenue Receipts from its Own Tax and Non-Tax source. The actual receipts under State's Tax and Non-Tax revenue vis-à-vis assessment made by Fourteenth Finance Commission (FFC) and the State Government in MTFP are indicated in Table 7.2.

During 2015-16, the receipts under State's Tax Revenue and Non-Tax Revenue were less than the assessment of FFC by 10 per cent and 3 per cent respectively. However, the State's own Tax Revenue was more than assessment made in MTFP by Rs.1247 crore (six per cent) and Non-Tax Revenue increased by 14 per cent (Rs.2699 crore) over the previous year and Non-Tax Revenue increased by 8 per cent (Rs.640 crore) during the same period.

14.3.2 Tax Revenue

Tax revenue during 2015-16 (Rs.22527 crore) increased by 14 per cent over the previous year (Rs.19828 crore). The revenue through taxes on sales, trades etc. (Rs.13097 crore)was the main source of State's own tax revenue and registered an increase of 11 per cent. Taxes on goods and passengers (Rs.1663 crore) decreased by 3 per cent. State Excise (Rs.2547 crore) increased by 25 per cent, Taxes on Vehicles (Rs.1044 crore) by 15 per cent, Stamp Duty and Registration Fees (Rs.2157 crore) by 170 per cent and Taxes on Land Revenue (Rs.589 crore) decreased by 9 per cent over the previous year.

The ratio of Own Tax Revenue (OTR) with respect to GSDP was nearly 7 per cent (6.8) in 2015-16. Therefore, the State could not achieve the target of 7.5 per cent by 2015-16 as projected by FFC.

14.3.3 Non-Tax Revenue

The growth rate of non-tax revenue was lower than the General Category States in 2015-16.The Own Non-Tax Revenue (ONTR) (Rs.8711 crore), which constituted 13 per cent of Revenue Receipts during 2015-16, increased by Rs640 crore (8 per cent) over previous year. The increase was mainly under Interest Payment receipts (Rs.229 crore) and Non-Ferrous Mining and Metallurgy receipts (Rs.489 crore) which was partly set off by decrease under Dividends and Profits(Rs.523 crore). As per the recommendation of FFC, the State should collect Rs.9009 crore from its ONTR, but, only Rs.8711 crore collected which shows that the State has not achieved the target.

14.3.4 Grants-in-Aid

Grants-in-Aid from GoI increased from Rs.12917 crore in 2014-15 to Rs.14129 crore in 2015-16. The increase was under grants for State Plan Schemes (Rs.6920 crore), Non-Plan Schemes (Rs.502 crore) and Central Plan Grants (Rs.184 crore) and there was decrease in Centrally Sponsored Schemes (Rs.1628.9 crore). Percentage share of grants to Revenue Receipts increased from 20.2 per cent in 2011-12 to 20.5 per cent in 2015-16.

14.3.5 Payment of Penal Interest

As per GoI guidelines, the FFC grants should be transferred to Local Bodies within 15 days of receipt. Any delay will require the State Government to release instalment with penal interest, at the Bank rate of RBI, for the number of days of delay. Audit scrutiny showed that in 2015-16, the State Government violated the time limit by two days which resulted in avoidable payment of penal interest (Rs.20.3 lakh) from State resources.

14.3.6 Central Tax Transfers

During 2015-16, Central Tax transfers increased by Rs.7393 crore over previous year and constituted 11 per cent of Revenue Receipts. The increase was mainly under Corporation Tax, Service Tax, Taxes on Income other than Corporation Tax, customs and Union Excise Duties. The increase was partly set off by decrease in Wealth Tax.

14.4 Capital Receipts, Recoveries of Loans and Advances, Debt, etc.

The public debt receipts fall broadly under two categories (a) Loans and advances from the Union Government and (b) borrowings from banks, financial institutions through issue of State Development Loans. Capital Receipts increased by Rs.2281 crore during 2015-16 as compared to previous year.

Capital receipts were mainly composed of Public Debt receipts whereas non-debt receipts had a smaller share which ranged between 1 to 10 per cent during 2011-16. Public debt receipts create future repayment obligations. It increased by 623 per cent from Rs.1354 crore in 201-12 to

Rs.9790 crore in 2015-16, which was a matter of concern.Interest payments on market loans (Rs.8128 crore) was Rs.319 crore and constituted 0.46 per cent of revenue receipts.

14.5 State's Expenditure

Total expenditures of State increased from Rs.39545 crore in 2011-12 to Rs.76232 crore in 2015-16 due to increase in Revenue expenditure (Rs.24145 crore) and Capital outlay (Rs.12594 crore) and it was offset by decrease in disbursement of Loans and Advances (Rs.284 crore). The increase of Rs.13611 crore in Total expenditure in 2015-16 over previous year was on account of increase in Revenue Expenditure and Capital Expenditure by Rs.7670 crore and Rs.5963 crore, respectively. The Total Expenditure was 21.7 per cent of GSDP during 2015-16 as compared to 16.3 per cent in previous year.

14.5.1 Revenue Expenditure

Revenue expenditure had a predominant share of 87 per cent of Total Expenditure in 2011-12 which decreased to 77 per cent in 2015-16. However, it increased by 15 per cent from Rs.51136 crore in 2014-15 to Rs.58806 crore in 2015-16 an absolute terms. The FFC has recommended that the State should incur Rs.55114 crore as its revenue expenditure, but, it has surpassed the limit.However, leaving only 23 per cent for investment infrastructure and asset creation.

14.5.2 Non-Plan Revenue Expenditure

Non-Plan Revenue Expenditure (NPRE) increased by Rs.3277 crore (10 per cent) from Rs.32259 crore in 2014-15 to Rs.35536 crore during 2015-16 and as a proportion of Revenue Expenditure, it decreased from 72 per cent in (Rs.24940 crore) in 2011-12 to 60 per cent (Rs.35536 crore) in 2015-16. The NPRE remained below the assessment made by the Government in MTFP (Rs.40982 crore) for 2015-16 Rs.5356 crore.

14.5.3 Capital Expenditure

Capital Expenditure (CE) of the State, as proportion of Total Expenditure, increased from 11 per cent (Rs.4496 crore) in 2011-12 to 22 per cent (Rs.17090 crore) in 2015-16. However, CE (Rs.17090 crore) increased (54 per cent) during 2015-16 over the previous year (Rs.11075 crore) in absolute term, mainly on account of increase in expenditure on Roads & Bridges, Power Projects, Irrigation and Flood control, Medical and Public Health and Education, Sports, Arts and culture.

14.5.4 Committed Expenditure

Committed Expenditure of the State Government on Revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies.

(i) Salaries

Expenditure on salaries increased from Rs.8868 crore in 2011-12 to Rs.14188 crore in 2015-16. This accounted for nearly 21 per cent of Revenue Receipts and 61 per cent of the NPRE of the State Government during the year. The Expenditure on salary decreased to 24 per cent of Revenue Expenditure during 2015-16 as against 25 per cent in 2014-15.

(ii) Interest Payments

Interest payments during 2015-16 (Rs.3343 crore) increased by Rs.533 crore over the previous year (Rs.2810 crore). During 2015-16, interest payment as a percentage of Revenue Expenditure was 5 per cent. The FFC recommended that the interest payments of the State should be 5 per cent of Revenue Expenditure.

(iii) Pensions

Expenditure on pension (Rs.6346 crore), which was 9 per cent of Revenue Receipts of the State during the year, increased by 34 per cent from Rs.4741 crore in 2011-12 to Rs.6346 crore in 2015-16. It decreased by Rs.71 crore from Rs.6417 crore in 2014-15 to Rs.6346 crore in 2015-16. The pension payment during 2015-16 was within the projection made by FFC (Rs.8592 crore).

(iv) Subsidies

The State Government in its MTFP for 2007-08 had aimed to rationalise general subsidy and reduce their overall volume gradually at a rate of 10 per cent per annum beginning from 2005-06. However, the expenditure on subsidies increased from Rs.1744 core in 2011-12 to Rs.2581 crore (over 48 per cent) in 2015-16, which included food subsidy of Rs.1118 crore due to disbursement of rice at rupee 1/kg to people living below poverty line, Rs.221 crore under relief account on Natural Calamities which consisted mainly assistance to farmers affected by floods/cyclone for purchase of agricultural inputs etc, Rs.30 crore under subsidy of Odisha Lift Irrigation Cooperation Ltd and Rs.194 crore interest subsidy/subvention to the Co-operative banks for providing crop loan at 5 per cent per annum to the farmers.

14.6 Fiscal Imbalances

Three key fiscal parameters-Revenue, fiscal and primary deficits- indicate extent of overall fiscal imbalances in the finances of the State Government during a specified period.

(i) Revenue Surplus/Deficit

In 2005-06, after a gap of 22 years, the State was able to attain Revenue Surplus of Rs.481 crore and has continued to be a Revenue Surplus State. During 2015-16, revenue receipts grew 21 per cent against a growth rate of 15 per cent by revenue expenditure, resulting in revenue surplus is being increased by Rs.4273 crore as compared to previous year. The achievement was in line with the State's FRBM (Amendment) Act, 2011 which had prescribed reduction of Revenue deficit to zero for financial year 2011-12.

(ii) Fiscal Surplus/deficit

The State has fiscal deficit during 2015-16, mainly on account of steep increase in the capital expenditure by the State. However, fiscal deficit (Rs.7062 crore) was within the State's FRBM (Amendment) Act, 2011 and FFC's target of not more than 3 per cent of GSDP (Rs.9970 crore).

(iii) Primary Surplus/Deficit

The primary deficit of Rs.2668 crore in 2014-15 increased to Rs.3720 crore during 2015-16. While fiscal deficits represent the need for additional resources in general, a part of such resources may be needed to finance interest payment. In 2015-16, the fiscal deficit was almost twice of the interest payment. This meant that around 50 per cent of fiscal deficit was due to revenue expenditure then interest payment. Hence prudent reduction of revenue expenditure could enable the State Government to attain primary surplus.

14.7 Comparative between ThFC and FFC recommendations

The comparative recommendations of the ThFC and the FFC are summarized in Table 14.1. It is revealed from the table that the State is likely to receive Rs.119434.9 crore more than ThFC recommendations.

Table 14.1 Comparative Statement of Finance Commission
(Rs. In Crore)

Items	2010-15 Recommendations of ThFC	2015-20 Recommendations of FFC
Pre-devolution Non-Plan Revenue Deficits/Surplus	-28282.7	-
Central Tax Devolution (including Service Tax)	69316.1	184070
Post Tax devolution Deficit/Surplus	41033.4	57559
Grant		
Non-Plan Revenue Deficit Grant	0	-
Calamity Relief/Disaster Relief	1647.8	3717
Grant for Calamity Relief Fund (newly Disaster Response Fund)	1622.8	3717
Grant for Capacity Building	25	-
Upgradation and Special Problem (a+b)	1745	-
a. Up gradation	0	-
b. Special problems/State Specific Needs	1745	-
Other Grants	2995.1	-
c. Maintenance of Roads & Bridges	1022	-
d. Maintenance of Major & Medium Irrigation	184	-
e. Maintenance of flood Control & Drainage		-
f. Maintenance of Minor Irrigation		-
g. Maintenance of Forests	331	-
h. Elementary Education	1016	-
i. Improvement in Justice Delivery	193.6	-
j. Incentive for issuing UIDS	178.5	-
k. District Innovation Fund	30	-
l. Improvement in Statistical System in State	30	-
m. Employee & pension Data Base	10	-
Grants for Local Bodies	3270.9	10622.8
1.Rural Local Bodies	2591.2	8850.3
2.Urban Local Bodies	496.1	1772.5
3.Special Area Grant	183.6	-
TOTAL GRANTS	9658.8	14339.8
TOTAL TRANSFER	78974.9	198409.8

Source : Odisha Budget at a glance, 2016-17.

CHAPTER FIFTEEN

SUSTAINABLE DEBT ROADMAP

ToR 1.XIV requires us to determine a sustainable debt roadmap for 2020-25, taking into account impact of introduction of GST and other tax/non-tax trend forecasts.

The Goods and Services Tax (GST) is so far the biggest tax reform in India. The GST act is implemented in Odisha along with rest of the India from 1st July 2017. GST law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. Seventeen taxes levied by Centre and States are subsumed in GST. In Odisha following Taxes are subsumed:

- (i) Value Added Tax
- (ii) Central Sales Tax
- (iii) Entertainment Tax
- (iv) Entry Tax
- (v) Forest Development Tax
- (vi) Advertisement Tax
- (vii) Luxury Tax

The State, as per the Goods and Services Act, 2017, will get compensation or the loss on account of introduction of GST for five years from the date of implementation. For the purpose of compensation, collection under the act subsumed in the year 2015-16 has been taken as base year and 14% is assumed as the annual growth rate to determine the protected revenue in a year after introduction of GST. The growth rate is applied to the base year collection to calculate the protected revenue. The actual collection is deducted from the protected revenue and the balance is given as compensation on bi-monthly basis. The base year collection for 2015-16 is as follows:

Table 15.1:Taxes of Base Year 2015-16 (Rs. In crore)

VAT	8445.4
CST	883.3
Entertainment Tax	1662.9
Forest & Development Tax	10.8
Advertisement Tax	15.9
Total	11049.3

Source: Dept. of Finance, Govt. of Odisha.

Inorder to get 14 per cent growth rate, to the base year's collection revenue to be protected for the year 2017-18 is worked out at Rs. 14359.7 crore. GST was implemented from 1st July 2017 and protected revenue for the nine months was Rs. 10769.8 crore. Collection during this period under GST was Rs. 8438.9 crore. It also includes arrear collection of Rs. 1915.7 crore of VAT, CST, Entry Tax and Entertainment Tax & OST, which are subsumed in GST. Hence compensation claim of the state is Rs.2330.8 crore. For the year 2018-19, the revenue to be protected is arrived at Rs.16370.1 crore.

Odisha incurs loss on account due to major structural changes in the GST structure. As per the constitutional provision, the State will get compensation for the loss of five years. The compensation will end in July 2022. The period of 15th Finance Commission is from 2020-2025. The State may incur loss on account even after five years, because of the structural changes like the rate structures, abolition of CST, entry tax etc. The gain from service tax is not enough to compensate the loss. Hencea permanent measure needs to be taken to compensate the state for the loss on account of introduction to GST.

The table 15.2 shows the debt-GSDP ratio of Odisha. In the year 2010-11, the debt - GSDP ratio of Odisha was 19.8 and it has decreased up to the year 2013-14. The debt-GSDP ratio was 13.04 per cent in 2013-14 and it increases to 20.7 per cent in 2018-19. The trend of debt-GSDP ratio has shown in fig. 15.1. After the implementation of GST the growth rate of tax revenue has decreased, for which the State has incurred loss. This loss can be vanished by two ways. One is, when the collection of tax revenue increase and another one is with the growth of the State's economy. The income of the people increases when they are engaged in work and it can be possible if the Govt. provide employment opportunities for the people. For the increasing employment opportunity, the Government requires more funds and the funds can be generated either by collection of more taxes or by borrowings. It is not possible here to increase revenue from taxes without increase in government activities. So, Government most generate funds by borrowings. As per the FRBM Act and 14th Finance Commission's recommendation', the debt-GSDP ratio most be controlled up to 25 per cent of GSDP by the State Govt. and the Debt-GSDP ratio of Odisha is 20.7 per cent in 2018-19, which is below the target of 25 per cent. So Government of Odisha should generate employment opportunities by increasing Govt. activities and this activity can be possible by raising funds from borrowings. And these funds must be used for such activities which can create job opportunities for low and middle income groups because the marginal propensity to consume of these two groups is high. The maximum part of their income spends on consumption. Then tax collection will increase of the State Government. As per the FRBM Act Government should control debt-GSDP ratio and should not allow it to go beyond 25% .The Fourteenth Finance Commission also recommended this.

15.1 Status of Debt

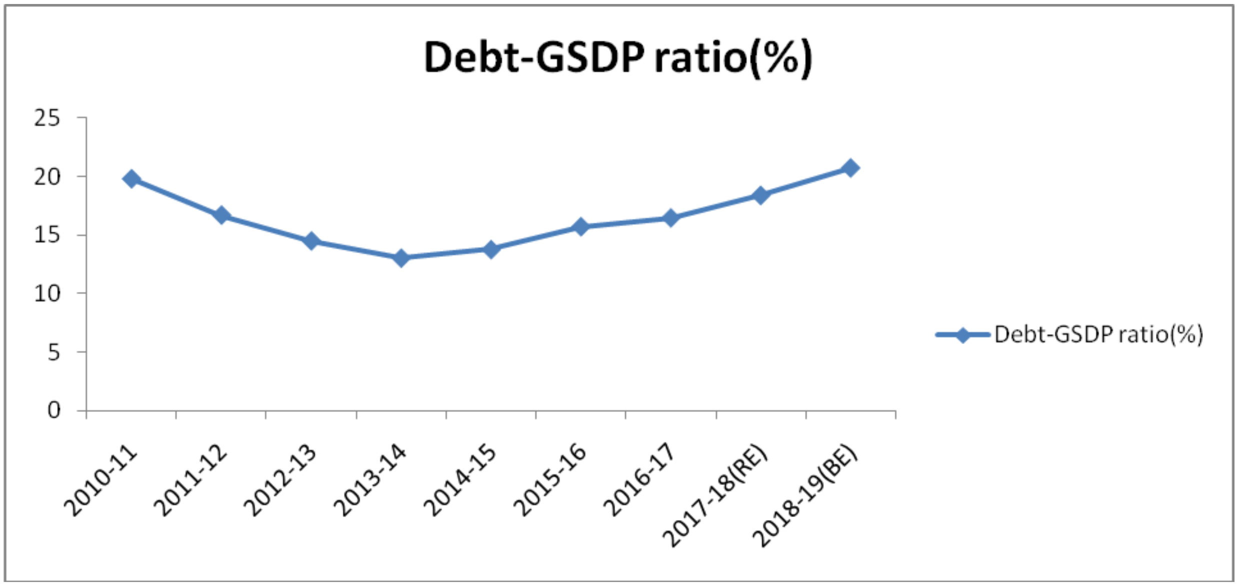
The State position of the state has been several phases: a comfortable position prior to 1997-98, followed by sharp deterioration and fiscal stress till 2003-04, then improvement since 2004-05 albeit with marginal deterioration in last two years. While the debt liabilities of the state increased sharply during 1997-98 to 2003-04, the subsequent consolidation is attributed *inter alia* to the implementation Government face severe constraints as its non-debt receipts are often insufficient for fulfilling its developmental obligations. As a result, the State Government resort to market borrowings to bridge the resource gap. Over a period of time, such borrowings may result in the accumulation of debt liabilities which, if unchecked, could pose major challenges for macroeconomic and financial stability.

Table 15.2 Debt GSDP Ratio of Odisha

Year	Debt-GSDP ratio(%)
2010-11	19.8
2011-12	16.7
2012-13	14.5
2013-14	13.1
2014-15	13.7
2015-16	15.7
2016-17	16.5
2017-18(RE)	18.4
2018-19(BE)	20.7

Source: Odisha Budget at a glance 2018-19

Chart 15.1: Trend of Debt-GSDP Ratio



The evolving debt of Fiscal Responsibility and Budget Management (FRBM) Act at the state level during last decade.These initiatives were complemented by debt and interest relief measured by the Central Government and supported by a favourable macroeconomic environment. Most of the States are adhered to the debt targets set by the Thirteenth Finance Commission for the period 2010-15, however, some breached their targets and were saddled with unsustainable debt position.

15.2 Sustainable Debt Roadmap

Odisha has been incurring revenue surplus since 2005-06. It is also maintaining the debt sustainability from 2007-08 to till now, as it is remains within 25 per cent. In order to make a sustainable debt roadmap for 2020-25, the Study has used the actual data of GSDP and Debt from 2007-08 to 2016-17 and budget estimated data from 2017-18 and 2018-19 of the State. It has also taken the data by estimating growth rate of GSDP and debt from 2019-20 to 2024-25. Odisha can achieve sustainable debt-GSDP ratio in 2020-25, if the ratio remains within 25 per cent as per the FRBM act. The State had the Debt-GSDP ratio more than 25 per cent before the year 2007-08 and after that it was decreased to below 25 per cent from 28.09 in 2007-08 to 24.53 in 2008-09. The Debt-GSDP ratio was falling year to year after 2008-09 to 2013-14 and reached at 13.04 in 2013-14. After 2013-14, the ratio has started to increase till now and it became 20.73 in 2018-19. In 2018-19, Debt-GSDP ratio is 20.73 per cent. For sustainable debt, if the GSDP growth rate will lie between 5 per cent to 8 per cent and the growth rate of debt lie below 10 per cent, then it will be possible for the State to achieve debt sustainability for the period 2020-25. Because if the growth rate of GSDP is 5-8 per cent and the growth rate of debt below 10 per cent then the Debt-GSDP ratio will be below 25 per cent otherwise not. If the growth rate of debt above 10 per cent, then the Debt-GSDP ratio will be above 25 per cent that means there will be no debt sustainability. Hence, to achieve sustainable debt in 2020-25, the State's GSDP and debt growth rate should be 5 to 8 per cent and below 10 per cent respectively. The following table shows the projected debt from 2018-19 to 2024-25.

Table 15.3: Projected Sustainable Debt from 2018-19 to 2024-25 (In Rs. crore)

Year	Total Debt	Growth rate of debt (in %)	GSDP	Growth rate of GSDP (in %)	Debt-GSDP ratio
2018-19	91943.68	20	443479.00	07	20.73
2019-20	105735.23	15	465652.95	05	22.71
2020-21	116308.76	10	493592.13	06	23.56
2021-22	125613.46	08	528143.58	07	23.78
2022-23	136918.67	09	559832.19	06	24.46
2023-24	149241.35	09	599020.44	07	24.91
2024-25	161180.65	08	646942.08	08	24.91

Note: The projection for OTR, NTR, Revenue Expenditure and Fiscal Deficit for the state of Odisha for the period 2020-25 have been given in annexures 15.1 & 15.2

Source: Estimated figures

CHAPTER SIXTEEN

SUMMARY AND CONCLUSION

The present study provides a detailed account of the changing fiscal profile of the state between 2006-07 and 2015-16 and explains the measures undertaken for the fiscal consideration of the state. The aggregate fiscal position of the state has witnessed remarkable changes in last decade. Revenue receipts of Odisha as a percentage of Gross State Domestic Product (GSDP) has increased from 17.7 per cent in 2006-07 to 20.8 per cent in 2015-16. While the own revenue receipts of the state a percentage pf GSDP has increased from 8.5 per cent to 9.4 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. But in 2015-16, as per the recommendation of the 14th Finance Commissions, the grants-in-aid and shared revenue has increased to 4.3 per cent and 7.1 per cent. Own tax revenue as a percentage of GSDP (or own tax GSDP ratio) in Odisha has increased from 5.9 per cent in 2006-07 to 6.8 per cent in 2015-16. Nonetheless, Odisha's tax-GSDP ratio remains much lower compared to other major general category states, except Bihar, Jharkhand, 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 2006-07 to 2015-16 as is observed buoyancy is 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.205421.9 crore, the State has raised on average 197489.5 crore. Its 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 state excise, MV tax, stamps duty and registration fee.

Non-tax revenue as percentage of GSDP has increased from 2.5 to 2.6 per cent during the period of study. It has recorded an annual compound growth rate of 20.9 per cent, while exhibiting buoyancy of more than unity over the period. Buoyancy of State's total own non-tax revenue has remained above unity during the period from 2006-07 to 2015-16, 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 for BPL families- at higher education level.

Total expenditure of the State as percentage of GSDP has increased from 17.2 per cent in 2006-07 to 23 per cent in 2015-16. Total expenditure as a percentage of GSDP was declined in 2007-08 and 2012-13 and thereafter started increasing. Revenue expenditure as a percentage of GSDP has also increased steadily from 15.05 to 17.7 per cent in 2015-16. Capital expenditure (outlay) as per cent of GSDP which was at 1.4 per cent in 2006-07 increased to 2.1 per cent in 2010-11. In 2011-12, it was declined to 2 per cent and thereafter, it has started increasing and reached at

5.2 per cent in 2015-16. Plan expenditure in Odisha has grown at a higher rate than the growth of total expenditure. The annual average growth rate of plan expenditure is 30.3 per cent against 18 per cent growth of total expenditure during the period 2006-07 to 2015-16. Due to the higher growth of plan expenditure its share in total expenditure has increased from 24 per cent in 2006-07 to about 53.2 per cent in 2015-16. Expenditure allocation for general services in total expenditure has declined sharply from 43.2 per cent in 2006-07 to 20.3 per cent in 2015-16, while it has increased for social services 31 per cent in 2006-07 to 36 per cent in 2015-16 and for economic services from 22.5 per cent in 2006-07 to 41.8 per cent in 205-16. Allocation of expenditure for social services as a percentage of GSDP was 8.3 per cent in 2015-16. Although the Education Commission and Ramamoorthy Committee have recommended spending 6 per cent of income on education, Odisha spent 3.5 per cent of GSDP during 2015-16. Similarly, against the recommendation of ICSSR and ICMR panel of spending 6 per cent of income on health, Odisha spent only 1.1 per cent of GSDP during 2015-16.

Share of expenditure on salaries in revenue receipts has declined from 24.8 per cent in 2006-07 to 20.5 per cent in 2015-16. Interest rate as a proportion of revenue receipts has declined from 17.7 per cent in 2006-07 to 4.8 per cent in 2015-16 and remained lower the projection made in MTFP and FFC. Subsidy as a proportion of revenue receipts have increased from 0.9 per cent in 2006-07 to 13.4 per cent in 2015-16.

The public debt of the State as a percentage of GSDP has gone down substantially from 26.4 per cent in 2006-07 to 10.2 per cent in 2015-16. Similarly, the aggregate public debt and outstanding liabilities as a percentage of GSDP has gone down from 38.7 per cent in 2006-07 to 16 per cent in 2015-16. This is much below the target set by FFC at 25 per cent of GSDP for all States in aggregate. Share of internal debt (which includes Market Loans, WMA from the RBI, Bonds, Loans from Financial institutions, Special Securities issues to National Small Saving Funds and Other Loans) as a percentage of total pubic debt and other liabilities (PDOL) decreased from 46 per cent during 2006-07 to 36 per cent in 2013-14 and subsequently increased to 44 per cent in 2015-16. 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 22 per cent in 2006-07 to only 12 per cent in 2015-16. The State is now relying more upon the small scale saving and provident fund (SSPF) to raise funds for the functioning of the government. The share market loan in the total public debt has gone down from 29 per cent in 2006-07 to 24 per cent in 2015-16. Similarly, the share of bonds has declined from 3 per cent in 2006-07 to zero in 2015-16. It means, the State Government is not depending on bonds. The Government of Odisha is no more relying upon the Ways and Means Advance from the Reserve Bank of India.

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 2006-07 to 2015-16, the total subsidy as a proportion of GSDP has increased from 0.2 per cent to 0.8 per cent. The share of subsidy in GSDP in case of economic service sector has remained at 0.5 per cent (with agriculture and allies at 0.5 per cent) and social service sector at 0.2 per cent during 2015-16. Food subsidy has the highest share of 0.3 per cent in GSDP during 2015-16. 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 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 should come under input subsidy.

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 5,83,021 posts 1,31,518 posts, which constitute 22.5 per cent are lying vacant. In such a scenario, maintaining revenue surplus in the State exchequer does not imply that the economic growth and human development of the State is good. 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 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 few allopathic government medical colleges to cater the need of more than 4.2 crore population. Recently, some private colleges have come up in the State; thus increasing the number of 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 3.3 crore population. In order to increase supply of quality health personnel in the State, the Government needs to set up more 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 14 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 30.5 per cent of sanctioned post are lying vacant. However, in Grade A and Grade B level, which represents the teaching posts, around 40 per cent of the sanctioned post 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 in the country.

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 decision of the Cabinet during 2003. The Chief Secretary in his letter addressed to 11 departments communicated the decision of the Government for implementation of the same in letter and spirit. The Fourth State Finance Commission, which submitted its final report on 30thSeptember, 2014.

The Odisha Government 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 facing major challenges 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 maintenance and development of urban infrastructure.

Between 2006-07 and 2015-16, 28 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 1.7 per cent in 2011-12to 3 per cent in 2012-13 and started falling from 2013-14 onwards. In the year 2015-16, the net profit of SPEs in Total Revenue Receipts (TRR) was only 0.01 per cent.

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 47.6 per cent in 2006-07 to 15.7 per cent in 2015-16. Similarly, the outstanding guarantee as a percentage of revenue receipts has fallen from 27.8 per cent in 2006-07 to 1.8 per cent in 2015-16.

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. 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 3 per cent of GSDP. The State has kept its fiscal deficit below 3 per cent of GSDP in 2015-16. Similarly, aggregate public debt and outstanding liabilities as a percentage of GSDP has gone down from 36.58 per cent in 2006-07 to 15.7 per cent in 2015-16. This is much below the target set by the ThFC and FFC 25 per cent of GSDP. Due to availability of surplus fund in the revenue account the State has not resorted to Ways and Means Advances from RBI. Thus, the State has fully compiled with FRBM rules and seems to be following a prudent fiscal profile.

Due to adherence to austerity measures, the government has compromised severely to 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 productivity 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.

Huge number of vacancies in most of the departments has deteriorated the delivery of services like health, education and general administrative services. 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 the 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 fulfilment 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 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 vacant posts in all the departments. The State Government should spend all the surplus revenue for revenue expenditure, especially for filling up 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 Odisha the second worst performer among Indian States; Madhya Pradesh being the worst performer with IMR of 59. MMR of the State during 2007-09 was 258 against the national average of 212. Now, IMR and MMR has been declined to 40 and 2.2 respectively. Similarly, in terms of average Monthly Per capita Consumption Expenditure the State scores at the lowest rank. The average MPCE of rural Odisha is only Rs.905 against national average of Rs.1,287. The MPCE of rural Odisha is only 1 rupee above the rural MPCE of Chattisgarh which is lowest in India. Similarly, with the average MPCE of Rs.1830 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 RaghuramRajan in its report submitted in September 2013 categorized Odisha as the least developed State of India. The Committee includes 10 indicators 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) per cent of SC-ST population, (viii) urbanisation rate, (ix) financial inclusion and (x) connectivity. As per Census 2011 data, 78 per cent of households in Odisha did not have latrine against the national average of 53.1 per cent. 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 do not have latrine against national average of 69.3 per cent.

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 1.4 per cent of GSDP in 2006-07 to 5.1 per cent in 2015-16. Only 35 per cent of cultivable land of the State is irrigated. The State needs to develop its irrigation potential fully for the development of agriculture. The State 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 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 compiled with the FRBM targets more than required. Fiscal deficit of the State remains below 3 per cent. 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 from 36.6 per cent in 2006-07 to 15.7 per cent in 2015-16. This is much below the target set by 13th& 14th Finance Commission at 25 per cent of GSDP 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 debt burden remains sustainable. The nominal GSDP of the State has recorded to trend growth rate recorded 16 per cent during 2011-12. Therefore, even if the State borrows 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 investment in Treasury Bill and other government bonds.

In a press release on 20thMay, 2008, the World Bank lauded the Odisha Government for two reasons: for recording fast economic growth and achieving 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 turn-around. The ratio of the State's debt burden to annual GSDP has fallen, 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 per cent of GSDP, to a surplus of 3.4 per cent'. The Bank praised the Government of Odisha for achieving the fiscal consolidation through series of tax reforms and rationalisation 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'.

Utilization 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 reluctant to grant more money to the State. Therefore, the State Government should amend the Finance Rule in tune with 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 RaghuramRajan Committee Report, the huge Schedule 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 total population of the State as a criterion for inter se fund allocation.

The receipts under State's tax revenue and non-tax revenue were less than the assessment of FFC by 10 per cent and 3 per cent respectively. But, the State's own tax revenue was more than assessment made in MTFP by Rs.1247 crore (six per cent) and non-tax revenue increased by Rs.2699 crore (fourteen per cent) over previous year. There was decrease in Centrally Sponsored Schemes (Rs.1628.96 crore). The percentage share of grants to revenue receipts was increased from 20.2 per cent in 2011-12 to 20.5 per cent in 2015-16.

There was increase in total expenditure of Rs.13611 crore in 2015-16 over the previous year on account of increase in revenue expenditure and capital expenditure by Rs.7670 crore and Rs.5693 crore respectively. The interest payment during 2015-16 increased by Rs.533 crore over the previous year.

In Odisha, Goods & Services Tax (GST) subsumes the taxes like Value Added Tax(VAT), Central Sales Tax, Entertainment Tax, Entry Tax, Forest Development Tax, Advertisement Tax and Luxury Tax. Odisha incurs loss on account due to major structural changes in GST structure. The state may incur loss on account even after five years because of the changes in rate structure, abolition of CST, Entry tax etc. The gain from service tax is not enough to make good the loss. Due to GST, the growth rate of tax revenue has decreased.

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Annexure

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 2013-14 to 2015-16, 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 toinfluence 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).

Log (LR)	=	- 1.922+ 0.93*** log (GSDP-ag)	R^2 = 0.17	F=2.95***
		(-0.61) (1.71)		
Log (SR)	=	- 3.682* + 1.432* log (GSDP)	R^2 = 0.91	F=143.14*
		(-5.34) (11.96)		
Log (ST/POP)	=	- 0.72* + 1.06* log (GSDP)	R^2 = 0.90	F=130.55*
		(-1.36) (11.42)		
Log (EXD)	=	- 1.003+ 0.948log (GSDP)	R^2 = 0.10	F=1.68
		(-0.23) (1.29)		
Log (MVT)	=	-2.627 + 0.30** log (REGMV) +0.73 log (GSDP)		
		(-4.23) (1.04) (2.73)		
			R^2 = 0.90	F=65.15*
Log (ED)	=	- 0.576 – 0.289* log (DOCON) + 0.88 log (AGCON)		
		(-0.17) (-0.80) (0.697)		
		+ 1.21*log (INDCON)		
		(1.69)		
		-0.688log(OTHCON)+0.559log(GSDP)	R^2 = 0.51	F=2.16
		(-0.65) (0.69)		

Annexure 2.2

Tax Potentiality and Efforts of selected States: Electricity Duty

Sl. No.	States	Estimated Capacity/Potential (Rs. In Crore)	Actual Revenue (Rs. In Crore)	Tax Effort Index
1	Andhra Pradesh	1199.8	333.4	19
2	Bihar	193.2	271.3	97
3	Chhatisgarh	812.9	1235.4	105
4	Gujarat	9127.4	5523.3	42
5	Haryana	574.5	238.5	29
6	Jharkhand	276.7	148.9	37
7	Karnataka	958.9	1035.7	74
8	Kerala	356.9	49.5	10
9	Madhya Pradesh	828.3	2080.1	173
10	Maharastra	3088.8	6313.5	141
11	Odisha	508.1	1201.6	163
12	Punjab	556.1	1851	230
13	Rajasthan	1330.1	1468.2	76
14	Tamilnadu	1300.5	1045.7	55
15	Uttar Pradesh	1460.7	1157.5	55
16	West Bengal	597.6	1750.5	202
	All	61346.9	88768.4	100

Annexure 2.3

Tax Potentiality and Efforts of selected States: Excise Duty

Sl. No.	States	Estimated Capacity/Potential (Rs. In Crore)	Actual Revenue (Rs. In Crore)	Tax Effort Index
1	Andhra Pradesh	3616.4	4996.2	95
2	Bihar	2950.0	3175.4	74
3	Chhatisgarh	2398.6	7525.6	216
4	Gujarat	4683.0	124.5	2
5	Haryana	3318.5	3846.3	80
6	Jharkhand	2314.6	760.2	23
7	Karnataka	4696.8	13987.4	205
8	Kerala	3562.2	1894.4	37
9	Madhya Pradesh	3477.5	6841.9	136
10	Maharastra	6426.4	11322.6	122
11	Odisha	2829.1	2120.8	52
12	Panjab	3013.5	4269.1	98
13	Rajasthan	3883.5	5760.1	102
14	Tamilnadu	5033.7	5534.0	76
15	Uttar Pradesh	4938.5	13070.0	183
16	West Bengal	4204.8	3539.9	58
	All	61347.0	88768.4	100

__Annexure 2.4__

Tax Potentiality and Efforts of selected States: Land Revenue

	States	Estimated Capacity/Potential	Actual Revenue	Tax Effort
1	Andhra Pradesh	262.1	62.6	13
2	Bihar	174.8	391.3	126
3	Chhatisgarh	115.8	307.2	149
4	Gujarat	438.4	2049.5	263
5	Haryana	220.9	14.2	4
6	Jharkhand	107.9	159.2	83
7	Karnataka	441.0	188.7	24
8	Kerala	254.4	136.7	30
9	Madhya Pradesh	242.5	295.4	68
10	Maharastra	822.9	1369.9	94
11	**Odisha**	160.8	555.2	194
12	Panjab	182.3	48.3	15
13	Rajasthan	302.1	299.7	56
14	Tamilnadu	506.1	233.6	26
15	Uttar Pradesh	487.3	601.5	69
16	West Bengal	353.8	2328.5	370
	All	5072.9	9041.5	100

__Annexure 2.5__

Tax Potentiality and Efforts of selected States: Motor Vehicles Tax

Sl. No.	States	Estimated Capacity/Potential (Rs. In Crore)	Actual Revenue (Rs. In Crore)	Tax Effort Index
1	Andhra Pradesh	1965.5	3035.0	153
2	Bihar	960.5	960.8	99
3	Chhatisgarh	791.3	727.9	91
4	Gujarat	3704.5	2662.0	71
5	Haryana	1559.2	1228.9	78
6	Jharkhand	542.5	525.9	96
7	Karnataka	3085.6	4484.9	144
8	Kerala	1878.2	2446.8	129
9	Madhya Pradesh	2019.7	1785.5	88
10	Maharastra	5747.5	5506.0	95
11	**Odisha**	1019.8	937.9	91
12	Panjab	1312.3	1338.0	101
13	Rajasthan	2383.7	2842.7	118
14	Tamilnadu	4483.9	3915.4	86
15	Uttar Pradesh	4173.3	3882.7	92
16	West Bengal	1728.4	1520.8	87
	All	37355.8	37801.2	100

Annexure 2.6

Tax Potentiality and Efforts of selected States: Sale Tax

Sl. No.	States	Estimated Capacity/Potential (Rs. In Crore)	Actual Revenue (Rs. In Crore)	Tax Effort Index
1	Andhra Pradesh	21921.8	36121.9	163
2	Bihar	13831.9	9221.2	66
3	Chhatisgarh	8663.4	8422.2	96
4	Gujarat	39325.6	43070.8	108
5	Haryana	18049.7	18942.6	104
6	Jharkhand	7992.4	8124.6	101
7	Karnataka	39588.1	37484.7	94
8	Kerala	21185.7	27843.5	130
9	Madhya Pradesh	20064.0	18197.3	90
10	Maharastra	80433.2	66552.4	82
11	Odisha	12583.0	11880.8	93
12	Panjab	14513.9	15386.2	105
13	Rajasthan	25755.1	23910.1	92
14	Tamilnadu	46301.1	56081.7	120
15	Uttar Pradesh	44345.3	43424.1	97
16	West Bengal	30824.5	24001.1	77
	All	445378.5	448664.9	100

Annexure 2.7

Tax Potentiality and Efforts of selected States: Stamps Duty and Registration Fee

Sl. No.	States	Estimated Capacity/Potential (Rs. In Crore)	Actual Revenue (Rs. In Crore)	Tax Effort Index
1	Andhra Pradesh	3299.5	3723.2	112
2	Bihar	1770.9	2940.2	164
3	Chhatisgarh	941.0	1066.3	112
4	Gujarat	7268.1	5267.4	72
5	Haryana	2537.4	3167.5	124
6	Jharkhand	843.9	521.6	61
7	Karnataka	7333.8	7143.1	96
8	Kerala	3150.7	2710.0	85
9	Madhya Pradesh	2927.4	3720.2	126
10	Maharastra	19114.8	20134.1	104
11	**Odisha**	1558.3	1187.6	75
12	Panjab	1889.9	2474.2	130
13	Rajasthan	4102.3	3182.7	77
14	Tamilnadu	9062.7	8445.0	92
15	Uttar Pradesh	8549.2	11242.6	130
16	West Bengal	5229.7	4141.4	78
	All	76280.1	77343.8	100

Annexure 2.8

Tax Potentiality and Efforts of selected States: Total Own-Tax

Sl. No.	States	Estimated Capacity/Potential (Rs. In Crore)	Actual Revenue (Rs. In Crore)	Tax Effort Index
1	Andhra Pradesh	35546.7	48882.7	138
2	Bihar	22554.9	22053.3	98
3	Chhatisgarh	14207.7	15708.3	111
4	Gujarat	63314.6	60120.5	95
5	Haryana	29337.4	28043.4	96
6	Jharkhand	13120.2	10402.9	79
7	Karnataka	63732.1	69444.7	109
8	Kerala	34367.3	35407.6	103
9	Madhya Pradesh	32569.4	36777.6	113
10	Maharastra	128373.7	116756.7	91
11	**Odisha**	20542.2	19749.0	96
12	Panjab	23653.2	25446.6	108
13	Rajasthan	41680.5	38287.9	92
14	Tamilnadu	74397.0	77616.9	104
15	Uttar Pradesh	71292.0	73953.6	104
16	West Bengal	49775.3	39244.9	79
	All	718464.2	717896.5	100

__Annexure 2.9__

Comparative Statement of the GSDP Using Deflator and Splicing Methods

(Rs in crore)

Year	GSDP-1*	GSDP-2**
2006-07	92700.8	164579
2007-08	102846	182590
2008-09	110812	196733
2009-10	115851	205680
2010-11	125131	222155
2011-12	130113	230987
2012-13	135010	243363
2013-14	137468	265892
2014-15	148576	270665
2015-16	156427	292275

Note: *GSDP-1 represents value at 2004-05 prices. The GSDP value for the year 2015-16 has been calculated using the deflator method.

** GSDP-2 represents value at 2011-12 prices. The GSDP value for the years from 2006-07 to 2010-11 has been calculated using the splicing method.

Annexure 2.10

Partial Buoyancy of Own Tax Revenue

Revenue Head	Real GSDP	Implicit Price Index	R^2	F
Land Revenue	0.58 (0.47)	0.936 (0.92)	0.85	21.12*
Stamps & Registration	8.03* (3.71)	-4.57** (-2.57)	0.84	19.09*
Sale Tax/VAT	1.29** (2.49)	0.95*** (2.23)	0.98	241.24*
Excise Duty	2.42* (4.18)	0.67 (1.41)	0.99	340.71*
Motor Vehicles Tax	1.47** (2.75)	0.10 (0.25)	0.96	98.59*
Electricity Duty	3.35 (1.40)	-0.48 (-0.24)	0.81	14.97*
Goods & Passengers Tax	0.27 (0.36)	1.68** (2.67)	0.97	100.24*
Total Tax	**1.82*** **(3.55)**	**0.52** **(1.25)**	**0.99**	**251.16***

Notes: Figures in the parentheses are t-values

*- Represent 1% level of significance

**- 5% level of significance

***- represent 10% level of significance

Source: Authors own estimation.

Analysis- The above table (Annexure 2.10) shows the buoyancy of own tax revenues over the period 2006-07 to 2015-16 by taking 2011-12 as base year. Splicing technique has been used to convert the period 2006-07 to 2010-11 from 2004-05 base to 2011-12 base. It shows that the buoyancy of state's total own tax revenue has remained above unity over the period from 2006-07 to 2015-16 for almost all revenue heads except for land revenue & goods and passengers tax. This indicates 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 revenue is mostly influenced by the buoyancy of stamps and registration, excise duty, motor vehicle tax and sales tax. These four taxes have buoyancy more than unity, indicating that they respond more than proportionately to the growth of GSDP during the period under study.

There are some taxes like stamps and registration duty and sales tax, which are determined not only by the real GSDP but also determined by the implicit price index. Again, real GSDP only determines motor vehicle tax and excise duty not the implicit price index, but goods and passenger tax is only determined by implicit price index.

Department-wise Number of Sanctioned Posts and Vacancy Annexure 4.1

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	583	3513	10538	2097	16731	0	**16731**
	Sanctioned Strength	1803	8983	71833	5562	88181		**88181**
	Percentage of Vacancy	32.33	39.11	14.67	37.70	18.97		**18.97**
General Administration	Number of Vacancies	52	206	153	213	624	0	**624**
	Sanctioned Strength	187	545	742	933	2407		**2407**
	Percentage of Vacancy	27.81	37.80	20.62	22.83	25.92		**25.92**
Revenue & Disaster Management	Number of Vacancies	244	1097	3889	2160	7390	0	**7390**
	Sanctioned Strength	846	4335	11714	8623	25518		**25518**
	Percentage of Vacancy	28.84	25.31	33.20	25.05	28.96		**28.96**
Law	Number of Vacancies	128	219	718	431	1496	329	**1825**
	Sanctioned Strength	561	1029	2795	1530	5915		**5915**
	Percentage of Vacancy	22.82	21.28	25.69	28.17	25.29		**30.85**
Finance	Number of Vacancies	101	734	962	595	2392	0	**2392**
	Sanctioned Strength	562	2127	2301	1475	6465		**6465**
	Percentage of Vacancy	17.97	34.51	41.81	40.34	37.00		**37.00**
Commerce	Number of Vacancies	7	74	552	222	855	0	**855**
	Sanctioned Strength	23	258	1110	565	1956		**1956**
	Percentage of Vacancy	30.43	28.68	49.73	39.29	43.71		**43.71**
Works	Number of Vacancies	72	262	2176	970	3480	0	**3480**
	Sanctioned Strength	769	978	4277	4411	10435		**10435**
	Percentage of Vacancy	9.36	26.79	50.88	21.99	33.35		**33.35**
Odisha Legislative Assembly	Number of Vacancies	23	43	62	35	163	0	**163**
	Sanctioned Strength	46	158	140	99	443		**443**
	Percentage of Vacancy	50	27.22	44.29	35.35	36.79		**36.79**
Food Supplies & Consumer Welfare	Number of Vacancies	3	110	297	224	634	0	**634**
	Sanctioned Strength	57	382	814	536	1789		**1789**
	Percentage of Vacancy	5.26	28.80	36.49	41.79	35.44		**35.44**

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	114	6528	19294	1372	27308	2991	**30299**
	Sanctioned Strength	236	22440	138567	11838	173081	42993	**216074**
	Percentage of Vacancy	48.31	29.09	13.92	11.59	15.78	6.96	**14.02**
S.T. & S.C. Development and Minorities And other Backward Classes	Number of Vacancies	51	855	883	504	2293	0	**2293**
	Sanctioned Strength	106	3104	6671	1575	11456		**11456**
	Percentage of Vacancy	48.11	27.55	13.24	32.00	20.02		**20.02**
Health & Family Welfare	Number of Vacancies	4270	1361	5821	4554	16006	65	**16071**
	Sanctioned Strength	8932	7136	23987	14403	54458	422	**54880**
	Percentage of Vacancy	47.81	19.07	24.27	31.62	29.39	15.40	**29.28**
Housing & Urban Development	Number of Vacancies	8	30	440	454	932	2582	**3514**
	Sanctioned Strength	155	184	1474	1993	3806	10490	**14296**
	Percentage of Vacancy	5.16	16.30	29.85	22.78	24.49	24.61	**24.58**
Labour and E.S.I.	Number of Vacancies	89	140	365	270	864	0	**864**
	Sanctioned Strength	281	388	752	594	2015		**2015**
	Percentage of Vacancy	31.67	36.08	48.54	45.45	42.88		**42.88**
Sports & Youth Services	Number of Vacancies	3	8	29	3	43	0	**43**
	Sanctioned Strength	20	71	104	21	216	41	**257**
	Percentage of Vacancy	15	11.27	27.88	14.29	19.91	0.00	**16.73**
Planning & Convergence	Number of Vacancies	12	177	1075	96	1360	8	**1368**
	Sanctioned Strength	86	579	1679	308	2652	27	**2679**
	Percentage of Vacancy	13.95	30.57	64.03	31.17	51.28	29.63	**51.06**
Panchayatraj	Number of Vacancies	59	1727	2068	111	3965	0	**3965**
	Sanctioned Strength	505	3913	8563	2317	15298	9695	**24993**
	Percentage of Vacancy	11.68	44.13	24.15	4.79	25.92	0.00	**15.86**
Public Grievances & Pension Administration	Number of Vacancies	0	3	4	0	7	0	**7**
	Sanctioned Strength	4	16	9	10	39		**39**
	Percentage of Vacancy	0	18.75	44.44	0.00	17.95		**17.95**

Name of the Department		Grade-A	Grade-B	Grade-c	Grade-D	Total(A+B+C+D)	Grant-in-Aid	Grand Total
Industries	Number of Vacancies	6	15	42	36	99	0	**99**
	Sanctioned Strength	15	43	67	54	179		**179**
	Percentage of Vacancy	40	34.88	62.69	66.67	55.31		**55.31**
Water Resources	Number of Vacancies	750	1524	1940	1549	5763	395	**6458**
	Sanctioned Strength	2093	3763	4294	4676	14826	1638	**16464**
	Percentage of Vacancy	35.83	40.50	45.18	33.13	38.87	24.11	**39.22**
Transport	Number of Vacancies	27	139	257	92	515	0	**515**
	Sanctioned Strength	79	417	593	204	1293		**1293**
	Percentage of Vacancy	34.18	33.33	43.34	45.10	39.83		**39.83**
Forest & Environment	Number of Vacancies	177	301	2833	236	3547	43	**3590**
	Sanctioned Strength	491	865	10404	902	12662	136	**12798**
	Percentage of Vacancy	36.05	34.80	27.23	26.16	28.01	31.62	**28.05**
Agriculture & Farmers Empowerment	Number of Vacancies	96	789	2880	1697	5462	0	**5462**
	Sanctioned Strength	386	2850	7438	3142	13816	860	**14676**
	Percentage of Vacancy	24.87	27.68	38.72	54.01	39.53	0.00	**37.22**
Steel & Mines	Number of Vacancies	25	227	351	122	725	0	**725**
	Sanctioned Strength	100	584	704	269	1567		**1657**
	Percentage of Vacancy	25	38.87	49.86	45.35	46.27		**43.75**
Information & Public Relation	Number of Vacancies	26	67	94	104	291	0	**291**
	Sanctioned Strength	54	262	316	359	991		**991**
	Percentage of Vacancy	48.15	25.57	29.75	28.97	29.36		**29.36**
Excise	Number of Vacancies	16	51	373	6	446	0	**446**
	Sanctioned Strength	43	202	1843	31	2119		**2119**
	Percentage of Vacancy	37.21	25.25	20.24	19.35	21.05		**21.05**
Science & Technology	Number of Vacancies	2	8	9	4	23	86	**109**
	Sanctioned Strength	14	24	12	21	71	250	**321**
	Percentage of Vacancy	14.29	33.33	75.00	19.05	32.39	34.40	**33.96**

Name of the Department		Grade-A	Grade-B	Grade-c	Grade-D	Total(A+B+C+D)	Grant-in-Aid	Grand Total
Rural Development	Number of Vacancies	169	644	1476	573	2862	0	**2862**
	Sanctioned Strength	725	1809	3023	1987	7544		**7544**
	Percentage of Vacancy	23.31	35.60	48.83	28.84	37.94		**37.94**
Parliamentary Affairs	Number of Vacancies	23	33	29	90	175	0	**175**
	Sanctioned Strength	73	103	116	277	569		**569**
	Percentage of Vacancy	31.51	32.04	25.00	32.49	30.76		**30.76**
Energy	Number of Vacancies	99	112	154	27	392	0	**392**
	Sanctioned Strength	224	163	234	97	718		**718**
	Percentage of Vacancy	44.20	68.71	65.81	27.84	54.60		**54.60**
Textile & Handloom & Handicrafts	Number of Vacancies	26	215	192	208	641	0	**641**
	Sanctioned Strength	51	625	453	494	1623		**1623**
	Percentage of Vacancy	50.98	34.4	42.38	42.11	39.49		**39.49**
Tourism	Number of Vacancies	0	15	46	45	106	0	**106**
	Sanctioned Strength	10	64	100	216	390		**390**
	Percentage of Vacancy	0	23.44	46.00	20.83	27.18		**27.18**
Culture	Number of Vacancies	9	93	74	102	278	0	**278**
	Sanctioned Strength	19	212	183	237	651		**651**
	Percentage of Vacancy	47.37	43.87	40.44	43.04	42.70		**42.70**
Fisheries & Animal Resources Development	Number of Vacancies	94	540	1404	1927	3965	0	**3965**
	Sanctioned Strength	637	1779	4508	3943	10867	170	**11037**
	Percentage of Vacancy	14.76	30.35	31.14	48.87	36.49		**35.92**
Co-operation	Number of Vacancies	15	787	483	265	1550	0	**1550**
	Sanctioned Strength	50	1615	979	728	3372		**3372**
	Percentage of Vacancy	30	48.73	49.34	36.40	45.97		**45.97**
Public Enterprises	Number of Vacancies	0	2	6	1	9	0	**9**
	Sanctioned Strength	10	17	14	19	60		**60**
	Percentage of Vacancy	0	11.76	42.86	5.26	15		**15**

Name of the Department		Grade-A	Grade-B	Grade-c	Grade-D	Total(A+B+C+D)	Grant-in-Aid	Grand Total
Women & Child Development	Number of Vacancies	16	944	329	182	1471	0	**1471**
	Sanctioned Strength	57	3660	1102	467	5286		**5286**
	Percentage of Vacancy	28.07	25.79	29.85	38.97	27.83		**27.83**
Information Technology	Number of Vacancies	1	7	3	1	12	21	**33**
	Sanctioned Strength	6	17	5	3	31	101	**132**
	Percentage of Vacancy	16.67	41.18	60.00	33.33	38.71	20.79	**25**
Higher Education	Number of Vacancies	1022	621	870	900	3413	3938	**7351**
	Sanctioned Strength	2311	1698	1883	1626	7518	16581	**24099**
	Percentage of Vacancy	44.22	36.57	46.20	55.35	45.40	23.75	**30.50**
Employment And Technical Education & Training	Number of Vacancies	173	642	426	262	1503	475	**1978**
	Sanctioned Strength	295	1478	694	631	3098	1603	**4701**
	Percentage of Vacancy	58.64	43.44	61.38	41.52	48.52	29.63	**42.08**
Micro, Small & Medium Enterprises	Number of Vacancies	30	171	127	175	503	73	**576**
	Sanctioned Strength	86	523	295	389	1293	210	**1503**
	Percentage of Vacancy	34.88	32.70	43.05	44.99	38.90	34.76	**38.32**
Social security & Empowerment of person with Disabilities	Number of Vacancies	1	197	9	11	218	0	**218**
	Sanctioned Strength	10	460	11	12	493		**493**
	Percentage of Vacancy	10	42.83	81.82	91.67	44.22		**44.22**
Total Vacancy	**Number of Vacancies**	**8622**	**25231**	**63733**	**22926**	**120512**	**11006**	**131518**
	Sanctioned Strength	**23018**	**79859**	**316803**	**77577**	**497257**	**85764**	**583021**
	Percentage of Vacancy	**37.46**	**31.59**	**20.12**	**29.55**	**24.24**	**12.83**	**22.56**

__Annexure 8.1__

Expenditure of Panchayati Raj Institutions and Sources of Revenue (Rs. In Lakh)

District Panchayats						
	Expenditure			Own Sources of Revenue		
Year	Revenue	Capital	Total	Tax Revenue	Non-tax revenue	Total OSR
2010-11	15380.00	8282.00	23660.00	0.00	0.00	0.00
2011-12	19616.00	10563.00	30179.00	0.00	0.00	0.00
2012-13	11710.16	13318.63	25028.79	0.00	0.00	0.00
2013-14	11480.82	13036.50	24517.32	0.00	0.00	0.00
2014-15	10556.20	13666.30	24222.50	0.00	0.00	0.00
2015-16	17553.21	9165.00	26718.21	0.00	0.00	0.00
Block Panchayats						
	Expenditure			Own Sources of Revenue		
Year	Revenue	Capital	Total	Tax Revenue	Non-tax revenue	Total OSR
2010-11	32818.00	17671.00	50489.00	0.00	0.00	0.00
2011-12	43739.00	23552.00	67291.00	0.00	0.00	0.00
2012-13	26185.67	26058.97	52244.64	0.00	0.00	0.00
2013-14	29200.00	29311.79	58511.73	0.00	0.00	0.00
2014-15	39700.00	40881.08	80581.08	0.00	0.00	0.00
2015-16	42958.02	50296.00	93254.02	0.00	0.00	0.00
Village Panchayats						
	Expenditure			Own Sources of Revenue		
Year	Revenue	Capital	Total	Tax Revenue	Non-tax revenue	Total OSR
2010-11	43507.00	23428.00	66935.00	610.00	1407.00	2017.00
2011-12	64794.00	34889.00	99683.00	652.00	1516.00	2168.00
2012-13	70305.69	58024.86	128330.55	710.00	1596.23	2306.00
2013-14	70646.20	70575.83	141222.03	770.00	1878.40	2648.40
2014-15	77304.36	148230.00	225534.36	820.00	1681.56	2501.56
2015-16	138600.86	196709.00	335309.86	910.00	1764.64	2674.64

Source : Finance Department, GoO

Analysis-The above table shows the revenue and expenditure of Panchayati Raj institutions for 2010-11 to 2015-16. In district Panchayats, both revenue and capital expenditure fluctuates from year to year. They have no source of revenue of their own. The similar trend is also found in Block Panchayats. However, village panchayats have their own sources of revenue. Both revenue and expenditure in village Panchayats have shown positive growth rates in different years.

Annexure 8.2

Expenditure of Urban Local Bodies and Sources of Revenue & Capital (Rs. In Lakh)

Municipal Corporations						
	Expenditure			Own Sources of Revenue		
Year	Revenue	Capital	Total	Tax Revenue	Non-tax revenue	Total OSR
2010-11	11619.00	23318.00	34937.00	3872.00	1126.00	4998.00
2011-12	13470.43	29690.00	43160.43	3589.00	1029.00	4618.00
2012-13	31525.14	8924.99	40450.13	3931.09	3811.28	7742.37
2013-14	39155.25	12571.41	51726.66	4352.28	3896.53	8248.81
2014-15	32247.73	9138.59	48386.32	5387.99	3594.37	8982.36
2015-16	40617.77	12473.11	53083.88	5822.16	5949.98	11772.14
Municipalities						
	Expenditure			Own Sources of Revenue		
Year	Revenue	Capital	Total	Tax Revenue	Non-tax revenue	Total OSR
2010-11	11782	3010.87	14792.9	2673.76	4547	7220.76
2011-12	11900	3573.43	15473.4	2503.73	3516	6019.73
2012-13	24064.9	16167.5	40232.4	1146.84	2456.65	3603.49
2013-14	29748.3	27367.3	57115.6	1457.55	3361.01	4818.56
2014-15	28642.6	26643	55285.7	1915.7	3038.21	4953.91
2015-16	34303.6	31242.8	65546.4	1917	3480.29	5397.29
Nagar Panchayats						
	Expenditure			Own Sources of Revenue		
Year	Revenue	Capital	Total	Tax Revenue	Non-tax revenue	Total OSR
2010-11	1856.00	7414.00	9270.00	948.09	708.00	1656.09
2011-12	2152.00	9184.00	11336.00	1079.19	777.00	1856.19
2012-13	8288.43	8062.77	16351.20	459.21	872.69	1331.90
2013-14	9955.37	10086.43	20041.80	557.88	1087.42	1645.30
2014-15	10832.44	8960.77	19793.21	785.55	1082.78	1868.33
2015-16	12983.79	10220.69	23204.48	619.71	1335.21	1954.92

Source : Finance Department, GoO

Analysis -The above table shows the revenue and expenditure of the Urban Local Bodies (ULBs) from 2010-11 to 2015-16. In case of Municipal corporations, the revenue expenditure has increased from Rs 11619 lakh to Rs 40618 lakh and capital expenditure has declined from Rs 23318 lakh to Rs 12473 lakh during the same period. However, the revenue from their own sources has increased from Rs 4998 lakh to Rs 11772 lakh during this period. The expenditure of Municipalities has increased from Rs 14793 lakh to Rs 65546 lakh. But, the revenue from own sources has declined from Rs 7221 lakh to Rs 5397 lakh. In Nagar Panchayats, the total expenditure and total revenue has shown an increasing trend.

Annexure 15.1

The Projected Figures of Own Tax Revenue, Non -tax Revenue, Revenue Expenditure and Fiscal Deficit

(Rs in crore)

Year	OTR	NTR	Rev. Exp	Fiscal Deficit
2020-21	37095.50	12883.2	117127.86	(-)19580.5
2021-22	41699.05	13831.40	134134.83	(-)23579.0
2022-23	46873.91	14849.39	153611.2	(-)28292.8
2023-24	52690.96	15942.31	175915.55	(-)33843.3
2024-25	59229.91	17115.66	201458.49	(-)40371.1

Source: Own calculation

Note: Calculation has been made using the Compound Annual Growth Rate (CAGR) of the last five years from 2015-16 to 2019-20, where 2017-18 is actual estimate (AE), 2018-19 is revised estimate (RE) and 2019-20 is budget estimate (BE). The growth rate for OTR 12.41%-, NTR 7.36% and Revenue Expenditure 14.52.

Annexure 15.2

The Projected Figures of Own Tax Revenue, and Growth Rate

Year	OTR(Rs in Crore)	Growth Rate (%)	Fiscal Deficit
2020-21	35897.6	8.78	(-)20326.3
2021-22	39049.4	8.78	(-)24853.6
2022-23	42477.94	8.78	(-)29595.0
2023-24	46207.51	8.78	(-)34212.4
2024-25	50264.52	8.78	(-)38123.7

Source: Own calculation

Note: Calculation has been made using the Compound Annual Growth Rate (CAGR) of the last three years from 2017-18 to 2019-20 after implementation of GST. Where, 2017-18 (AE), 2018-19 (RE) and 2019-20 (BE).

Simulation: The introduction of GST will put an adverse impact on the Own Tax Revenue of the State which may lead to an increase the fiscal deficit.