ODISHA BUDGET AND ACCOUNTABILITY CENTRE (OBAC), CYSD

Implication of 14th Finance Commission

on Social Sector Budgeting in Odisha

The year 2015-16 is a crucial year for the state government as this is the first year of the award period of 14th finance commission. The formation of "National Institution for Transforming India" Aayog (NITI Aayog) in place of Planning Commission and restructuring of number of CSSs by Govt. of India after the 14th FC recommendation, has forced the state to bring in changes in state budget particularly the development programmes. This document analyses and highlights the budgetary implication of major development programmes of Odisha economy for the year 2015-16.

Introduction

India is a union of states with vertical and horizontal imbalances[1] and in order to address these imbalances, the constitution of India provides an institutional mechanism-Finance Commission. The commission is to be constituted in every five years to recommend the formula of revenue sharing between centre and states. The Finance Commission recommends tax devolution and grants-in- aid for post devolution revenue deficit, disaster, and for local bodies.

In 2015-16 budget session, the government of India accepted the recommendation of the Fourteenth Finance Commission (FFC). As per the recommendation of the FFC, share of the tax proceeds has been enhanced from 32pc to 42 pc. At the same time, grants-in aid for local bodies, disaster and revenue deficit grants are also declared. When grants for local bodies and disaster are available for all the states and UTs, a large number of states including Odisha have not got the benefit of the revenue deficit grants. However, the FFC desist from awarding sector/state specific grants-having much bearing on the social sectors, to conditionality and suggests an institutional mechanism to monitor the fiscal rules and to achieve co-operative federalism.

Social sector plays an important role for ensuring a robust and inclusive economic development. It, not only sets foundation for rising income and employment opportunities, it also ensures productivity, technology advancement and enhanced quality of life. Therefore, no government in modern times can afford to ignore these sectors and hence adequate budget outlay for these sectors assumes the greatest importance.

Normally, expenditure on social sector includes expenditure on education, medical and public health, family welfare, food security, nutrition, safe drinking water supply, sanitation, sports, art and culture, housing, urban development, relief and natural calamity and welfare of disadvantaged and marginalized groups such as scheduled castes, scheduled tribes and other backward classes(OBCs). As per the constitution of India, it is the states rather than centre, bear the larger responsibility of spending for the social sector. In recent times, to supplement the efforts of the state, the central government has started interfering in these sectors with flagship programmes. In other words, in recent times, centre has been

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[1] Vertical imbalance arises because of the constitution of India has assigned taxes with nation wide base to Union to make the country one economic space and at the same time the constitution has also assigned the states to discharge their functional responsibilities involving expenditure disproportionate to their assigned source of revenue because they are close to the people and sensitive to the local needs and aspirations of the people. Similarly, horizontal imbalances across states arise due to historical background of the states, different endowment of resources and capacity to raise resources of the states

[1] Article 268,269,270,275,282 and article 293 of Indian constitution

the driving force of the new initiatives. But after the award of the fourteenth finance commission (FFC), this trend sets to change.

However, the social sector budgeting at state level will be little bit challenging because of the three important factors.

1. Restructuring of the central sponsored programmes from 132 to 66 and subsequent inclusion of the central share of all the CSSs through state budget as central assistance to state budget since 2014-15

2. Award of higher devolution of tax by the FFC

3. Consequent compositional changes in central programmes in the union budget 2015-16

For Odisha, challenge will be even greater and deeper as the budget 2015-16 was presented before the declaration of the award of the FFC and presentation of the Union Budget 2015-16 in the parliament. So in the post FFC scenario, Odisha government has to redesign the state budget for 2015-16 at supplementary stage.

Now, the situation calls for an understanding and debate over how the government of Odisha's fiscal restructuring will address the social sector budgeting in the state. If Odisha government gets more resources, will it increase the size of the budget especially of social sector using the fiscal autonomy because of higher tax devolution. If the government will actually get less resource than expected in the budget 2015-16, then how the Odisha government will manage funds for the sectors already allotted in the state budget for 2015-16?

To address these questions, OBAC (Odisha Budget and Accountability Centre), a policy and budget research unit of Centre for Youth and Social Development (CYSD) has prepared a research document "**Implication of Fourteenth Finance Commission on Budgeting of Social Sectors in Odisha"**. This document has covered the issues in three broad parts. Part one throws light on Finance commission, its functions, approaches and recommendations. The second part covers the budgetary implication of the award of the FFC on social sector budgeting in Odisha. The concluding part calls for action to relook the social sector investment in Odisha.

Section – 1

Finance commission, its functions, approaches and recommendations

India is a union of states and like any federations. India has also the vertical and horizontal imbalances. In order to reduce such imbalances, the constitution of India has provided a mechanism of made certain enabling and mandatory provisions for the transfer of resources from the centre to the states. To facilitate such transfer of resources, the constitution of India has provided an institutional mechanism in the form of a **Finance Commission** (under article280).The finance commission is to be to be appointed in every five years.

The FFC was constituted by the President of India under Article 280 of the Constitution on January 2, 2013 to make recommendations for the period 2015-20. Dr. Y. V. Reddy was appointed the Chairman of the Commission. The commission submitted its report to President of India on December 15, 2014. As per the Term of Reference (TOR), the commission made recommendations on the basic tasks assigned to it by the constitution. Also the FFC made suggestions on certain additional tasks assigned by President of India in interest of sound finance. More explanation on TOR of FFC is mentioned in Annexure-1.

Function

- To prepare formula for the distribution of the net proceeds of taxes between the Union and the States and the allocation between the States of the respective shares of such proceeds.
- Devising the principles to govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India
- Measures to augment the Consolidated Fund of a State to supplement the resources of Panchayats and Municipalities based on the recommendations of the respective State Finance Commissions (SFCs).
- Any other matter referred to it by the president in the interests of sound finance

Vertical Devolutions

- The share of tax devolution has been increased to 42 per cent of the divisible pool to fulfill the twin objectives of ***increasing the flow of unconditional transfers to the States*** and ***giving more fiscal space to states to carry out specific-purpose transfers to the States.***
- FFC keeps the aggregate transfers at 50pc of the gross revenue receipts of the union

Criteria and Weight: *horizontal balance*

To address the horizontal balance, finance commission has determined the *inter-se* share of the States to correct the differentials in revenue raising capacity and expenditure needs, taking into account the cost disability factors to the extent possible. The detail is given below.

Table1.1: Criteria and Weight for sharing the Union Tax Revenue in 14the Finance Commission

Criteria	**Importance**	**Weight (Per Cent)**
Population	Public goods and services are to be provided to the entire population to ensure equality in per capita transfers across states. Like all previous FCs, FFC has taken the population figures of 1971 for determination of devolution of taxes and duties and grants-in-aid.	17.5
Demographic change	For the First time the FC considered demographic changes since 1971. This criterion is best fulfilled by 2011 census data which captures the migration and age structure of the population.	10
Area	The use of area of a state as a criterion for determining its share emanates from the additional administrative and other costs that a state with a larger area has to incur in order to deliver a comparable standard of services to its citizens	15
Income distance	Successive Finance Commissions have used the distance of actual per capita income of a State from the State with the highest per capita income as a measure of fiscal capacity. The 13th finance commission, however, introduced a new criterion based on distance between estimated per capita taxable capacity for each State and the highest per capita taxable capacity and used this for *inter-se* devolution. Considering the non-linear relationship between income and tax, The FFC decided to revert to the method of representing fiscal capacity in terms of income distance followed by 12th finance commission. For correcting differential fiscal capacities and enabling poorer states to meet better the needs for providing public goods and services, it appears to be the preferred indicator as it imparts progressively in distribution. This is calculated by taking a three-year average (2010-11 to 2012-13) per capita comparable gross state domestic product (GSDP) has been taken for all the twenty-nine States. Income distance has been computed by taking the distance from the State having highest per capita GSDP. Three states having highest per capita income, namely Goa, Sikkim and Haryana are considered.	50
Forest Cover	It is recognized that States have an additional responsibility towards management of environment and climate change, while creating conditions for sustainable economic growth and development. A large forest cover provides huge ecological benefits, but there is also an opportunity cost in terms of area not available for other economic activities and this also serves as an important indicator of fiscal disability.	7.5

Source: Report of the 14th FC, Volume - 1

Table 1.2: A comparative illustration of Criteria and Weight used in 14th,13th and 12th Finance Commission for sharing the Union Tax Revenue

14th Finance Commission		13th Finance Commission		12th finance Commission	
Criteria	**Weight (Per Cent)**	**Criteria**	**Weight (Per Cent)**	**Criteria**	**Weight (Per Cent)**
Population	17.5	Population	25	Population	25
Demographic change	10	Area	10	Area	10
Area	15	Fiscal Discipline	17.5	Fiscal Discipline	7.5
Income distance	50	Fiscal Distance capacity	47.5	Per Capita income distance	50
Forest Cover	7.5	--------------	-----------	Tax effort	7.5

Source: 12th, 13th and 14th Finance commission Reports, Government of India

A review of the above criteria and weights reveal that for the first time, demographic changes as a criterion, is considered by the FFC for the devolution of the funds. Similarly forest cover has also been added with 7.5 weights in the FFC. This criterion was not used by 12th and 13th finance commission. The weight for the population was reduced from 25 pc in 13th finance commission to 17.5pc in FFC. Criteria like Fiscal discipline and Fiscal distance capacity have been done away with in the FFC. However, in the FFC, population has been given more weightage.

Horizontal devolution from centre to States

Table 1.3: A comparison of horizontal tax devolution to states

States	Share from the 14th Finance commission	Share from the 13th Finance commission	Gain/Loss
Andhra Pradesh	4.305	6.937	-2.632
Arunachal Pradesh	1.370	0.328	1.042
Assam	3.311	3.628	-0.317
Bihar	9.665	10.917	-1.252
Chhattisgarh	3.080	2.47	0.610
Goa	0.378	0.266	0.112
Gujarat	3.084	3.041	0.043
Haryana	1.084	1.048	0.036
Himachal Pradesh	0.713	0.781	-0.068
Jammu & Kashmir	1.854	1.551	0.303
Jharkhand	3.139	2.802	0.337
Karnataka	4.713	4.328	0.385
Kerala	2.500	2.341	0.159
Madhya Pradesh	7.548	7.12	0.428

Maharashtra	5.521	5.199	0.322
Manipur	0.617	0.451	0.166
Meghalaya	0.642	0.408	0.234
Mizoram	0.460	0.269	0.191
Nagaland	0.498	0.314	0.184
Odisha	**4.642**	**4.779**	**-0.137**
Punjab	1.577	1.389	0.188
Rajasthan	5.495	5.853	-0.358
Sikkim	0.367	0.239	0.128
Tamil Nadu	4.023	4.969	-0.946
Telangana	2.437	0	2.437
Tripura	0.642	0.511	0.131
Uttar Pradesh	17.959	19.677	-1.718
Uttarakhand	1.052	1.12	-0.068
West Bengal	7.324	7.264	0.060
All States	100.00	100.00	0.000

Source: 14th FC report, Volume -1.

The above horizontal tax devolution from the centre to states show that Odisha's share has come down to 4.642per cent in 14th FC award against 4.779 per cent in 13th FC period. Therefore, Odisha has a loss of share of 0.137pc in the tax devolution framework. Odisha will get **Rs.183274.8** from the union tax proceeds during 2015-20.

Grants-in Aid:

Normally, the finance commission recommends grants-in aid for five purposes-. Revenue deficit, disaster relief, local bodies, sector-specific schemes and state-specific schemes. But 14th FC proposed to give grants-in aid on three aspects like **Post Devolution Revenue Deficit, Local Government and Disaster Management**.

Table 4: Grant – in – Aid to states

1	Local Government	2,87,436
2	Disaster Management	55,097
3	Post-devolution Revenue Deficit	1,94,821
	Total	**5,37,354**

Source: 14th FC report, Volume -1

Post Devolution Revenue Deficit Grant-in-aid:

This grant-in aid is given to those States which are projected, after due assessment of resources and needs by the finance commission, to have a post-devolution non-Plan revenue deficit in any year. Since the FFC has taken a comprehensive approach to the assessment of expenditure needs by taking both Plan and non-Plan expenditure in the revenue account, (unlike previous finance commissions), therefore the grants are intended to cover the entire post-devolution revenue deficit as assessed by the commission. This grant-in aid is the largest component of the grant-in-aid till 13th fiancé commission. Only in 13th finance commission, the grants to local bodies formed the largest component of grants-in-aid.

Table 5: Revenue deficit Grant – in – Aid (2015-20)

State	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2015-20**
Andhra Pradesh	6609	4930	4430	3644	2499	22113
Assam	2191	1188	Nil	Nil	Nil	3379
Himachal Pradesh	8009	8232	8311	8206	7866	40625
Jammu & Kashmir	9892	10831	11849	12952	14142	59666
Kerala	4640	3350	1529	Nil	Nil	9519
Manipur	2066	2096	2091	2042	1932	10227
Meghalaya	618	535	404	213	Nil	1770
Mizoram	2139	2294	2446	2588	2716	12183
Nagaland	3203	3451	3700	3945	4177	18475
Tripura	1089	1089	1059	992	875	5103
West Bengal	8449	3311	Nil	Nil	Nil	11760
Total State	**48906**	**41308**	**35820**	**34581**	**34206**	**194821**

Source: 14th FC report, Volume -1

FFC awarded the revenue deficit grants to eleven states. **Seven** states like Andhra Pradesh, Himachal Pradesh, Jammu and Kashmir, Manipur, Mizoram, Nagaland and Tripura will get grant for each of the years during 2015-20. There are four States - **Assam, Kerala, Meghalaya, and West Bengal - that will need a revenue deficit grant for at least one of the years.**

As per the assessment of the FFC, the Pre-Devolution Revenue Deficit for Odisha has been Rs 126511 crore. However, as per the projections of Revenue and Expenditure Submitted by Odisha State Government for 2015-16 to 2019-20, the Pre-Devolution Revenue Deficit was Rs. 338498 crore causing a gap of Rs.111987 crore in the projections will bound to create dissent in Odisha. Similarly the pre devolution Non plan Revenue deficit was projected by Odisha as Rs 187518 crore. But this deficit is not considered by the finance commission while devising principle for sharing Grants-in aid among states. States like Odisha has not got any benefit of the post devolution revenue deficit grant-in aid from the 14th finance commission as in the assessment of the commission, Odisha has a post devolution revenue surplus.

Table 6: comparative assessment of projections made by Odisha and FFC

Grants-in-aid	Projection by Odisha government	Assessment by FFC	Remark
Pre-devolution revenue deficit	3,38,498	1,26,511	No revenue deficit is available to Odisha as FFC found the post-devolution revenue as surplus for the state.
Pre-devolution non-plan deficit	1,87,518	Not considered	

Source: compiled from 14th FC report

Disaster Relief

During 2015-20, the Odisha government will get a total of Rs.4130 crore out of which the state share will be Rs.413 crore and union share is Rs.3717 crore. Looking to the fund devolution to State Disaster Response Fund of the states, Odisha ranks 4th in the series. Maharashtra will get the highest amount i.e Rs. 8195 Crore followed by Rajastan (Rs. 6094 Crore) and Madhyapradesh (Rs. 4848 Crore)

Local Bodies

Since the 10th finance commission, grants for local bodies have been awarded on the basis of the recommendation of individual state finance commissions (SFCs). The distribution of grants for the local bodies should give 90% weight to 2011 population and 10% weight to area. The commission recommended grants in two ways-a basic grant and a performance grant .The ratio of basic to performance grant is 90:10 for Gram Panchayats and 80:20 for urban local bodies.

For Odisha, the 14th FC allocated Rs 885.03 crore for Rural Local Bodies during 2016-20 and Rs. 354.50 crore for the urban local bodies.

Sector-specific

Starting from the 1st finance commision, which provided special grants for expanding primary education to states having very low school enrolment ratio, successive finance commissions have recommended sector-specific grants. The 12th finance commission observed that grants-in-aid can be used to look at certain common, as well as specific, needs of the States. The 13th finance commission listed three objectives in recommending grants. (i) to reduce disparities in the standards of various administrative and social services across states. (ii). to enable particular states to meet special financial burdens emerging from their peculiar circumstances. (iii). to provide resources for specific activities considered to be national priorities.

The 14th FC has categorized the sectors into general administration (including judiciary and police), environment (forests), maintenance (irrigation, roads and bridges) and social sector (education, health, drinking water and sanitation). Except accepting the proposal of Rs. 9,749 crore of the Department of Justice of Government of India which covers areas like reduction in pendency of cases, re-designing existing court complexes to make them more litigant friendly, enhancing access to justice and capacity building of personnel**, the commission has not recommended any specific purpose grants for others including social sectors.**

State specific grants

6th finance commission started the practice of recommending grants –in-aid for addressing the specified needs of the states till 13th finance commission. In the opinion of the 13th finance commission, these grants in aid are relevant where they address deprivation, generate significant externalities (especially environmental externalities), meet the needs of the marginal groups or areas and encourage policy innovations.

However, the 14th FC desisted from awarding state specific grants. It has mentioned that grants for both sector-specific and state-specific schemes by the Finance Commission are not necessary. **Similarly, for state specific grants, no categorization of states has been made by the commission.** However, for sector specific and state specific grants, the commission has suggested to redesign and expand the scope of the Inter State Council for ensuring the cooperative federalism. The key considerations have influenced the decision of FFC while taking a decision not to award funds for the state specific needs are:

- the state-specific grants recommended by previous finance commissions constitute a small fraction of the proposals submitted by the States.
- the state-specific grants were not allocated on the basis of any formula or any uniform principle.
- state-specific schemes are best identified, prioritised and financed at the level of the State Government.
- State Governments repeatedly raised the issue of the need for flexibility in the use of state-specific grants during its discussions with state governments.

Highlights of 14th Finance Commission

- Share of net proceeds of union taxes is increased to 42percent from 32 per cent in 13th FC.
- An amount of Rs.39, 48,187 crore from the union tax proceeds are to be given to the states and Union Territorioes.
- Total grants to the states recommended is Rs.20,15,297 crore, out of which Rs.5,37,354 crore is finance commission grants, which is 26.7 of the total grants. Other expected transfers to the states is Rs.14,77,943 crore which is 73.33 per cent of the total grants.
- Out of Rs.537354 crore Grants-in-aid, Rs.1,94,821 crore is to only 11 states as revenue deficit grants, Rs.55,097 crore as disaster relief grant(this is union share which is 90 pc of aggregate corpus of State Disaster Relief Fund of Rs.61,219 crore) and Rs. 2,87,436 crore as grants to local bodies to states. However, the grants-in-aid is contingent upon the revenue raising and fiscal consolidation measures taken by the states.
- The commission only considers the plan revenue expenditure while assessing revenue deficit grants. Continuity of gap filling approach for awarding post devolution revenue deficit grants.
- No distinction between Plan and non-Plan expenditure but continuity of the distinction between revenue and capital expenditure.
- The practice of analyzing the Non-plan Revenue expenditure of union and states by the finance Commissions has been stopped.
- Local bodies are required to be spent the grants only on the basic services within the functions assigned to them as per the constitution. Distribution of grants for the local bodies should give 90% weight to 2011 population and 10% weight to area. The commission recommended grants in two ways-a basic grant and a performance grant. The ratio of basic to performance grant is 90:10 for Gram Panchayats and 80:20 for urban local bodies.
- For the first time two new criteria are used by the FC-XIV for determining the shares of the states. They are demographic changes and forest area.
- For horizontal distribution of resources among states, no categorization of states like special category is considered
- Desist from awarding sector/state specific grants.
- FFC suggests institutional mechanisms for better monitoring of fiscal rules and to achieve "co-operative federalism".

Section – 2

Implication of Fourteenth Finance Commission on Social Sector Budgeting in Odisha

Before analyzing the implication of the FFC on Odisha budget, it is pertinent to know the challenges and certain ***contextual changes:***

- Odisha budget 2015-16 was presented before the lay of the report of the FFC in the budget session 2015-16 of the parliament. Therefore, state budget 2015-16 couldn't follow the declarations of the 14^{th} FC recommendation as well as Union Budget 2015-16.

- After 14^{th} FC recommendation, the re – categorization of 66 central sponsored schemes (CSSs) has put challenges for Odisha to reprioritize the development programmes in the state. These are:

  A. Schemes to be fully supported by Union Government which are targeted at reducing poverty, having legal backup and schemes dependent on cess.(category-1)

  B. Schemes to be run with the changed sharing pattern in which state share will be enhanced(however the total resources will not be affected).(category-2)

  C. Schemes delinked from the union support (these programmes may hence forth be run by the states from their enhanced resources or they have been subsumed in the FFC award.(category-3)

- There shall be no-**normal central assistance(NCA**) to state

In the above changing context, the state budget 2015-16 will definitely go for a change in terms of restructuring and re prioritizing the budget provisions for development programmes in the state. The increase in tax devolution to states followed a move to restructure the central sponsored schemes. As a fall – out of the move, central outlay for many Union ministries have come down. This would result in reduction in allocation to many development programmes in the state. However, deeper analysis would suggest that whether there would be no impact on carrying out state development programmes as the state will get higher untied funds.

Table 7: Odisha's share from 14^{th} FC and relative loss / gain for the year 2015-16

Demand Heads	**Share of Odisha during 2015-20**	**Share for Odisha 2015-16**	**Provision by Odisha Government in 2015-16**	**Gain(+)/Loss(-) by Odisha**
Tax devolution	183274.8	26890.27	19,580.00	7310.00
(a)Post Devolution Revenue deficit grants-in aid	Nil	Nil	---	---
(b)Union share for Disaster grant-in aid	3717	673	675.98	-2.00
C. Grants in aid for panchayats and municipalities	10622	955.52(RLB)+170.10(ULB) =1125.62crore	1222.13(RLB)+864.21(ULB) =2086crore*	**-961.72**
As per the department of Justice(Government of India)grant-in-aid	405.67	81.13	---------------	+ 81.13

Source: compiled from 14th FC report and Budget Documents, GoO

The state budget expects to get Rs.19, 580 crore in 2015-16 as state share in union tax. But as per the estimate of the FFC, the state will get Rs.26, 890.27 crore. This is in excess of Rs.7310 crore. Similarly, the state expects Rs.21, 066.57 crore from the centre as Grant-in aid for 2015-16. As per the estimate of the 14th finance commission, Odisha will get Rs.673 crore as the share of Union for state disaster relief fund, and Rs.955 crore to wards Panchayat and municipalities. Which if put together will be Rs1628 crore. ***But there is a huge gap of Rs.19438 crore creates much dilemma. Of course, all the union flagship programmes are part of the grants–in aid.***

Recategorization of the CSS by GoI: *implication on Odisha*

After 14th FC recommendation, the GoI has re – categorization 66 CSSs in to three categories. Category 1 includes the schemes which are to be fully supported by Union Government, having legal back up and dependent on cess. Category 2 includes those schemes which are to be run with changed sharing pattern (assuming 50:50) in which state share will be increased. Category 3 includes the schemes which are to be delinked from union support. However, the schemes belonging to category 2 and 3 have much bearing on state finance.

Table 8: Implication of category 2 schemes (***33 Schemes to be run with the Changed Sharing Pattern)*** on Odisha budget 2015-16

	pre-14th FC scenario			**post-14th FC scenario at 50:50 share**		
Scheme	2015-16 BE	state share	central share	**50pc of the total**	**additional amount required by state**	new share of state
NHM	1088.32	287	801.32	544.16	257.16	544.16
Sarva Sikshya Abhiyan(SSA),	1860.38	465.095	1395.29	930.19	465.095	930.19

Rashtriya Madhyamika Sikshya Abhiyan(RMSA)75:25	94.34	23.585	70.755	47.17	23.585	47.17
Mid-Day Meal 75:25	797.32	199.33	597.99	398.66	199.33	398.66
Rastriya Uchchatar Shiksha Abhiyan (RUSA)65:35	85	29.75	55.25	42.5	12.75	42.5
NRLM 75:25	365.66	91.415	274.245	182.83	91.415	182.83
National urban livelihood mission(65:35)	33.86	11.851	22.009	16.93	5.079	16.93
Swachh Bharat Mission(urban and rural)60:40	895.7	358.28	537.42	447.85	89.57	447.85
Water Supply and sanitation organisation(50:50)	727.11	363.555	181.778	363.555	0	363.555
National Scheme for Modernisation for Courts	15.16	3.79	272.666	7.58	3.79	7.58
RKVY 100%	554.54	0	554.54	277.27	277.27	277.27
2966-National Livestock Health and Diseases Control Programme	21.99	7.391597	14.5984	10.995	3.603403	10.995
1388-National Plan for Dairy Development	15.21	3.8025	5.5437	7.605	3.8025	7.605
Mission for Integrated Development of Horticulture(85:15)National Horticulture mission	128.3	19.245	109.055	64.15	44.905	64.15
National Livestock Management Programme	12.66	3.165	9.495	6.33	3.165	6.33
National Aids&STD control programme(100%)	46.39	0	46.39	23.195	23.195	23.195
National Food Security Mission(100%)	87.41	0	46.39	43.705	43.705	43.705
Rural Housing for all(IAY) 75:25	1286.16	321.54	964.62	643.08	321.54	643.08
2431-Integrated Watershed Management Programme(IWMP) 90:10	251.67	25.16707	226.504	125.83535	100.6683	125.8354
2960-National Mission on Oil Seeds and Oil Palm(NMOOP) 75:25	22.98	5.745	17.235	11.49	5.745	11.49
2926-National Mission on Agriculture Extension and Technology 75:25	87.62	21.905	65.715	43.81	21.905	43.81
2924-National Afforestation Programme(National Mision for a Green India) 75:25	19.8	4.95	14.85	9.9	4.95	9.9
National Plan for Conservation of Aquatic Eco-system	0	0	0	0	0	0
Conservation of Natural Resources & Ecosystem	2.2	0.55	1.65	1.1	0.55	1.1
Rajiv Gandhi Khel Abhiyan(RGKA)(erstwhile	12.06	1.206	10.854	6.03	4.824	6.03

Panchayat Yuva Krida aur Khel Abhiyan)90:10						
2313-Integrated Devp. of Wild Life Habitats	10.29	5.145	5.145	5.145	0	5.145
3039-NATIONAL MISSION ON AYUSH INCLUDING MISSION ON MEDICINAL PLANTS 90:10	14.51	1.451	13.059	7.255	5.804	7.255
Rajiv Awas Yojana 80:20	133.57	26.714	106.856	66.785	40.071	66.785
National River Conservation Programme (NRCP	0	0	0	0	0	0
2935-Skill Development Mission	10.82	2.705	8.115	5.41	2.705	5.41
National Land Record Management Programme (NLRMP)	35	15.75	18.9	17.5	1.75	17.5
National Mission for Sustainable Agriculture(NMSA)	45.41	11.3525	34.0575	22.705	11.3525	22.705
0664-ICDS-Training Programme (90:10)	11.2	1.12	10.08	5.6	4.48	5.6
0729-Integrated Child Development Service Schemes-District Cell (90:10)	9.12	0.912	8.208	4.56	3.648	4.56
0731-Integrated Child Development Service Schemes (90:10)	1714.26	171.426	1542.83	857.13	685.704	857.13
1423-Supplementary Nutrition Programme (50:50)	843.68	421.84	421.84	421.84	0	421.84
1916-Construction of Buildings for Anganwadi Centers (100% by state)	200	200	0	0	0	200
1902-Repair/Addition/Alteration of Anganwadi Centres (100% by state)	4.01	4.01	0	0	0	4.01
2596-13th F.C Award for construction of Anganwadi Centres	100	0	100	0	100	100
Total	11643.7107	3110.744	8565.25	5669.8504	2863.117	5973.86

Source: compiled by OBAC from Union and State Budget documents

Observation:

Assuming that the sharing between the centre and state will be reduced to 50:50and the budget allocated in 2015-16 budget will be maintained by the Odisha state government, following findings may be observed.

- Total allocation for the 33 schemes in 2015-16 budget has been Rs.11643.71 crore

- The existing state share of the state government is Rs.3110 .74crore
- The new share of the state government will be Rs.5973.86 crore
- That means the state needs Rs2863.11 crore from its own resources for the budget 2015-16

Table 9: Implication of category 3 schemes (Schemes delinked from union support) on Odisha budget 2015-16
Rs. In Crore

Sl.No	**Scheme**	2015-16(BE)
1	'Model Schools'	188.99
2	"Backward Region Grant Fund(BRGF)	436.51
3	"Rajiv Gandhi Panchayat Sashktakaran Yojana(RGPSY)	100
4	National Mission on food processing(budgeted combined with Biju Atma Nijukti Yojana (BANY)and other programmes under MSME	113.61
5	National e-Governance Programme (NeGP) and other related programmes	175.04
6	National Scheme for Modernization of Police and other forces	120.76
7	development of tourist infrastructure&accomodation	105.15
8	Scheme for Central Assistance to the States for developing export infrastructure	16.86
	Total	1256.92

Source: compiled from Union and State Budget documents.

Table 10: Implication of Decision of Central Government of not giving Normal/additional/special central Assistance to states (Rs. In Crore)

Sl.No	**Scheme**	2015-16(BE)
1	Construction of baily bridges in the remote areas of IAP district	250.00
2	Utilisation of Additional Central Assistance(ACA) for LWE affected districts	540.00
	Total	790.00

Observation: An amount of Rs.1256.92 crore has been provided to 8 schemes which has been delinked from the union support. Since, this categorization was decided in the union budget 2015-16, which was presented after presentation of the Odisha budget 2015-16, this amount has to be managed from the state resources, if the government wants to maintain these programmes. In other words this amount has become a liability to the state budget. The biggest casualty is BRGF and scheme for modernization of police &other forces. Similarly the model schools have to be financed by the state government from its own resources. We may describe that Rs.1256.92 crore is a loss to the state government because of the delink of the 8 schemes from the union support. But Odisha government has expected Rs.790 crore from the centre in the form of special assistance. Since, no normal central assistance (NCA), additional central assistance and special assistance to states will be available as per union budget 2015-16.Therefore, Rs.790 crore has also to be managed by the state.

Table 11: Summary Implication of the recommendation of the 14th FC, re-categorisation of the CSSs and stoppage of NCA, on state budget 2015-16

Particular	***Gain of financial Resources(+)***	***Loss of financial Resources(-)***
Share in Tax devolution	7310.00	
Union share for Disaster grant-in aid		2.00
Grants in aid for Panchayats and municipalities		**961.72**
As per the department of Justice(Government of India)grant-in-aid	81.13	
Re-categorisation of the central schemes (33 schemes with changed sharing and delinking 8 CSSs from union support)		4120.72(2863.11+1256.92)
Due to stoppage of NCA/ACA		*790*
Total gain/loss	*7391*	*5874.44*
Net gain of the state government will be Rs.1516.56 crore		

Source: compiled by OBAC

Observation: the overall implication of 14th FC recommendation and subsequent restructuring of CSSs by Union Government is explained in the above table. Out of the increased tax devolution, Odisha state budget will get Rs. 7391 Crore more on its estimate from share in central taxes for the year 2015-16. At the same time, due to restructuring of CSSs, Odisha will loss Rs. 5874.44 Crore in various schemes. However, the increased tax devolution has given Odisha state budget 2015-16 a surplus amount of Rs. 1516.56 Crore, which may be invested in social sector budgeting in Odisha.

Section – 3

Relooking at Social Sector Budget in Odisha- A call for action

Human development approach has been considered as one of the better approaches to development of India as it capture the processes that enable people to improve their skills, capabilities and choices to live a long, healthy and fulfilled life. Human Development Index (HDI), conceptualized by the United Nations Development Programme (UNDP), has been used as an indicator of the development by all the countries in the world. HDI is a summary measure of human development, brings together the twin objectives of economic progress and social development. Broadly it includes income, health and education.

In recent times, Odisha has significantly increased its HDI from 0.267 in 1981 to 0.442 in 2011. But still is far below the all India average and the HDI value of Kerala.

Human Development Index Of Odisha, India and Kerala

Year	Odisha	India	Kerala
1981	0.267	0.302	0.5
1991	0.345	0.381	0.591
2001	0.404	0.472	0.638
2011	0.442	0.504	0.625

Source: Annual Plan2014-15, vol1, Government of Odisha

To achieve a better HDI, the state has to invest in social sector. Social sector expenditure includes expenditure on education, medical and public health, family welfare, food security, nutrition, safe drinking water supply, sanitation, sports, art and culture, housing, urban development, relief and natural calamity and welfare of disadvantaged and marginalized groups such as scheduled castes, scheduled tribes and other backward classes(OBCs).

Table 3.2: Selective Indicators of social sector in Odisha and India

Indicator	Reference/year	India	Odisha
% of people without the access of sanitation(rural+urban)	NSS 65th round)	49.2	78.7
	NSS 69th round)	43.4	71.8
Percentage of households having 'improved source' of drinking water*	NSS 65th round)	91.4	84.6
	NSS 69th round)	87.8	84.2
Pf%(malaria positive cases)	Malaria -Epidemiological Situation Report 2014	66	86.6
HIV prevalence among population aged 15-24 years(directorate of AIDS control)	2007	0.15	0.23
	2008	0.13	0.25
	2009	0.12	0.26

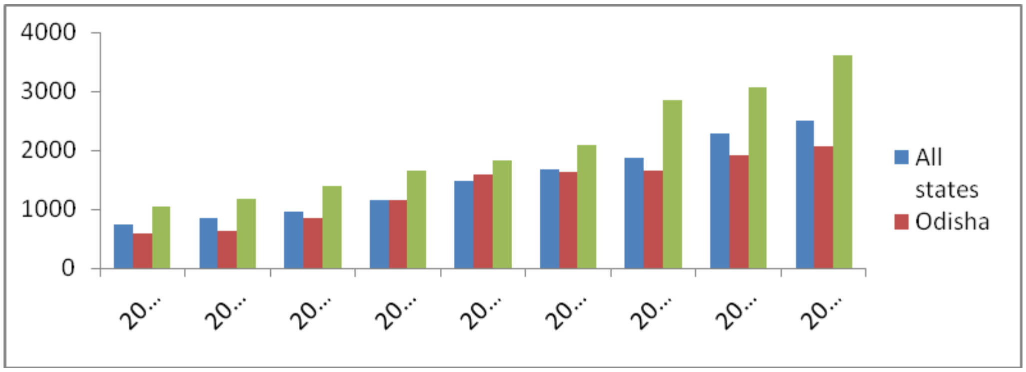
	2010	0.11	0.27
	2011	0.11	0.28
Estimated Adult HIV prevalence (15-49 years of age)-%	2008	0.31	0.34
	2009	0.3	0.36
	2010	0.28	0.38
	2011	0.27	0.4
Maternal Mortality Ratio (MMR) (MDG India Country report 2015)	2004-06	254	303
	2007-09	212	258
	2010-12	178	235
	2011-13	167	222
	% of Change during 2004-13	-34.3	-26.7
IMR	1990	80	122
	1994	74	103
	2003	60	83
	2007	55	71
	2009	50	65
	2010	47	61
	2011	44	57
	2012	42	53
	2013	40	51
Youth literacy(15-24)%	2011 census	86.14	86.03

Source: Millennium Development Goal, India country report 2015

Investment on Health & Education-The need of the Hour

Education and health are two important building blocks of the human capital. Odisha government's budget allocation to education can be seen from the figure. This figure shows that the Per capita expenditure on education in Odisha is the least in all years except during 2009-10. This year the per capita expenditure on education has surpassed the per capita expenditure of all states.

Figure3.1: **Per capita expenditure on education in Odisha, Kerala and all states**



Source: State Finances- A Study of Budgets of 2013-14, RBI

The per capita expenditure on education in Odisha was Rs.595 in 2005-06 which increased to Rs.2067 in 2013-14(BE).
The per capita expenditure on education in all states was Rs.736 in 2005-06 which increased to Rs.2504 in 2013-14(BE).
The per capita expenditure on education in kerala was Rs.1046 in 2005-06 which increased to Rs.3611 in 2013-14(BE).

However, from the table, we can find the performance of health is far from satisfactory. Before proceeding further, we can see the status of health sector in Odisha.

Status of Rural Health Infrastructure:

Particulars	**Required**	**In position**	**shortfall**
Sub-centre	8136	6688	1448
Primary Health Centre	1308	1226	82
Community Health Centre	327	377	

(Source: RHS Bulletin, March 2012, M/O Health & F.W., GOI)

The shortfall in Sub-centre as well as primary health centre has been the note worthy feature of the status of the rural health infrastructure in Odisha.

Status of Human Resources:

Designation	**Sanctioned**	**In-Place**	**Vacant**	**Percentage**
Doctor	4805	4371	434	9
Pharmacist	1945	1846	99	5
Staff Nurse	2124	1868	256	12
lab Technical (Path)	843	644	199	24
Multi-Purpose Health Worker - Male	4670	3560	1110	24

Multi-Purpose Health Worker - Female	7907	7319	588	7
Radiographer	194	131	63	32
Multi-Purpose Health supervisor - Male	1597	1328	269	17
Multi-Purpose Health Supervisor - Female	1228	1017	211	17
Ophthalmic Assistant	197	183	14	7
Total	**25510**	**22267**	**3243**	**13**

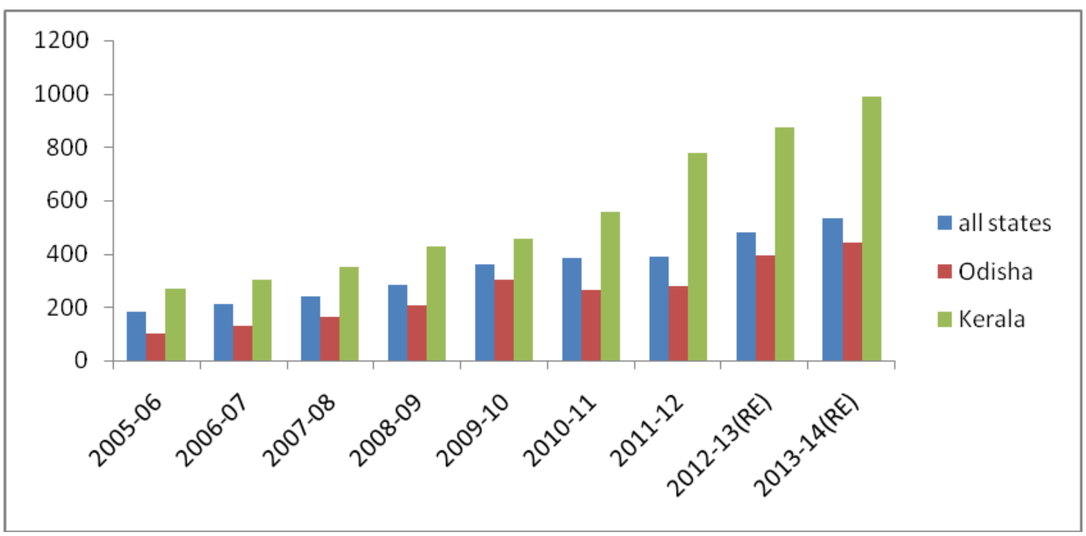
(Source: Outcome Budget health and family welfare department 2014-15)

- There is shortage of medical and paramedical staff against sanctioned post of 25510. 3246 (13%) posts are still lying vacant in the public health Institution.

- There exist vacant posts for 434 doctors against the sanctioned post. But if we see the doctor population ration it is 1: 9699 in the state which is far behind the national average 1:1800.

- Lab technical (Pathology) plan an important role in prevention and diagnosis of diseases. In many places the lab technical position is laying vacant. Presently there is requirement of 199 lab technical in the state.

Per capita expenditure on health in Odisha, all states and kerala during 2005-06 to 2013-14



Source: State Finances- A Study of Budgets of 2013-14, RBI

The per capita expenditure on health in Odisha was Rs.101 in 2005-06 which increased to Rs.442 in 2013-14(BE)

The per capita expenditure on education in all states was Rs.182 in 2005-06 which increased to Rs.532 in 2013-14(BE)

The per capita expenditure on education in kerala was Rs.268 in 2005-06 which increased to Rs.988 in 2013-14(BE)

Conclusion

Part-1 of the document has covered the recommendation of FFC. An analysis of the implication of the FFC on the state budget especially for the 2015-16 has been done in part-2. The analysis shows that though Odisha will loss a substantial amount under different CSSs as part of the effort of restructuring by Union Budget and stoppage of NCA, the increased tax devolution by 14th FC has given Odisha a net gain of Rs. ***1516.56*** crore(approximately), which can be used by the state with autonomy. These contextual changes pose challenges as well as opportunity to the state government. The challenge is because the government has to redesign the budget process. May be for this year (2015-16), Odisha budget has to be revised twice against the conventional norm of one revised budget. But the opportunity for the state government will be to have a relook at the social sector. To start with, health sector may be targeted as the health indicators like IMR, MMR of the state vis-a vis India are far from satisfactory. Therefore, a special focus may be given on the health sector to address the human resources deficits especially doctors and para medical staff so that HDI of the state will be a much improved one in near future.