



Report: Consultation on “Implication of Fourteenth Finance Commission on Social Sector Budgeting in Odisha”

Background and some of the findings of the study on “**Implication of Fourteenth Finance Commission on Social Sector Budgeting in Odisha**” by OBAC:

The Fourteenth Finance Commission's Recommendation has radically enhanced the share of the States in the central divisible pool from 32 percent in 13th Finance Commission's recommendation to 42 per cent which is the biggest ever increase in vertical tax devolution. However, the share of nine States including Odisha has decreased. Accepting recommendations of the FFC, the PMO wrote to all State governments saying the Centre has decided to devolve maximum money to States and allow them the required freedom to plan the course of states' development. 18 States, including Odisha have not got the benefit of the revenue deficit grants. The FFC desist from awarding sector/state specific grants-having much bearing on the social sectors.

This year the Government of Odisha presented State Budget 2015-16 before the presentation of FFC's recommendation in the parliament. Union budget 2015-16 has re-categorized 66 central sponsored schemes (CSSs) based on the recommendation. 33 schemes out of 66 CSSs are to be run under the changed sharing pattern. National Health Mission, Sarva Siksha Abhiyan, Rashtriya Madhyamik Siksha Abhiyan, National Livelihood Mission, ICDS etc. would be changed to 50:50

Total allocation for these 33 schemes in 2015-16 budget is Rs. 11643.71 Cr. The existing state share of the state government is Rs.3110.74Cr. The new share of the state government will be Rs.5973.86 Cr. which clearly indicates an additional financial burden of Rs. 2863.17 Cr. on State. Eight CSSs will be delinked from central support including Backward Region Grant Fund(BRGF), National Mission on food processing(budgeted combined with Biju Atma Nijukti Yojana (BANY)and other programmes under MSME, National Scheme for Modernization of Police and other forces etc. Rs.1256.92 crore from the centre will not be available due to delink of the 8 schemes from the union support. Rs.790 crore from the centre in the form of special assistance (IAP districts and Left Wing Extremist Affected districts) will not be available to Odisha

“Implication of Fourteenth Finance Commission on Social Sector Budget in Odisha”, the study conducted by Odisha Budget and Accountability Centre (OBAC) of CYSD shows, although the State will suffer a financial loss of Rs. 5874.44 Cr. as a consequence but there will also be a gain of Rs. 7391 Cr. as a result of vertical tax devolution. This study projects a Net gain of Rs.1516.56 crore by the state government.

Contextual changes (mentioned before) 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), the budget has to be revised. At the same time this is an



opportunity for the State government to use the autonomy to design programmes especially in the social sectors as per the needs and aspirations of the State.

Programme Details:

- P. K. Sahoo, Chairman, CYSD reflected on the issues related to FFC recommendation and State Finances and discussed the impact on social sector intervention of the State.
- Basanta Kumar Nayak and Bhabani Mohapatra shared a presentation on Implication of "FFC on Social Sector Budgeting in Odisha" (attached herewith)

Excerpts from the panelists:

- Prof. Vinod Vyasulu, Founder & Former Director, Centre for Budget & Policy Studies, Bengaluru
 1. "Implication of 14th Finance Commission on State Finances- focusing on ability of the State to adequately Finance Social Sector Development Programmes."
 2. "States are going to get more flexibility to finance their social sector development programmes. The existing federal structure and the imposition of GST (Goods and Service Tax) need to be re-looked."
 3. "States should be more focused on generating revenues from own sources for adequately finance the social sector."
- S. C. Hota IAS (Retd)
 1. "Central Govt. has not scrapped the Twelve Five Year Plan while it has already abolished the Planning Commission. It creates a dilemma on the implementation of the development programmes."
 2. "Infrastructure development must be corroborate along with the Social Sector development programmes."
 3. "State must focus on long term development schemes rather than the populist approach."
- Prof. Sudhakar Panda, Chairman, 3rd State Finance Commission, GoO

"Although the State now will enjoy more financial flexibility after FFC recommendation but the real development lies in strengthening the rural and urban local bodies in terms fund, functions and functionaries."

- Panchanan Kanungo, Former Finance Minister, Odisha
 1. " Odisha has been one of the States to receive more central funds in past but the utilization remained slow. Now it's the call of the hour to focus on specific component wise intervention in social sector like health"
 2. "50 percent of the revenue generated from disinvestment to the public sector companies in Odisha to be spent towards social sector development of the State."
- Prof. Binayak Rath, Former VC, Utkal University



1. "Considering the contextual changes after the FFC recommendation, the development criteria of agriculture and allied sectors to be revisited and strategies for the same to be redesigned"
- Prof. Bhagabat Patra, Berhampur University
1. "The formula for the horizontal devolution of central taxes to the States not to be uniform and to be varied for different States."

The programme was concluded by Jagadananda, Founder-Mentor, CYSD. In one of his key concluding remarks he said, "Odisha is having list of backward districts. The ailing factors for underdevelopment to be identified and the State should channelize its resources towards addressing these factors."