Policy Brief

Public Finance for Social Sector Programmes in Odisha

Social sector expenditure enables the people to utilize the opportunities provided by economic growth and promotes inclusiveness in the process. Public expenditure on social sector is very important because it caters to provision of public goods that the market does not provide.

The expenditure on social sector such as education, health, nutrition, water and sanitation, etc. helps in building human capital necessary for inclusive economic growth. It lays foundation for a healthy, educated and skilled population necessary for enhanced economic growth. In its absence, the demographic dividend presented by sizeable young population would come to nothing. This is particularly so in case of Odisha which has a very young population of almost 40 percent children. Thus, children's well-being is central to any assessment of social development and progress.

This policy brief summarizes key findings and recommendations of a study of Public Finance for Social Sector in Odisha conducted by the Centre for Budget and Policy Studies, Bangalore in partnership with UNICEF Odisha Office. The study analysed budgetary data and held extensive consultations with officials from the Government of Odisha to understand the social sector expenditure in the state over past seven years. The study has also considered CAG report as well as other similar studies undertaken in the state.

Odisha's social indicators

The state of Odisha faces many more challenges as compared to other states. It has 32.6 percent of population below the Poverty Line. It is the sixth most poverty-stricken state in the country. The state has 23 percent of ST population and 17 percent SC population which is higher than the national average at 8.6 percent and 16.8 percent respectively. It needs to do a lot more in provision of safe drinking water and sanitation as compared to national average. In terms of major nutrition indicators such as proportion of stunted, under-weight children, etc. its performance is again below the national average. Its population is largely rural though increasing urbanisation is gradually widening development gaps between urban and rural areas.

Table 1: Profile of Odisha

Indicators	**Odisha**	**India**
Population (crore)2015-16	4.45	132.42
SC Population (%)	17.1	16.8
ST Population (%)	22.8	8.6
Poverty Head count ratio (T)	32.6	21.9
Sex ratio	979	943
Infant Mortality Rate	40	41

Under 5 Mortality Rate	49	50
Neonatal Mortality Rate (SRS 2016)	32	24
Under 5 children who are stunted	34.1	38.4
Under 5 children who are under weight	34.4	35.7
Children 6-59 months anaemic (<11% Hb)	44.6	58.5
Non pregnant women aged 15-49 who are anaemic (<12% Hb)	51.2	53.1
Institutional deliveries	85.4	78.9
Percent HHs with access to Drinking water facility	88.8	89.9
Percent HHs with access to Sanitation	29.4	48.4
GER (I-V Class) (2015-16)	103.7	99.2
GER(VI-VIII Class) (2015-16)	94.3	92.8
GER(IX-X Class) (2015-16)	79.6	80.0
Literacy rate	73.4	74.0
Aspirational Districts	8	115

Source: Economic Survey 2017-18, NFHS 4, Niti Aayog website

State Finances

The total expenditure of Odisha is growing at around 17.5 percent annually while the capital expenditure is growing at a higher rate of 28.3 percent (Table 2)

Table 2: Expenditures of Government of Odisha (Rs. in crore)

Expenditure	2012-13 AC	2013-14 AC	2014-15 AC	2015-16 AC	2016-17 AC	2017-18 RE	2018-19 BE	CAGR (%)
Revenue Expenditure	38238	45618	51136	58806	65041	80823	90220	15.19
Capital Expenditure	5622	7756	11075	17090	18471	21557	24567	28.31
Loans and Advances	216	463	358	337	429	1840	1084	32.03
Total Expenditure	44076	53837	62569	76233	83941	104220	115871	17.50
Revenue Surplus	5699	3328	5862	10135	9258	8873	9980	
Revenue Surplus (% of GSDP)	2.18	1.12	1.87	3.06	2.45	2.13	2.25	
Fiscal deficit	3	-4634	-5479	-7064	-9378	-14394	-15521	
Fiscal deficit (% of GSDP)	0.00	-1.56	-1.74	-2.13	-2.49	-3.46	-3.50	

Source: Compiled from Budget documents, Government of Odisha [AC-Actual; RE-revised estimate; BE-budget estimates]

The state has maintained a revenue surplus for the last 5 years. Also the Government has gradually moved from fiscal surplus to fiscal deficit of 3.5 percent of GSDP, which is a welcome trend considering the need for developmental expenditure. The revenue surplus and additional borrowings are being ploughed into increased capital expenditure since 2015-16. However, it appears that the capital expenditure is going mainly to economic sector as reflected in relatively larger outlays on economic services (see Table 3 below).

Table 3: Capital Expenditure – 2012-2018

Capital Expenditure	2012-13 AC	2013-14 AC	2014-15 AC	2015-16 AC	2016-17 AC	2017-18 RE	2018-19 BE	CAGR (%)
General Services	351	470	390	425	374	461	991	11.45
Social Services	1205	1725	2288	2929	**3001**	**4438**	**4552**	24.56

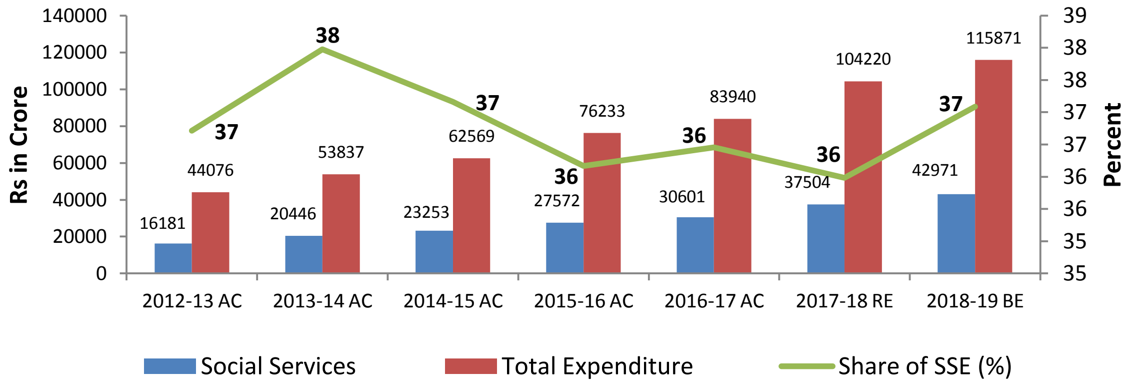
Economic Services	4066	5562	8396	13737	15096	16657	19024	30.29
Total Capital Expenditure	**5622**	**7756**	**11075**	**17090**	**18471**	**21557**	**24567**	28.31

Analysis of Public Expenditure on Social Sector

Many of the important centrally sponsored schemes (CSS) have focused on the social sectors such as education (Sarva Siksha Abhiyan), health (National Health Mission), etc. However, to compensate increase in the devolution of taxes to the states from 32 percent to 42 percent recommended by the 14th FC, the GoI has rationalized CSS which has resulted in reduced transfers under CSS. It is expected that the increased tax share, which increases the fiscal space for the state, is used to make up for the reduced transfers under the CSS, thus, maintaining the social sector expenditure at existing level.

The social services expenditure grew at about 17 percent per annum for the period between 2012-13 and 2018-19 BE which is same as the growth rate of total expenditure (Figure 1). While the capital expenditure on social sector grew at 24.56 percent, the revenue expenditure on social sector grew only at 16.34 percent every year. The growth of social sector expenditure in real terms was about 15 percent. This is lower than the growth of expenditure on economic services (in real terms) which grew at 20.7 percent. The share of social sector expenditure in total expenditure is hovering around 37 percent in the past 6 years. During the 14FC period, i.e. 2015-16 and 2016-17 the share has reduced to 36 percent from the earlier 37 percent.

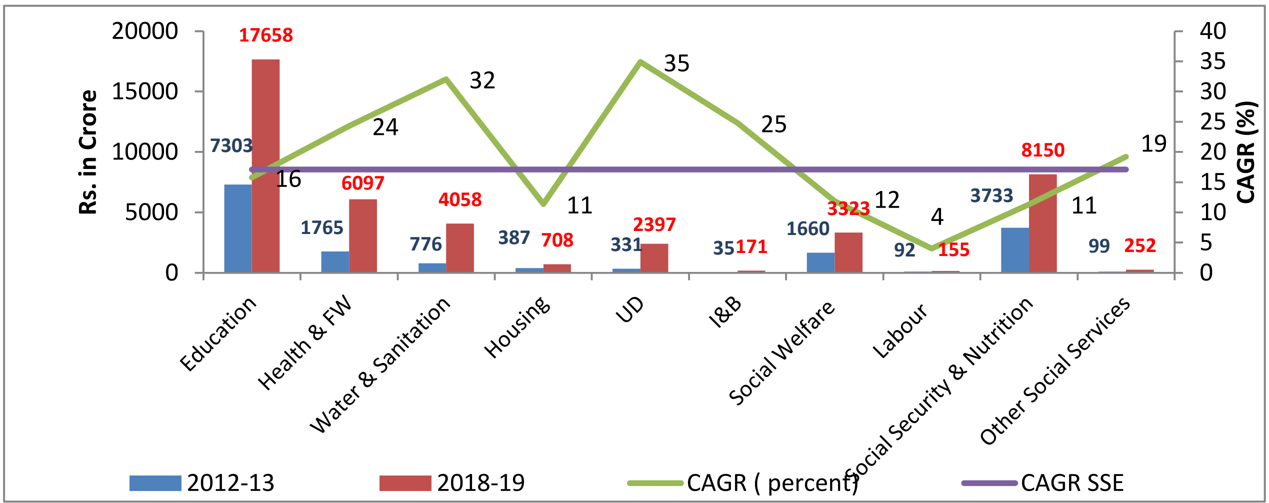
Figure 1: Share of Social Sector Expenditure



Source: Compiled by CBPS from Budget documents, Government of Odisha [AC-Actual; RE-revised estimate; BE-budget estimates]

A closer look at the social services expenditure indicates that the capital expenditure on social services has increased marginally during the years 2015-16 and 2017-18. The social sector expenditures have shown increase post 2014-15 (14CFC period) by about Rs. 4350 crore during 2015-16.The real increases were across the departments of education, health, water supply sanitation and nutrition. While the growth of SSE was 17 percent over the period (2013 to 2018), Health, Water and Sanitation, UD and I&B recorded growth rates of 24 percent, 32 percent, 35 percent and 25 percent respectively (Figure2).

Figure 2: Growth of different components of social sector



Source: Compiled by CBPS from Budget documents, Government of Odisha [AC-Actual; RE-revised estimate; BE-budget estimates]

A comparison of expenditure for the years 2015-16 and 2016-17 by Odisha with General Category States (GCS average) shows that the state did accord high priority to social sector expenditure (Table 4 below). The SSE to total or aggregate expenditure ratio was marginally less in 2015-16 while it had improved in 2016-17. Education expenditure to aggregate expenditure ratio (EE/AE)was lower in both the years compared to that of GCS. The health expenditure to aggregate expenditure ratio (HE/AE) was higher for the state compared to GCS states in both the years indicating a higher proportion of expenditure reflecting the priority.

Table 4: Expenditure Ratios of Odisha

Expenditure Ratio	2015-16		2016-17	
	Odisha	GCS*	Odisha	GCS
Aggregate Expenditure /GSDP	22.94	16.05	22.1	16.7
Developmental expenditure/Aggregate Expenditure	78.36	70.63	78.9	70.9
Capital Expenditure/Aggregate Expenditure	22.42	14.89	22.1	19.7
Social Sector Expenditure/Aggregate Expenditure	36.17	36.29	36.5	32.2
Education Expenditure/Aggregate Expenditure	15.16	15.63	14.5	15.2
Health Expenditure/Aggregate Expenditure	4.83	4.45	5.7	4.8

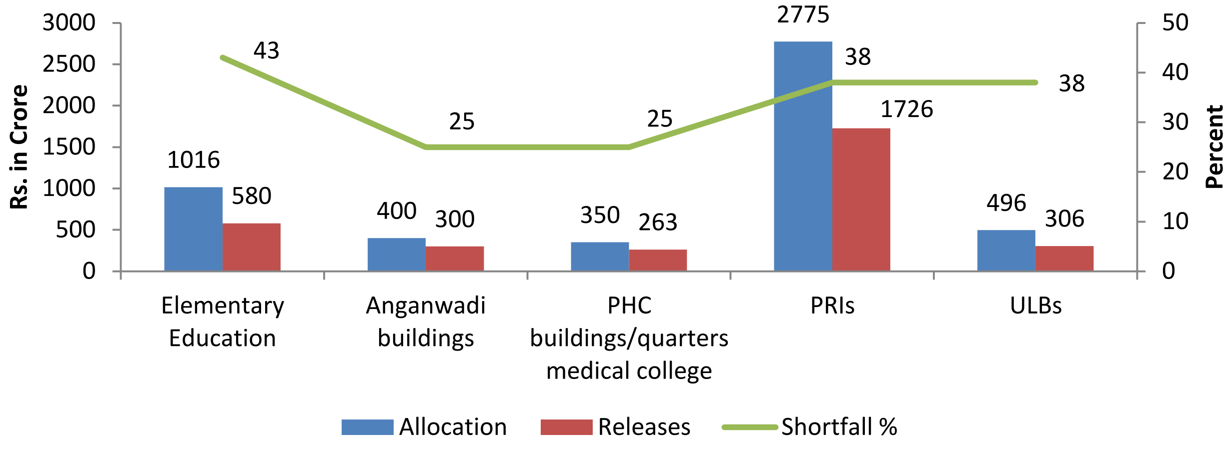
**General category states (average). Developmental Expenditure includes expenditure incurred under revenue, capital and loan and advances head for social and economic sectors.*

Source: CAG Reports for the years 2015-16 and 2016-17

Lower receipt of 13th Finance Commission funds

An analysis of the funds received by the state of Odisha during 13th CFC period revealed that the state did not receive the grants allocated by Government of India for creation of health and education infrastructure in the state. The state did not receive a total of Rs. 3563.49 crore owing to non-fulfilment of conditionalities and not furnishing the utilisation certificates which would have otherwise facilitated augmentation of health and education infrastructure. Shortfall in releases included social sectors such as for elementary education, health infrastructure and anganwadi buildings was found between 25 to 43 percent (Figure3).

Figure 3: Under-utilisation of 13th FC grants



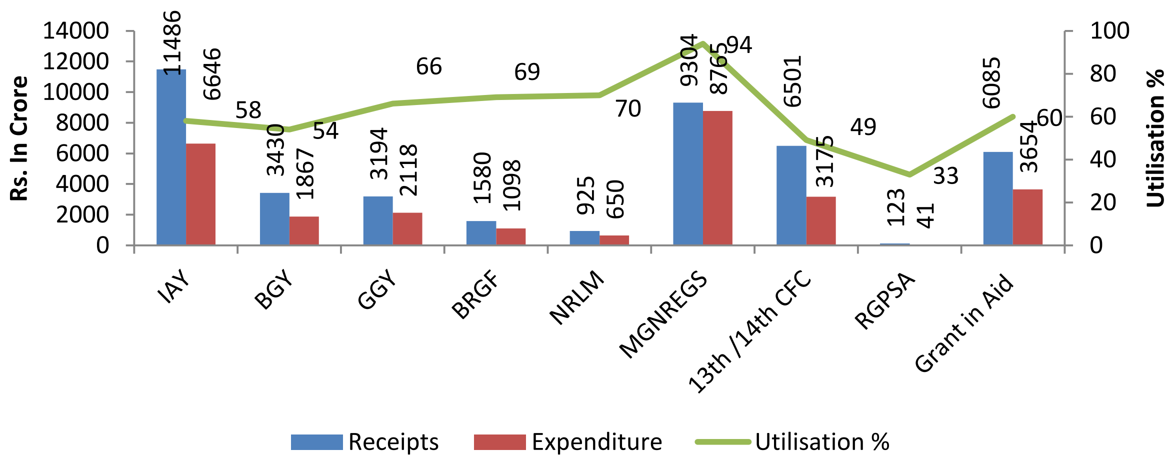
Source: Compiled from state budget documents

The grant to elementary education was not released owing to lower growth rate of expenditure than the stipulated 8 percent over the previous year while the release for construction of anganwadi buildings was not made due to non-submission of utilisation certificates.

Analysis of schemes complementing the social sector expenditure

Schemes related to housing, poverty alleviation, employment generation, livelihoods improvement and rural infrastructure have a very direct and significant impact on the human development. The expenditures on these schemes are critical for improving the standard of living especially of the poor. These schemes are complementary in nature and help in enhancing the access to health and education services.

Figure 4: Utilization of funds among important rural schemes (2011-12 to 2016-17)

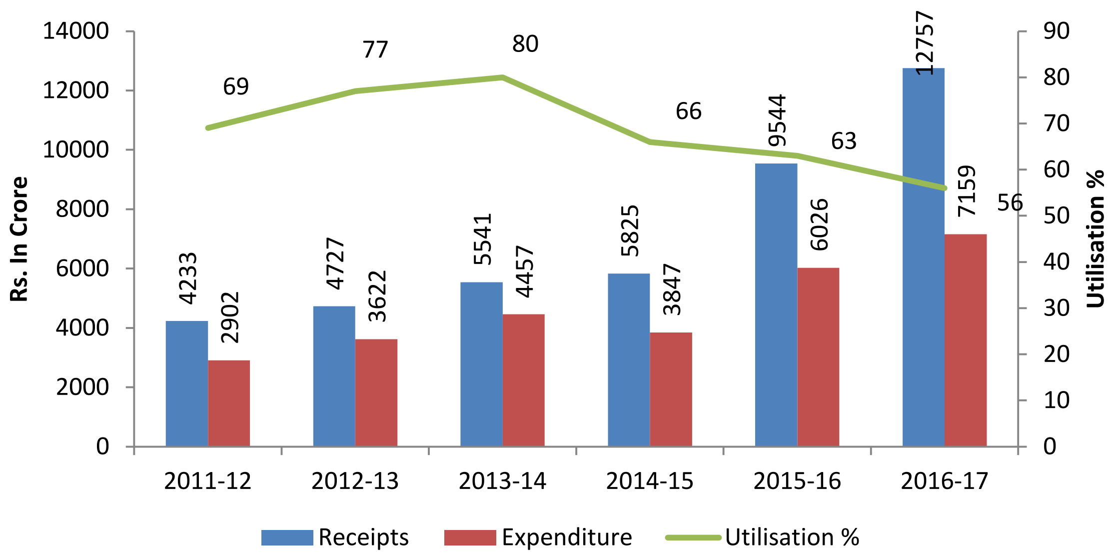


Source: CAG report for the year 2017

Analysis of important schemes for the period 2011-12 to 2016-17 indicates poor utilization of the available funds. Except for the Mahatma Gandhi National Rural Employment Scheme (MGNREGS) which has a higher utilization of 94 percent, the other schemes have not crossed 70 percent utilization (Figure 4).

Utilization over last 3 years has reduced and has decreased to 56 percent in 2016-17 (Figure 5). Overall utilization rate of 66 percent over the period indicated that an amount of Rs 14600 crore was unutilized for the 6-year period.

Figure 5: Utilization of rural scheme funds by years



Source: CAG report for the year 2017

5. CAG's Audit Observations on important schemes

The analysis of Rashtriya Madhyamik Shiksha Abhiyaan (RMSA) for the period 2009-10 to 2014-15 highlighted challenges in implementation of the scheme. As on 2014-15 about 3167 habitations in the state did not have secondary schools within the prescribed 5 km. distance. The state could establish only 773 of the 1535 new schools proposed in perspective plan accounting for 50 percent of the target. Against the approved teaching staff strength of 6184, only 1394 teachers were recruited which was 23 percent of the approved strength. This also affected the prescribed teacher student ratio of 1:30 as well. The Odisha State Madhyamik Siksha Mission (OSMSM) received Rs 1321 crore over the period 2009-2015 while it could utilise Rs. 560 crore, which accounted for 42 percent.

The audit of Integrated Child Development Services (ICDS) revealed that against the total budget provision of Rs. 6,990 for the period, Rs. 5751crore was spent accounting for utilization of 82 percent. The lower utilization was due to improper estimate of beneficiaries, non-filling up of posts and non-consideration of unspent balances of previous years. The test checking also revealed that expenditures reported through utilization certificates to GOI were treasury withdrawals and not actual expenditures[1]. Only 40 percent of the anganwadi centre have own buildings in the state. During the period 2011-16, an amount of Rs 1234 crore was sanctioned for construction of 26, 690 anganwadi centres. Only 53 percent or 14000

[1] An amount of Rs 102 crore was unutilized while it was reported as expenditure (in test checked 7 districts)

anganwadi centres were built during the period while the other 47 percent were found to be incomplete even after 1-5 years of sanction.

The estimated labour budget State under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) for the period 2012-17 was 3405 lakh man days while the achievement was 3463 lakh man days recording an excess in achievement by 58 lakh man days. While 76 percent of households were registered under MGNREGA, only 26 to 37 percent demanded work, and of these only 86 to 91 percent of households availed employment. The state had taken up 11.41 lakh works while only 5.46 lakh works were completed.

6. Efficiency of social sector expenditure

The Public expenditure efficiency was assessed by the researchers at NIPFP (Mohanty and Bhanumurthy) for the period 2002-03, 2008-09 and 2015-16. The study focused on the assessing the efficiency of public expenditure under health, education and overall social sector using Data Envelopment Analysis (DEA) methodology[2]. The results for the efficiency of public spending on social sector for the year 2015 indicated that the state of Odisha has input inefficiency of 43 percent (All India average of 29 percent) indicating that the current levels of social sector outputs (MDG index) can be achieved by reducing the inputs by 43 percent. The output inefficiency was estimated at 44 percent (All India average of 31 percent) indicating that outputs can be enhanced by 44 percent with the current levels of inputs. The results of non-oriented approach (potential of reducing inputs and increasing outputs together) indicated the efficiency of state at 37 percent (or inefficiency at 63 percent) which highlighted the need for learning from better performing states both in terms of use of inputs and achieving outputs/outcomes.

7. Conclusions and Policy Implications

Social sector expenditures are critical for human development and enlargement of choices. Though there is increase in the social sector expenditure over the years, its share has not increased.

1. An analysis of state finances reveals that the state has rightly moved from fiscal surplus to fiscal deficit of 3.5 percent of GSDP. This is a welcome trend considering the need for developmental expenditure. The state has also ramped up capital expenditure considerably from Rs 5622 crore in 2012-13 to Rs 24562 crore in 2018-19 (BE), which has been funded from revenue surplus and increased borrowings. On the downside, the state’s own revenue have remained stagnant and as a result its proportion has sharply declined over the time to just 33 percent of total revenue. The offshoot of this is higher dependence upon the central transfers and possible problems servicing the debt down the road.

[2]For more please seehttp://www.nipfp.org.in/media/medialibrary/2018/03/WP_2018_225.pdf

The state needs to improve its own revenue collection effort to translate the higher capital expenditure into greater income and revenue.

2. The state has been posting sizeable revenue surplus year after year. The average revenue surplus over past seven years from 2012-2018 has been Rs 7590.7 crore, which is about 12 percent of average revenue expenditure of the state. The revenue surplus and additional borrowings are being ploughed into increased capital expenditure since 2015-16. However, it appears that the capital expenditure is going mainly to economic sector as reflected in relatively larger outlays on economic services. While increased capital expenditure on economic services would help the state improve productivity across sectors resulting in increased incomes, it could be coming at the cost of the needs marginalized for basic health, education, water and sanitation.

   With the increased component of untied grant-in-aid as per the award of 14CFC and consequent reduced transfers under restructured CSS (which were mainly in social sector like SSA, NHM, etc.), it is the responsibility of every state to protect social sector expenditure. Overall, the state has maintained expenditure on social sector at prevailing level with marginal increase in real terms. Also a comparison of expenditure for the years 2015-16 and 2016-17 by Odisha with that by General Category States shows that the state does accord high priority to social sector expenditure. Within social services, expenditure on the health, education, water & sanitation and urban development have seen the larger increases. However, given poor social infrastructure and social indicators, there is need for enhanced social sector spending.

   The state would do well to increase its revenue spend on social sector – particularly, health, nutrition, water, sanitation and education by curtailing revenue surplus. The problem of low utilization of funds needs to be addressed by streamlining the processes and procedures; and by improving the monitoring framework.

3. One of the critical areas of social sector expenditure is related to children as investment in children, particularly in the age group of 0-6 years, is not only critical the wellbeing of children but highly valuable to the society in the long run.

   It is worthwhile for the state to bring out a statement of expenditure on children as the Union Government does in order to enhance the emphasis on children.

   Also there is a need for deeper analysis of social sector expenditure by means of public expenditure reviews of health, education and children which would help sharpen the focus of public expenditure in these areas.