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Social Sector Budgeting in Odisha

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Odisha is considered to be one of the most backward of the states with low level of human development indices in the country. However, contrary to this fact, the state is emboldened with huge natural and human resource potentials in generating economic activities. And finding reasons for the state being so underdeveloped and poor elude policy reasoning. One dominant argument however is that, there are low levels of public investments in the social sectors in the state and further there is gross overlooking by the Centre in its budgetary allocation and national planning process. The paper hereby analyses and scrutinise this dominant argument from the perspective of social sector budgeting in the lens of Odisha state budget only.

Public budgets are considered as the most crucial policy documents that reveal the social and economic priorities of governments for a particular financial year. It is defined rather as annual expenditure decisions that official objectives and stated commitments of the governments get a concrete shape. From the functional perspective of budgetary expenditures, all kind of services provided by the government through the budgets can be catalogued into three different categories, viz. General Services, Economic Services, and Social Services. Typical definitions of these services suggest that each category fulfil certain economic and policy objectives. The services cover under 'General Services' performs mostly the essential expenditure functions of the government such as interest payment, repayment of debt, law and order (police), running of different organs of the state, etc. These services are non-negotiable expenditures of the government. Other two services are negotiable expenditures in the budgets. Economic services on the other hand usually lead to income generating activities for the people and promote the expansion economic activities in the state. The services covers under this category include agriculture, irrigation, industry and minerals, employment generating activities, transport, communication, etc. Lastly, the interventions by the government to promote social development in the country fall under the last category of Social Services. Instances of social services are education, health and family welfare, water supply and sanitation, welfare of marginalised sections of society, welfare of handicapped and destitute people, and youth affairs and sports. Expenditures in this sector helps in generating better outcomes in the human development indexes and sustainable economic growth, though this effect would be indirect and take more time to be realised.

Constitution of India in its "Directive Principles of State Policy" (Part IV) embodies the concept of a welfare State. Article 38 in particular reads that "the State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life". Most of the provisions constituting this part of the constitution are positive directives, in which the state in its available resources would strive to shape the public policies through its intervention so as to create an enabling socio-economic environment for the citizens to have best shelves. Such mandate is a cursory reference for the government to undertake all kinds of social policy interventions and efforts, and to implement such interventions require allocation and estimation of public provisioning in the annual budget exercises.

Social sector planning and development is essential function of the government. It required for marked improvement of quality of life of the poor and weaker sections of population in particular and the people of the country in general. To achieve the goal there is a need to make adequate investments for: (i) essential necessities of the people such as food, shelter and clothing; (ii) essential prerequisites for human development such as education, employment and health care; and (iii) optimal utilization of the available human resources for economic and social development. Right from the First Plan period, the country put thrust on social sector planning with a view to providing integrated essential services to the poor and vulnerable segment. Further, in an attempt to provide greater focus and ensure achievement of objective through careful monitoring, the Minimum Needs Programme (MNP) was formulated in the Fifth Plan. Since then the government has been making continuous efforts and allocating adequate fund under the MNP to establish a network of facilities and services for social consumption according to national norms throughout the country. Notwithstanding this, in all sectors of social development, be it health, education, housing, water supply and sanitation, the country's performance is far from satisfactory. After six decades of planned development, roughly one-fourth of its population are reportedly living below poverty line (Odisha Human Development Report 2004). There are many among the Indian citizenry, who often go to their bed hungry, remain alive or die of malnutrition, die of many contaminating but easily curable diseases, have little or no access to modern medical amenities, have no means to afford an adequate shelter or stable jobs to ensure a reasonable standard of living. In this scenario, the status of development of social sector in a poor and backward state like, Odisha may not be expected to be of satisfactory. Social expenditure deficits lead to human development deficits.

Odisha has always lagged behind the national average in terms of several human development indices like, Poverty ratio, literacy rate, life expectancy rate, and infant/ child mortality rate, etc. In particular, it can be said that education, health, employment, other essential services such as water and sanitation need government attentions and henceforth greater investment in these sectors can improve distributional outcomes in the economy as well as the productive capabilities of the people.

There is a complex relationship between quantum of public expenditure and the desired human development in a region. To establish such relationship, the UNDP's Human Development Report (1991) introduced four government expenditure ratios, viz., the Public Expenditure Ratio (PER), the Social Allocation Ratio (SAR), the Social Priority Ratio (SPR), and the Human Expenditure Ratio (HER) as indicators of the extent of political commitment of the government to the social sector. The PER is the proportion of state income that goes into public expenditure. The SAR is the percentage of public expenditure earmarked for social services. The SPR is the percentage of social expenditure devoted to human priority concerns, which is taken as elementary education, public health, maternal and child health and nutrition, and rural water supply and sanitation. The HER is the percentage of state income devoted to human priority concerns. Hence, by definition, HER is the product of the other three ratios. The UNDP report (1991) suggested that HER of 5 per cent is essential if a country was to do well on the human development front. In 2000-01, Odisha had a HER of 4.43.

Analysis of State Budget:

There are different ways of examining the trends in budget expenditures. One way is to look at social sector expenditures as a proportion of GDP or Gross State Domestic Product (GSDP) in the case of the states. A second way is to calculate social sector expenditure as percentage of the aggregate budget expenditure. The third option is to look at the real per capita expenditures for the social sector. For the major and minor heads, the analysis is restricted to a proportion of GDP or GSDP (Mahendra Dev and Mooij, 2002: 853).

From the perspective of share of the state's budget earmarked for social services, the analysis of Odisha state budget reveals that, between 1998-99 and 2009-10, there has been some increase in spending on social services as a proportion of the total state budget with noticeable variations between these two points of time (see Table 1). The spending from Odisha state budget on social services had reached the level of 30 percent of the total expenditure from the state budget in 1999-2000. Such hike is observed in the wake of the salary increases for staff in all government services following the adoption of Fifth Pay Commission recommendations by the Centre in the late 1990s.

As is evident from the trends for Odisha state budgets, the spending on social services had been checked drastically during 2000-01 to 2003-04, which confirms the common belief that fiscal crisis of the states had adversely impacted spending on social services mainly because it was relatively easier for the governments to check the spending in these services, as opposed to several other sectors where the governments had committed outlays. The spending on social services had declined sharply during 2000-01 to 2003-04 and reached 16.8 percent of the state budget in 2003-04.

However, the state budget spending on social services have been revived and increased consistently over the years from 2004-05, with noticeable increases in the last two years, i.e. in 2008-09 and 2009-10, above 35 percent of the state budget.

Expenditure on social services as a proportion of NSDP had reached at its peak level of 11.2 percent in 1999-2000 and it declined in the subsequent years. During 2003-04 to 2007-08, this figure hovered around 7 percent of NSDP. In the last two years, the trend has been reversed and it has increased to around 9 percent of NSDP. The fiscal health of most states has improved considerably since 2005-06, due to a number of factors, like, the higher magnitude of resources transferred from Centre to states under the Twelfth Finance Commission recommendations, and the acceleration in economic growth and the consequent improvement in tax revenue collections. These factors seem to have enabled the state government step up its social sector spending from the state budgets over the last five years.

There are a number of concerns pertaining to Odisha's budgetary expenditure on social services, which have persisted even in the most recent years. Important social services like, Health and Family Welfare, Water Supply and Sanitation, Welfare of SCs, STs and OBCs, and Social Security and Welfare, are still not getting adequate priority in the state budgets of Odisha. Most of the incremental budgetary allocation for social services has been channelised to Education, with the other sectors remaining rather neglected (see Table 2). More importantly, the poor human development indicators for Odisha in general, and the disadvantaged status of its children in particular, call for much higher magnitudes of public spending on social services in the state. These problems become prominent when we look at the levels of per capita (per annum) expenditure on social services from Odisha's state budgets in comparison to those in other states (see Table 3).

A comparison of Odisha's per capita (per annum) expenditure from the state budget on social services (total) and on three important services, viz. Education, Health and Family Welfare, and Water Supply and Sanitation, with those from the budgets of other states, during time periods (2008-09 and 2009-10), highlights that it's per capita (per annum) expenditure from the state budget on social services (total) has increased over the years (from Rs. 931 during 1998-99 to 2000-01 to Rs. 2892 during 2008-09 to 2009-10). This has been a threefold increase in the per capita (per annum) state budget expenditure on social services. However, taking into account the extent of inflation this increase would be less than the increase in the absolute terms. This analysis also shows that Odisha's per capita (per annum) expenditure for education during 2008-09 to 2009-10 was Rs. 1248, whereas these figures for Health and Family Welfare and Water Supply and Sanitation were only Rs. 337 and Rs. 183 respectively. Odisha continues to lag far behind many other states in terms of per capita (per annum) expenditure from the state budget on social services. Thus, given its acute need for making much stronger efforts in this regard than the relatively more advanced states, Odisha needs to accelerate further the trend of increasing social sector spending from its state budgets. Also, the expenditure on all social services need to be enhanced, instead of neglecting the resource needs of sectors like Health and Family Welfare, Water Supply and Sanitation, Social Security and Welfare, and Welfare of SCs, STs and OBCs. It would also be worthwhile to point out that these low levels of per capita (per annum) expenditure from the state budget of Odisha on social services might be far from adequate to address the acute development deficits of the state in these important sectors.

Fiscal Health of Odisha

For adequate financing of various developmental activities, mobilization of sufficient resources from its own tax and non-tax revenue is a prerequisite. In the case of Odisha, its own tax revenue had accounted for 4.5 percent of NSDP in 1999-2000; in the subsequent years, it increased and reached at the level of 7.6 percent of NSDP in 2006-07, but it again fell to 6.2 percent in 2009-10. The state's own non-tax revenue accounted for around 1.7 percent of NSDP in 2009-10, falling from 3.3 percent in 2006-07 (see **Chart 1**).

In terms of the state's non-tax revenue, as compared to the size of the state's economy, only a few of the non-special category states like Goa, Haryana, Punjab and Chhattisgarh have performed better than Odisha in the last five years. However, as regards the state's tax revenue, as compared to the size of the state's economy, most of the non-special category states have performed better than Odisha in the last five years with only Bihar, Jharkhand

and West Bengal showing a poorer performance than Odisha (as per State Finances: A Study of Budgets of 2009-10, RBI).

Considering Odisha's modest performance in collection of tax and non-tax revenues, it is quite likely that Odisha has had to depend heavily on the central transfers for its budgets. The total central transfers for Odisha have increased from 25 percent of the state budget (9.1 percent of the NSDP) in 1999-2000 to 49.1 percent of the state budget (12.1 percent of the NSDP) in 2009-10 (BE) (see Chart 2).

However, what is most striking is the fact that the total magnitude of the state budget of Odisha, as compared to the size of its economy, had shrunk visibly during 2004-05 to 2007-08 – declining sharply and consistently over the years, the magnitude of Odisha state budget had fallen from 42.6 percent of NSDP in 2003-04 to 21.7 percent of NSDP in 2007-08. Even in absolute figures, the magnitude of Odisha state budget was higher in 2003-04 (at Rs. 23,026 crore) than in each of the subsequent years until 2007-08 (when it was Rs. 22,844 crore). The magnitude of the state budget has increased visibly only in the last two years, i.e. 2008-09 and 2009-10.

This sharp decline in the overall scope of the state budget during 2004-05 to 2007-08 seems to have been the consequence of the state government's efforts towards curtailing both the Gross Fiscal Deficit (GFD) and the Revenue Deficit (RD) in the state budgets – Odisha state budget had a revenue surplus during each of the four years from 2005-06 to 2008-09 and a fiscal surplus during 2006-07 and 2007-08. This is likely to have been the consequence of the strong incentives for deficit reduction (in terms of waiver of interest payment obligations to the Centre) introduced in 2005-06 by the Twelfth Finance Commission. The Twelfth Finance Commission had set the budgetary figures of all states in 2004-05 as the benchmark to assess their efforts towards curtailing the gross fiscal deficit and the revenue deficit in the state budgets for the years 2005-06 to 2009-10. Odisha seems to have been adversely affected by this rigid benchmark year (2004-05) set by the Twelfth Finance Commission. This is because Odisha's total budgetary expenditure in the year 2004-05 was abnormally low; it had declined from Rs. 23026 crore in 2003-04 to Rs. 17336 crore in 2004-05. Hence, the policy prescriptions of the Twelfth Finance Commission pertaining to the incentives for deficit reduction by the states seems to have led to such a drastic and persistent decline in the overall state budget of Odisha (as compared to the size of its economy) during 2005-06 to 2007-08.

A Bird's Eye View of the constraints

Increases in budget outlays do not necessarily translate into higher and actual expenditure at the grassroots level. Effective and quality utilisation of funds leads to better budgetary outcomes. Odisha has several constraints with some of institutional and procedural bottlenecks that affect the ability of the state government to expedite the pace of actual expenditure. Some constraints are programme specifics and others are visible across plans and programmes. Therefore, it would be worthwhile to highlight some of the major concerns relating to the utilization of the funds allocated for Odisha in some of the important social sector schemes such as Sarva Shiksha Abhiyan (SSA), Mid Day Meal (MDM) scheme, National Rural Health Mission (NRHM), Integrated Child Development Services (ICDS), National Child labour Project (NCLP) and Total Sanitation Campaign (TSC)

The inability of the state to fully utilize the approved budget outlays for the important social sector schemes remains a serious concern. In SSA, as a proportion of the total outlay approved for Odisha, the expenditure incurred by the state has varied between 44 percent and 77 percent during 2004-05 to 2008-09. Around 50 percent of the amount on free textbooks under SSA programme remained unutilized during 2002 to 2007. For three important child-specific schemes in the education sector, Sarva Shiksha Abhiyan (SSA), National Program of Education for Girls at Elementary Level (NPEGEL), and Kasturba Gandhi Balika Vidyalaya (KGBV), although the fund utilization has increased from 43 percent in 2004-05 to over 75 percent in 2007-08, still there is enough scope for further improvement. In the National Child Labour Project (NCLP) scheme, Odisha's extent of fund utilization has been dismal; it rose to 67 percent in 2005-06 from about 50 percent in 2004-05 but again fell to less than 50 percent in 2006-07. In NRHM, the total expenditure incurred by Odisha over the five years from 2005-06 to 2009-10 has been 92 percent of the funds released (by the Centre) to the state – over the five years from 2005-06 to 2009-10, the total budget approved by the Centre for NRHM in Odisha was Rs. 2059 crore, the total funds released to the state was Rs. 1742 crore while the total expenditure incurred by the state was Rs. 1598 crore. In the Total Sanitation Campaign (TSC), Odisha's total expenditure from the Centre's share and state's own share of funds during 1999-2000 to 2010-11 (up to August 2010) has been only 66 percent of the total funds released and a meagre 28 percent of the total budget approved for the entire project period.

Further there are deficiencies in decentralized planning in many developmental schemes. Claims of need-based, decentralized and participatory planning do not seem to get substantiated in the scrutiny of the plans developed for the schemes. There are also numerous lacunae with regard to coordination and communication for different components / interventions under a scheme. In case of the Mid Day Meal scheme, for instance, it had been observed that planning seemed to be a mechanical ad-hoc process based on secondary data. In the case of Reproductive and Child Health programme, the planning process was reported to be quite comprehensive although it was seen more as a top-down process and not quite participatory at the district level. Integrated Child Development Services in Odisha does not seem to follow any kind of detailed planning exercise at the grassroots level; Central guidelines are implemented without much substantive inputs from the districts.

The problems of staff shortage is seen as critical issue that has plagued almost all social sector schemes like SSA, MDM, RCH, and ICDS. In 2007-08, in ICDS, there were 40 percent vacancy in CDPO posts and 50 percent vacant posts for lady supervisors and Anganwadi Workers. In case of some of the schemes, the lack of skilled personnel was observed to be a major bottleneck. For instance, in the case of TSC, shortage of competent engineers was found to be a major constraint; one of the causes for such inadequacy of staff is the low wage/salary-structure for the implementing personnel, in this case, the engineers. Further, in NCLP, the Project Director, who was supposed to lead the Project office, had been employed on a part-time basis at a consolidated salary of Rs.5000/- per month only (in 2007-2008). Salary of NCLP School educational instructors and vocational instructors (Rs.1500/month) was considered too low, and even these meagre salaries were being paid with delays; so schools faced a lot of difficulty in finding competent teachers. In fact, the poor remuneration of the staff in most of these schemes had proven to be an impediment in hiring even modestly skilled personnel.

The problem of staff shortage is being compounded with inadequate training and capacity building. Regular and need-based training and capacity-building programmes had remained inadequate and few and far between. This was particularly critical for a scheme like MDM where proper training for cooks and helpers especially in matters of hygiene is stringently required. Although such training interventions are budgeted, the problem was two-fold – to being with, the amount budgeted for the training was inadequate and unrealistic, and, secondly, the training did not take into account the felt needs of the trainees. Most of these training programmes had not seen any revision of the content or modification of the training techniques adopted since the time of the programme's inception. In the case of ICDS, state-level officials reported the lack of proper training for Anganwadi Workers which had led to low levels of awareness among the Anganwadi Workers about early childhood development.

Above all, for balanced expenditure budgeting, the state government can restructure its present expenditure pattern in the medium term for promoting human development. In the case of Odisha, the public expenditure is high, but the social allocation ratio is low. Therefore, there is a need to restructure the pattern of expenditure in favour of the social sector. Though a high social sector budgeting does not guarantee a good human development performance, it does make an important contribution. Finally, expenditure programmes must be target oriented and speciûc. Prioritisation and rationalisation of expenditure along with mobilising additional resources for higher levels of spending in priority areas are highly desirable. However, it needs to be emphasised that prescriptions for allocation/reallocation of resources according to certain standardised norms need to take into account the problem of leakages and misutilisation of resources, which affect efficiency and effectiveness of public expenditures in general and social sector expenditures in particular.

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