



Innovations in State Finances

Finance Department
Government of Odisha



Agenda:

Resource Position of State

Revenue from Mining Sector & Its Challenges

Optimal Use of Resources

Savings lead to Wealth Creation

Cash Management

Getting Prepared for Fiscal Risks

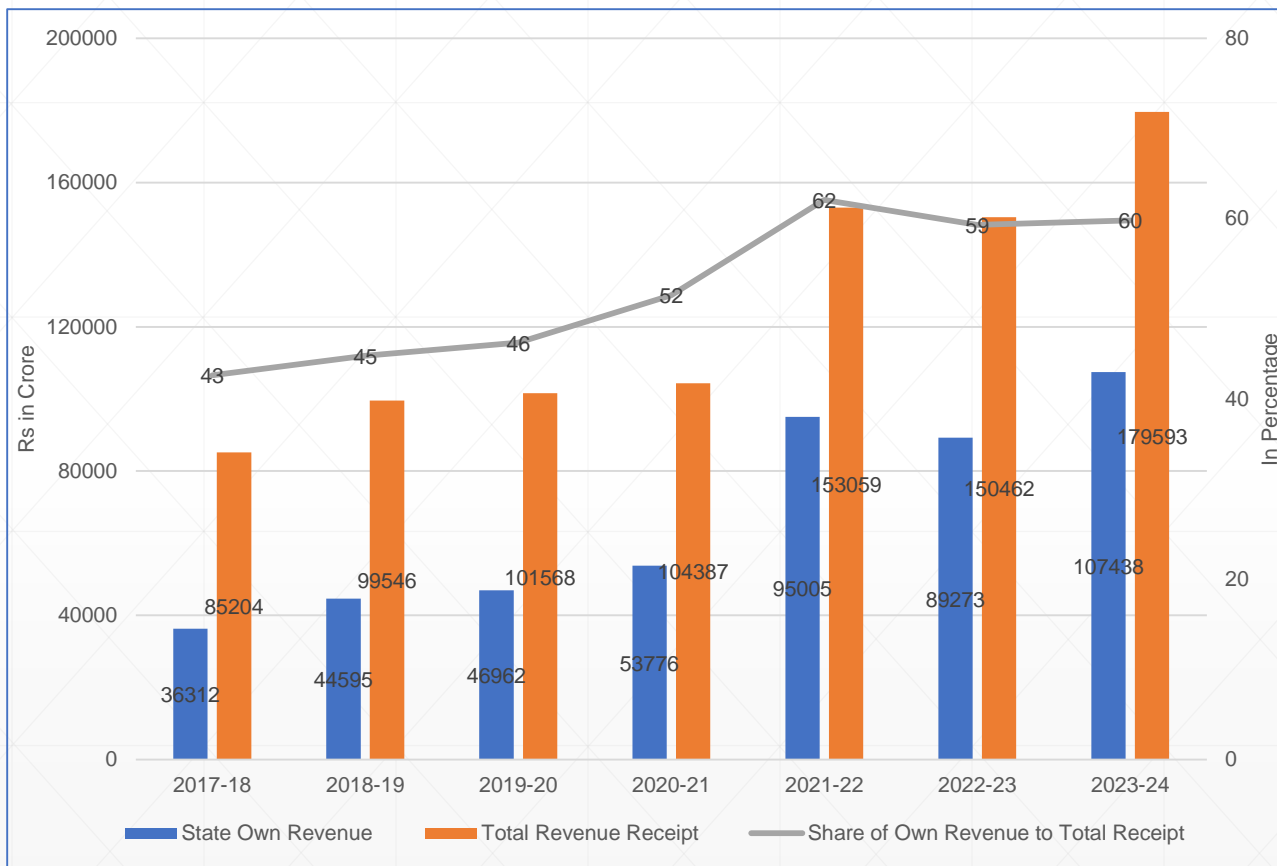
Institutional Mechanism



Odisha Economy & Finances- At a Glance

Items	State's position
Size of Economy (GSDP) (2023-24 A)	Rs.8.32 lakh crore
Average real growth in economy in last 7 years	8% (Excluding COVID year 2020-21)
Composition of G(S)DP	Agriculture & allied-20.4% Industries – 43.2% Services – 36.3%
State Budget size (2024-25 BE)	Rs.2.65 lakh crore (29% of GSDP)
Revenue Surplus (2024-25 BE)	Rs.27,437 crore (3.0% of GSDP)
Fiscal Deficit (2024-25 BE)	Rs. 32,403 crore (-3.5% of GSDP)
Capital Outlay (2024-25 BE)	Rs. 58,195 crore (6.3% of GSDP)
Debt Stock (2024-25 BE)	Rs.1,25,550 crore (13.6% of GSDP)
Interest Payment (2024-25 BE)	Rs. 5,500 crore (2.6% of Revenue Receipt)
Per Capita GSDP(2023-24)	Rs 1,61,437 (National :Rs 1,85,845)
Per Capita Liability(2023-24)	Rs 22,208

Resource Position of Odisha:



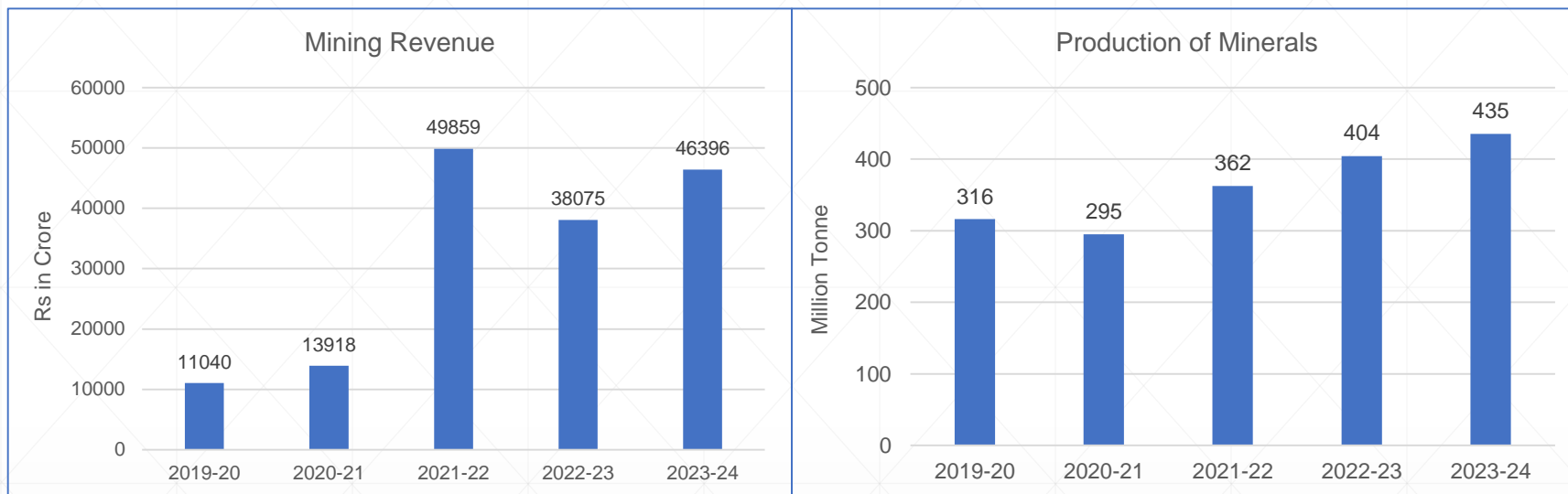
Share of Own Revenue to Total Revenue Receipt has increased from around 43% to 60% during 2017-18 to 2023-24

Contribution of own non-tax revenue to total own revenue has increased from 36% to around 50%, mainly due to increase in resources from mining sector.

Share of total Central Transfers to total receipt has decreased. Dependency on Central Transfer to the State has reduced to some extent.

Post implementation of GST in 2017, GST compensation from the central government has helped in maintaining stream.

Revenue from Mining Sector:



- Growth in mining revenue during FY 2021-22 is about 258% due to new e-auction policy adopted by the state government.
- The growth is not due to increase in production of minerals, rather due to transition to scientific mining and transparent auction policy.
- Some of the mines have been auctioned with premium payment up to 150% over and above the royalty payment of 15% (14% for coal).
- New miners have their own industry inside the state or who intends to setup industry inside the state
- This resulted in value addition in the state economy as well employment generation in mining and associated industrial sector.

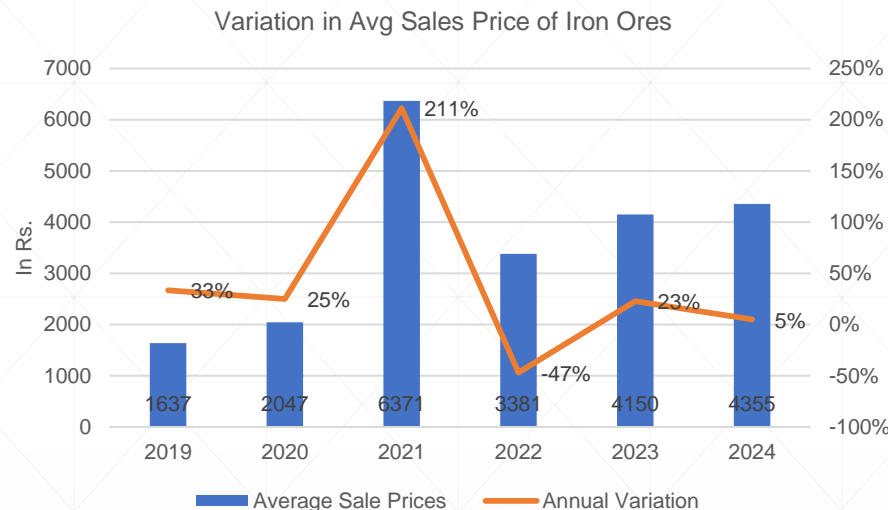
Fiscal Risks Associated with Mining Revenue:

Importance of Mining Revenue

Mining Revenue constitutes about 90% of Own Non-Tax Revenue, 45 % of State's total Own Revenue and 26% of total revenue receipts come from the mining sector

This increase in mining revenue is not a one-time receipt. This will continue for the entire lease period of mines auctioned.

Sustainable source of revenue for the entire lease period of 50 to 60 years.



Challenges

Mining revenue is subject to fiscal risks due to fluctuation in commodity prices.

Indian Bureau of Mines sets the prices of the minerals depending upon demand for metals in market.

Prices depend upon demand in the economy at national and international level. About 30% to 40% variation in prices of minerals every year.

Functioning of mines in the State

Although there are 243 working mines in the state, only 36 working iron ore mines have been auctioned.

Budget Stabilisation Fund:

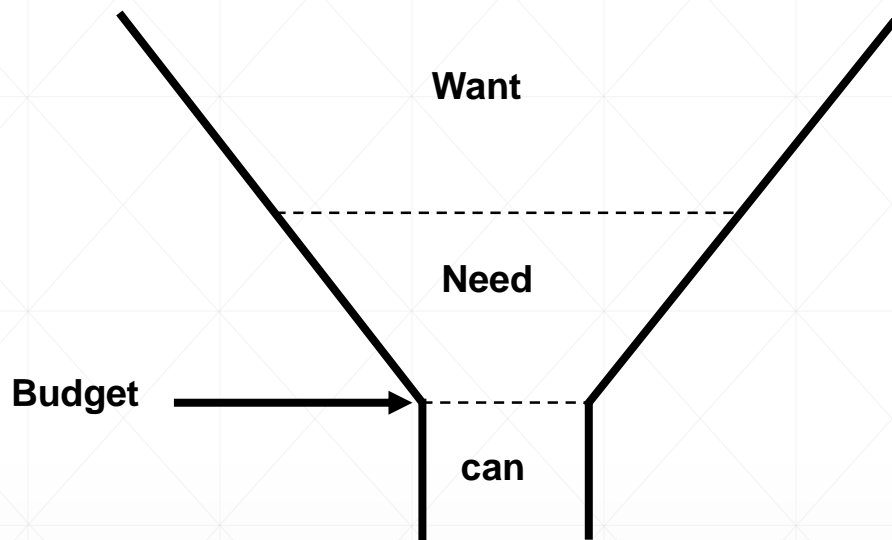
- Considering the financial risks associated with mining revenue, Odisha Government has taken an innovative step to put in place a “Budget Stabilisation Fund” which will act as a buffer fund to ensure financial stability during the period of negative shocks from the mining sector. This strategic reserve will be maintained to offset any decline in mining revenue in coming financial years.
- Potential revenue from mining sector over medium term has been worked out. In case of positive shocks, transfer of fund to BSF and in case of negative shocks, drawdown from the fund to maintain fiscal balance.
- Transfer to and withdrawal from the fund are rule based.
- Detailed accounting procedure has been laid out in concurrence with Accountant General, Odisha.
- State Government has transferred Rs.18700 crore as on date to the fund.
- Special drawing facility is available against the investment made in the fund.
- The fund shall not be used for any purpose other than to supplement resources in exceptional circumstances when there is negative shocks from mining revenue.

Optimising Resources

Optimisation in use of resources:

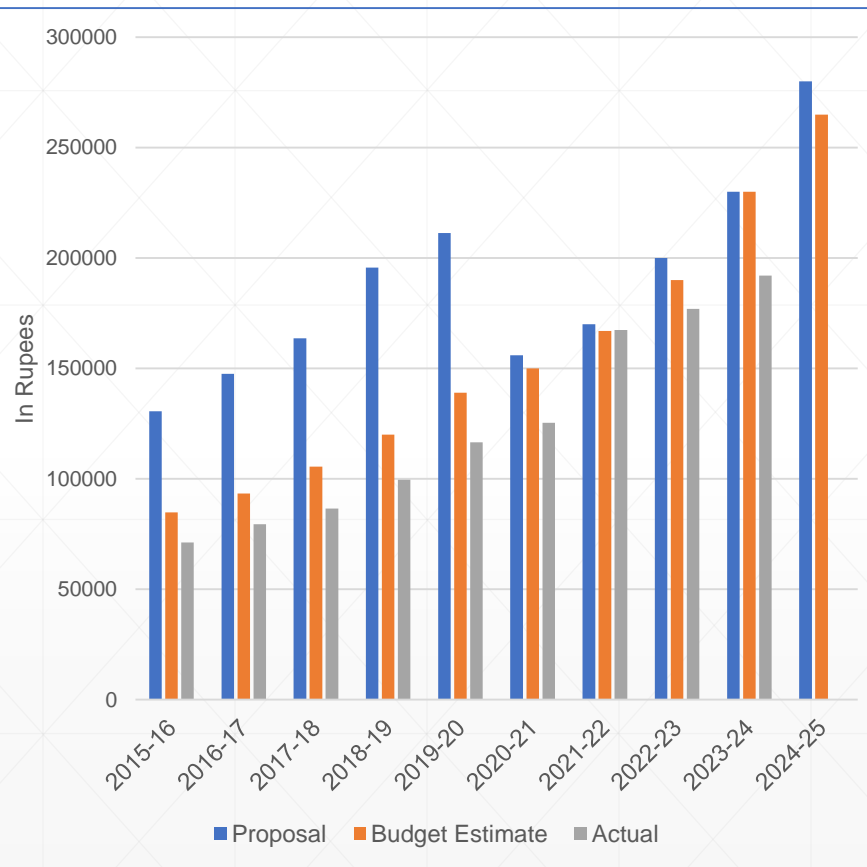
- Optimal use of resources involves balancing short-term fiscal needs with long-term developmental goals.
- Increase in mining revenue has resulted in increase in fiscal space for the state to undertake higher capital investment.
- For optimizing use of resources, State Government has taken a number of new initiatives like:
 - Strategic Top Down Budgeting with advanced communication of budget ceiling to every line departments.
 - Medium Term Fiscal Framework (MTFF) for realistic estimation of revenue and expenditure. MTFF is being used as a reference point for preparation of annual budget.
 - Publication of Fiscal Strategy Paper with medium term resource and expenditure planning.
- To improve budget credibility further, we are doing one supplementary budget every financial year.

Improving Budget Credibility



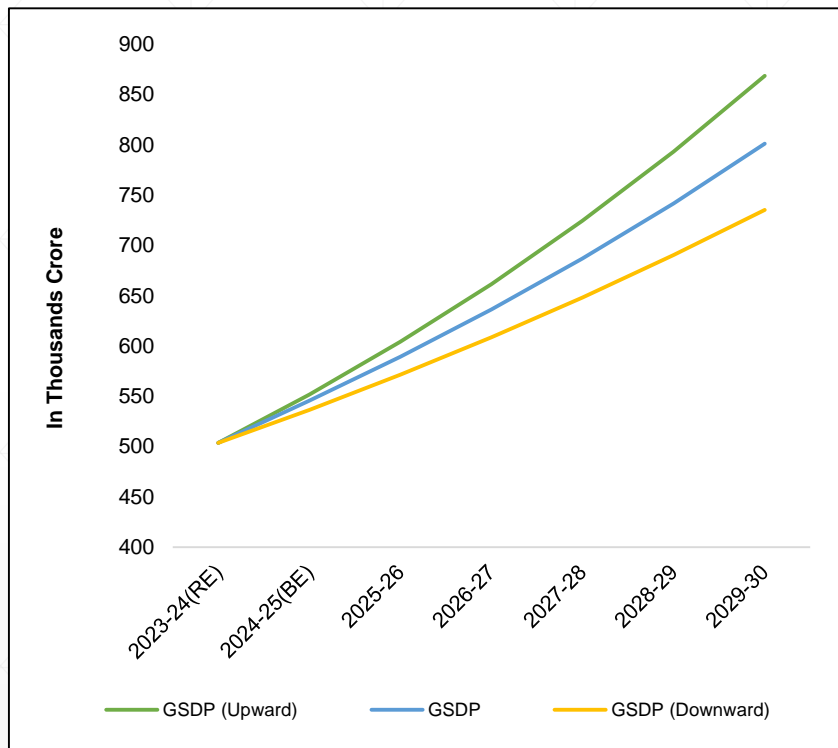
- Most of the times of line departments don't prioritise their expenditure.
- This results in big gap between “budget proposal” & “budget allocation” and between “budget allocation” and “actual expenditure”.
- Therefore, to improve optimal use of resources, budget ceiling is communicated in advance to line departments.

Gap between Proposal, BE & Actual

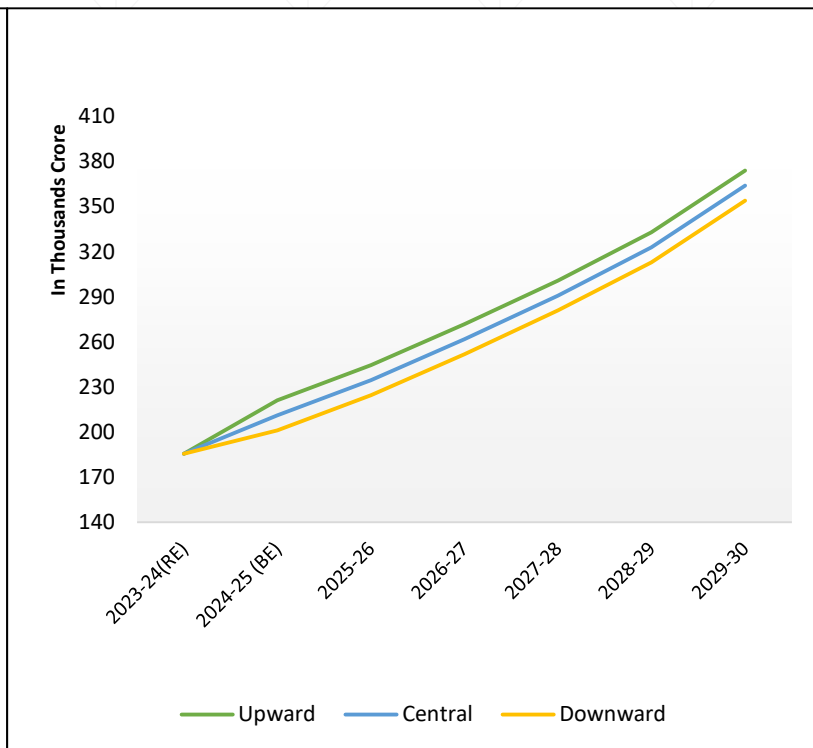


Scenario Building

GSDP Growth Scenarios



Revenue Receipt Scenarios



Money Savings lead to Wealth Creation

Low Cost Borrowing:

- The composition of debt stock has transitioned from some of the high-cost borrowing sources such as National Small Saving Fund (NSSF), Open Market Borrowing (OMB) to low cost borrowing sources.
- State Government has taken an innovative step to avail loans from Odisha Mineral Bearing Area Development Corporation (OMBADC) Fund and Compensatory Afforestation (CAMPA) Fund, where rate of interest is 1.5 to 2% lower than Open Market Borrowing (OMB).
- State Government can borrow up to 60% of the surplus fund available in these dedicated funds.
- Odisha has not resorted to OMB in the last two financial years.
- Odisha has maintained relatively low debt levels compared to other states, which gives it room to borrow for productive investments.
- It is being ensured that debt is managed wisely and only used for capital expenditures rather than for administrative expenditure.



Debt Profile of Odisha:

Average cost of borrowing is very less for the state government. It is around 5.5%, which is one of the lowest in the country.

Long maturity profile of Odisha's debt

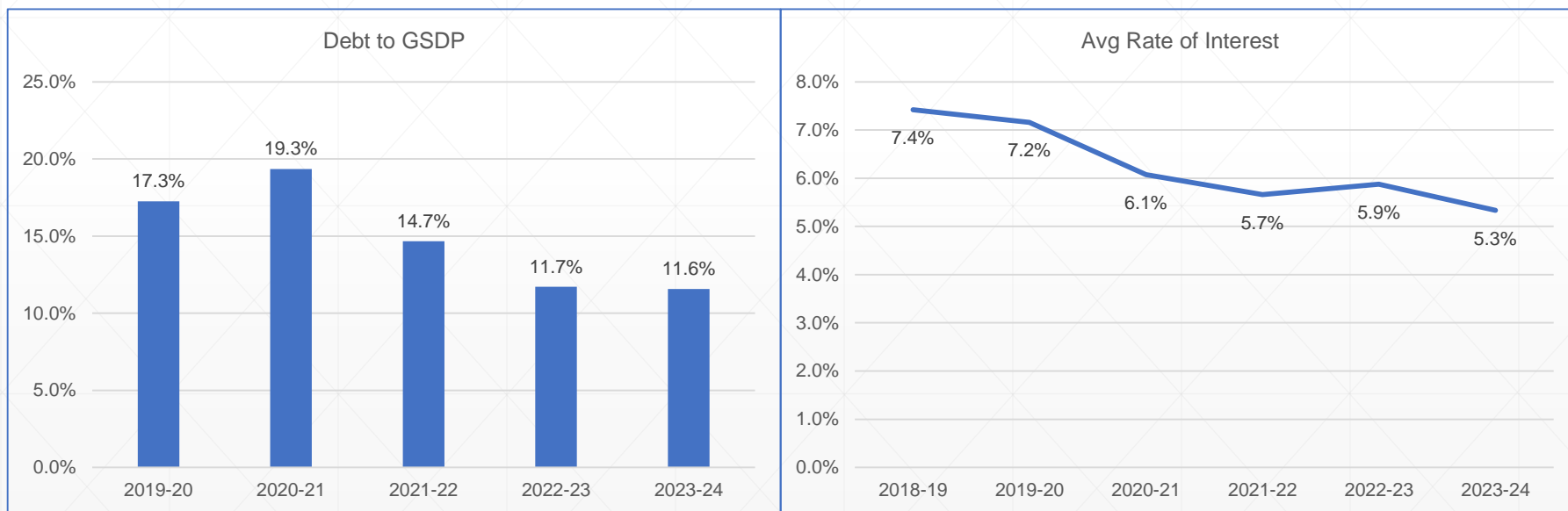
low percentage of foreign currency debts has lowered Odisha's vulnerability to any exchange rate.

Odisha is doing medium term debt projections. Total debt stock, debt to GSDP ratio and IPRR are being projected for next 5 years, which give a detailed picture of future debt position of the state.

Consistent FRBM compliant state since enactment of FRBM Act in 2005.

Debt Profile of Odisha:

- Due to low cost borrowing, average rate of interest is on a declining trend. In recent years, the average rate of interest is around 6%.
- Debt stock is also gradually decreasing, well within the stipulated limit of 25% mandated by FRBM.



Short-Term Cash Management

Cash Management:

Odisha has made excellent progress in improving public financial management (PFM) practices for effective short term cash management, including cash flow forecasting.



Cash Management Unit (CMU), Debt Management Unit and Cash Coordination Committee (CCC) have been put in place for prudent cash management.



Cash and Debt Management Units work in coordination for taking informed decision like investment of short term surplus cash in ATB or loan from other financial institutions.



Introduction of Single Nodal Account (SNA) has no such impact on the short term cash management practices being adopted by the State Government.



Online Cash Management Module has been designed to evenly distribute the expenditure throughout financial year and to reduce rush of expenditure during end of FY.



Cash Buffer has been prescribed for optimal cash balance as well as for reducing negative carry that would arise because of large idle cash balance.

Just-in-Time release of Funds

- State Government has developed JITFS functionality in IFMS to ensure just in time release of fund from the Government Account to the beneficiary account directly.
- This will do away with the requirement of timely submission of Utilisation Certificates. Now with this system in place, Scheme Implementing Agencies (SIAs) can submit e-payment request for real time processing of the fund request and seamless disbursement of fund through an automated platform.
- ensure timely release of funds from consolidated fund and release to actual beneficiary
- It will use e-Kuber platform for disbursement of fund to beneficiaries
- It involves certain process re-engineering in the existing practice of Government disbursement.
- It will enable SBMS for disbursement of fund either from scheme bank account or consolidated fund of the state
- Proposed JIT-FS will ensure operational autonomy to SIAs while addressing the problem of float outside the consolidated fund.
- <https://blog-pfm.imf.org/en/pfmblog/2024/08/smart-payments-making-fiscal-transfers-just-in-time>

Getting ready for Fiscal Risks

Fiscal Risk Management:

Fiscal Risk Analysis includes Fiscal Risk Identification and Measurement, Fiscal Risk Classification, Fiscal Risk Reporting, Fiscal Risk Management and Mitigation Strategy.

Risk Identification and Measurement: All possible sources of fiscal risk are identified and measured as percentage of GSDP. Risks are classified as high, medium and low on the basis of the level and possibility of occurrence.

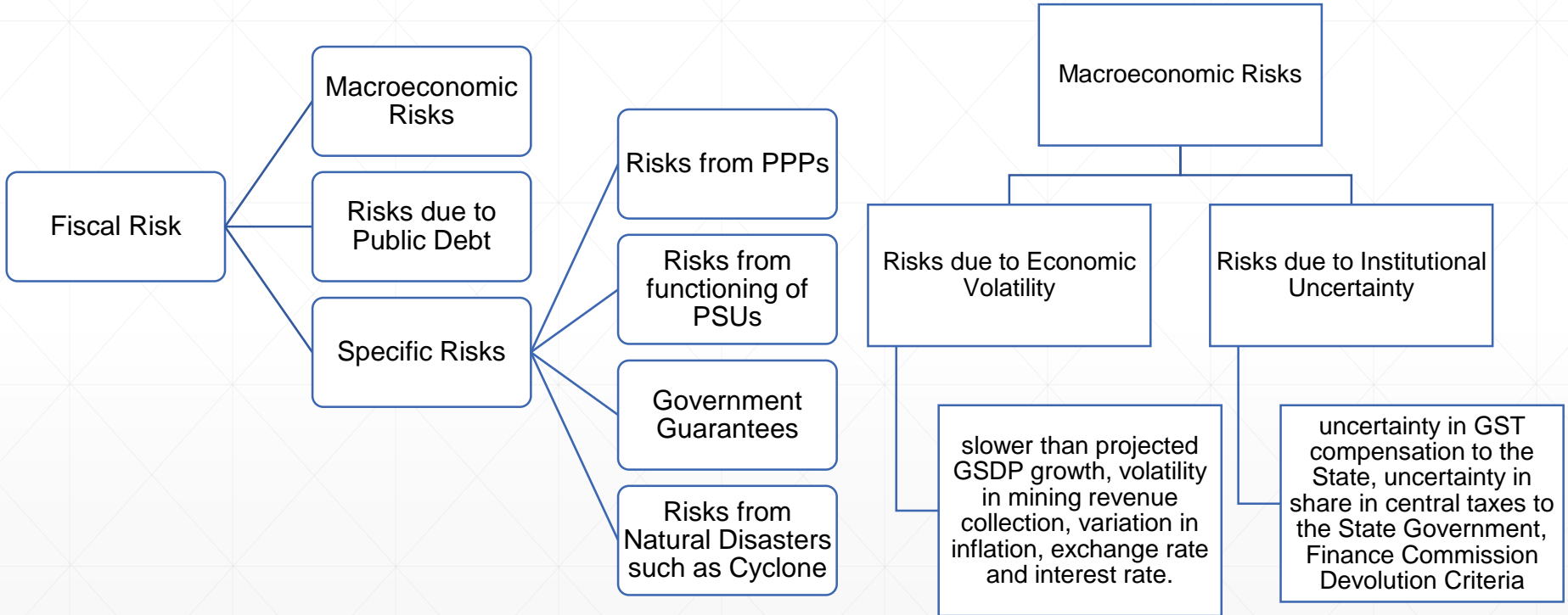
Risk Assessment is based on fiscal impact and likelihood of realization of the risk. Based on the risk assessment done, risks are classified and put into a risk matrix.

Risk Classification: Fiscal Risks are classified into Macroeconomic Risks, Risks due to Public Debt, and Specific Risks such as Risks from PPPs, Risks from functioning of PSUs, Government Guarantees, natural disasters etc.

Fiscal Risk Reporting is being done through Fiscal Risk Register, Publication of annual Fiscal Risk Statement.

Fiscal Risk Management: Adopting suitable risk mitigation measure is the ultimate goal of the entire exercise of the fiscal risk management.

Fiscal Risk Classification



Fiscal Risk Matrix:

Fiscal impact	High (>0.5% of GSDP)	<ul style="list-style-type: none"> Growth slowdown 	<ul style="list-style-type: none"> Central Transfer 	<ul style="list-style-type: none"> Natural disasters Mining-related revenues Electricity sector – Energy Sector PSUs
	Medium (0.1% - 0.5% of GSDP)	<ul style="list-style-type: none"> Risks from Public sector undertakings 	<ul style="list-style-type: none"> Social security programs Food Supply Department Government Institutions Investment scams of small-scale investors 	<ul style="list-style-type: none"> Inflation Non-performing assets of public financial institutions
	Low (<0.1% of GSDP)	<ul style="list-style-type: none"> PPPs Tax refunds under litigation Pension schemes Foreign-currency debt 		
		Low (<10%)	Medium (10%-50%)	High (>50%)
Likelihood of realization				

Fiscal Risk Management and Mitigation :

Fiscal Risk	Risk Management/ Mitigation Strategy
1. Revenue Shocks from Mining & Other Sectors	<ul style="list-style-type: none">• Budget Stabilisation Fund
2. Natural Disasters	<ul style="list-style-type: none">• State Disaster Response & Mitigation Fund• State Contingency Fund
3. Government guarantees	<ul style="list-style-type: none">• Administrative Ceiling on Govt Guarantees• Guarantee Redemption Fund (GRF)
4. Amortization and Foreign currency fluctuation	<ul style="list-style-type: none">• Consolidated Sinking Fund (CSF)
5. Public Private Partnerships (PPPs)	<ul style="list-style-type: none">• Medium Term Fiscal Projections• Status Paper on Public Debt• Multi-years budgeting• Top Down Budgeting with advance communication of budget ceilings• Commitment Recording and Control Module being developed in IFMS• Cash Forecasting and Management
6. PSUs	
7. Loans provided by the government	
8. Court cases	
Other Fiscal Risks	

RBI's Appreciation

Box II.4: Assessing Fiscal Risks – Odisha's Experience

The Government of Odisha identified "Fiscal Risk Management" as one of the key reforms priority under technical assistance from the IMF South Asia Regional Training and Technical Assistance Center (SARTTAC) in 2019. A dedicated Fiscal Risk and Debt Management Cell in the Finance Department and a high-level Fiscal Risk Committee has been put in place. The state has adopted a three-stage approach to fiscal risk management: (1) identification and measurement of fiscal risks; (2) fiscal risk reporting; and (3) mitigation and management of fiscal risk.

Under (1), all possible sources of fiscal risk were identified and the impact of each fiscal risk worked out as ratio of GSDP and classified as high, medium and low on the basis of the level and possibility of occurrence (Chart 1a)¹⁹. Some of the identified sources of fiscal risk include (a) macroeconomic

performance, international commodities prices, and exchange rate risk, particularly for foreign currency loans; (b) natural disaster to which Odisha is prone; (c) composite debt risk measured through a debt index consisting of debt to GSDP ratio, per capita debt and cost of debt using the relative distance methodology; (d) overall fiscal risk measured through a fiscal performance index employing a multiple indicator approach; and (e) contingent liabilities risk from Guarantees, Public Private Partnerships (PPPs)¹⁹, and public sector undertakings (PSUs). The state government also uses the IMF's State-Owned Enterprise Health Check Tool to assess the financial health of the State PSUs. Such assessment of GRIDCO, a state-owned enterprise in power sector shows it a high risk company (Chart 1b).

(Contd...)



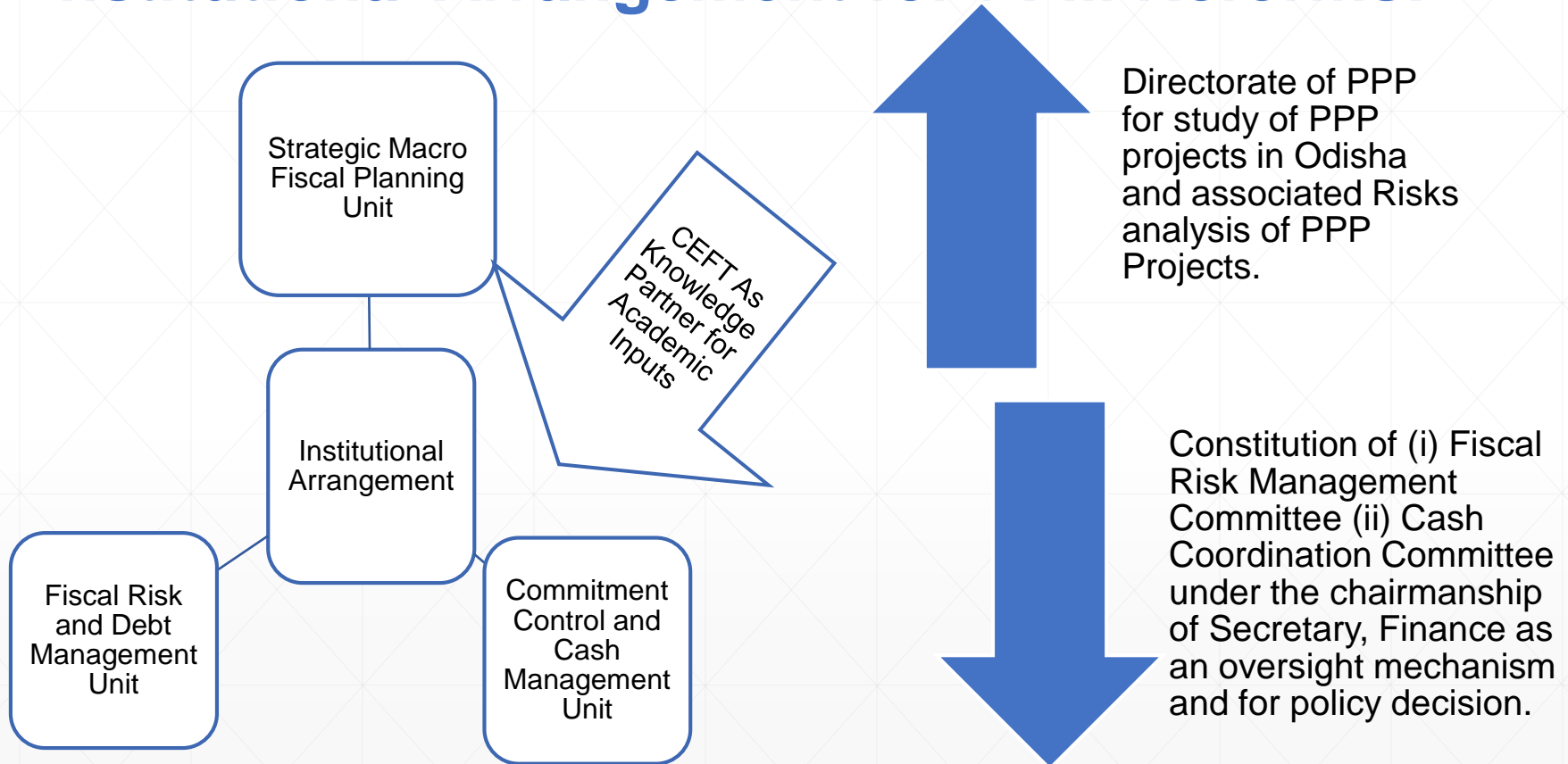
Source: RBI report on Finances: A Study of Budgets of 2020-21' report (page-34).

Principal Secretary, Finance presented Odisha's Fiscal Risk Management Practice as a case study in the **IMF's Spring Meetings 2022**.

Fiscal Risk Assessment Tool (FRAT), developed by IMF was piloted in Odisha:
<https://blog-pfm.imf.org/en/pfmblog/2021/06/the-frat-brings-order-to-the-fiscal-risk-party>

Institutional Mechanism

Institutional Arrangement for PFM Reforms:



THANK YOU