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Fiscal Reforms In Odisha: Insights From The 11th Finance Commission Onwards

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Abstract
This study examines the fiscal reforms undertaken in Odisha from the 11th Finance Commission onwards, focusing on the impact of Finance Commission recommendations on the state's fiscal management. The analysis highlights efforts of the state to address fiscal challenges through the adoption of measures such as the Fiscal Responsibility and Budget Management (FRBM) Act, tax reforms, expenditure rationalization etc. Key fiscal indicators, including revenue and fiscal deficits, debt-to-GSDP ratio and developmental expenditure as a percentage of GSDP are analyzed to evaluate the state's fiscal performance since 11th FC. The findings reveal that, the state has witnessed a significant progress in fiscal discipline. The enhanced revenue mobilization and increased developmental spending, underscoring the role of targeted fiscal measures in fostering sustainable economic growth. This study provides valuable insights into Odisha's fiscal trajectory and its relevance for other states striving for fiscal stability and inclusive development.

Keywords: *Fiscal Reform, Finance Commission, FRBM Act, Developmental Expenditure, Debt Management*

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I. Introduction:

The fiscal system serves as a mechanism to secure and allocate financial resources for the government which playing a critical role in achieving economic growth as well as broader development goals. Fiscal policy is integral to economic policy which encompasses taxation, public expenditure, debt management, and deficit financing. In response to the economic crisis of the 1980s, India introduced a series of economic reforms in 1991 to enhance productivity and interstate equity. However, the 1990s saw most of the states grappling with high deficits and unsustainable debt, prompting the introduction of key fiscal reforms such as the Medium-Term Fiscal Reforms Program (MTFRP) and the Fiscal Responsibility and Budget Management (FRBM) Act. The FRBM Act was transformative which established the fiscal discipline by setting revenue and fiscal deficit targets and by mandating greater transparency in fiscal policies at both central and state levels with an objective to bring deficit stability, debt sustainability and optimal economic growth.

Fiscal situation of Odisha

The state of Odisha, despite of its vast natural resources and economic potential, has historically faced significant fiscal challenges. With a revenue surplus in 1980-81 turning into a deficit by 1990-91, and further escalating to ₹2,573.02 crore in 1999-2000, the state's fiscal health steadily deteriorated due to factors such as increased borrowing for revenue expenditure, reduced capital expenditure and growing public debt. Repeated natural disasters, high interest rates, and subsidized non-developmental spending compounded the crisis. In response to that, Odisha adopted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005, aligning with the 11th Finance Commission's recommendations to reduce the debt-to-GSDP ratio, limit interest payments and enforce wage discipline. This Act targeted to reduce fiscal deficit to 3% of GSDP and maintain a zerorevenue deficit. This reforms also prioritized redirecting resources toward capital expenditure for infrastructure and socio-economic development. With ongoing fiscal discipline and expenditure management, Odisha has made significant progress, although challenges remain in sustaining growth and addressing developmental needs.

Significance of 11th FC

The 11th Finance Commission (FC), implemented from 2000, marked a turning point in fiscal reforms for Odisha. It provides a framework for fiscal consolidation, debt management and revenue enhancement of the state. At the time when Odisha faced high fiscal deficits, unsustainable debt and dependency on central transfers, the 11th FC introduced performance-based grants to incentivize fiscal responsibility of the state. These grants encouraged Odisha to implement disciplined fiscal measures, stabilize its debt burden, and shift resources toward developmental expenditure particularly in infrastructure, health and education. Apart from that debt restructuring strategies recommended by the 11th FC helped the state to reduce deficits and enhance fiscal sustainability, while revenue mobilization measures focused on improving tax administration and diversifying revenue streams, including better mining and royalty collections. Expenditure rationalization efforts prioritized developmental spending over administrative costs, enabling the state to invest in critical areas like poverty alleviation, healthcare, education and infrastructure. The 11th FC's recommendations provided Odisha with a structural roadmap for fiscal discipline and self-reliance, setting the stage for sustained fiscal stability and socio-economic progress.

II. Review Of Literature

The review of literature highlights diverse perspectives on fiscal reforms and their implications across various contexts. Gupta (2003) emphasized the importance of reallocating public spending toward productive endeavors and advocated for fiscal consolidation through reduced current expenditures while safeguarding capital expenditures. Chelliah (1996), focusing on Asian nations, highlighted the efficacy of revenue-focused fiscal reforms, particularly through tax structure adjustments to align with globalization. Allan (2003) examined Australia's fiscal crisis in the early 1990s, attributing it to financial mismanagement and advocating for fiscal discipline via deficit reduction, enhanced efficiency, and privatization. Edward (2003) studied England's fiscal challenges in the 1970s, noting reforms like reducing public sector borrowing and restructuring public enterprises. Lahiri (2000) identified India's fiscal crisis in the 1990s, emphasizing fiscal discipline at both central and state levels and critiquing lax budget constraints. Joshi (2003) analyzed Uttar Pradesh's fiscal adjustment strategies, which prioritized tax administration reforms and expenditure reprioritization. Srivastava (2003) stressed the need for robust borrowing regulations to address soft budget constraints, while Srivastava et al. (1999) highlighted Assam's fiscal imbalance due to non-capital expenditure and declining revenue growth. Vittal (2004) underscored transparency as a critical fiscal reform, linking it to reduced corruption and better resource utilization. Chowdhury and Das Gupta (2012) identified West Bengal's poor fiscal health as resulting from low own revenue and high effective interest rates, while Khuntia (2003) analyzed Karnataka's fiscal reforms guided by the Medium-Term Fiscal Plan, focusing on revenue generation and expenditure control. Overall, all of these studies underscore the multifaceted nature of fiscal reforms across different regions and periods.

III. Methodology And Database

The present study is primarily based on secondary data. It examines the criteria for revenue sharing and the weights assigned for tax distribution across various Finance Commissions. Additionally, it includes a state-wise analysis of the devolution of central taxes starting from the 11th Finance Commission. The data utilized in this study are sourced from the recommendations of the Finance Commissions, covering the period from the 1st to the 15th Finance Commission. To evaluate fiscal performance since the 11th Finance Commission, key fiscal indicators such as Revenue Deficit, Fiscal Deficit, Primary Deficit, Developmental Expenditure (as a percentage of GSDP), and the Debt-to-GSDP ratio have been calculated. For this analysis, statistical tools including percentages and averages, along with visual aids like tables, charts, and graphs, have been employed to effectively present and interpret the data.

IV. Results And Discussion

Criteria for Revenue Sharing Across Finance Commissions

Different Finance Commissions have employed a variety of criteria to determine the horizontal distribution of tax revenues among states. These criteria reflect the evolving socio-economic priorities of the nation by balancing equity, efficiency and fiscal performance. The table below summarizes the criteria across different Finance Commissions:

Finance Commission	Income tax	Union Excise Duties (basic)	
	States' Share (%)	States' Share (%)	Number of articles covered
First	55	40	3*
Second	60	25	8**
Third	66.7	20	35
Fourth	75	20	All

Fifth	75	20	All
Sixth	80	20	All
Seventh	85	40	All
Eighth	85	45	All
Ninth	85	45	All
Tenth	77.5	47.5	All
Eleventh	29.5 percent of all taxes		
Twelfth	30.5 percent of all taxes		
Thirteenth	32 Percent of all taxes		
Fourteenth	42 Per cent of all taxes		
Fifteenth	41 Per cent of all taxes		

*Items like tobacco, matches and vegetable products.
**Include all three items and sugar, tea, coffee, paper, vegetable, non-essential oils.
Source: Finance Commission Reports, various issues

The First FC initiated the revenue-sharing process by allocating 55% of income tax and 40% of union excise duties to the states. However, this was restricted to just three items like tobacco, matches, and vegetable products. However, over successive commissions, the scope of divisible taxes expanded. By the Fourth FC, all articles were included under the divisible pool, and states' share in income tax increased to 75%. Likewise, The Eleventh FC introduced a significant change by transitioning to a percentage of all central taxes, starting with 29.5%. This marked a departure from allocating specific shares of income tax and excise duties. The Fourteenth FC made a transformative change by recommending a 42% share of all central taxes to states. This increase enhanced the financial autonomy of states by allowing them to address local developmental priorities. However, the Fifteenth FC slightly reduced this to 41%, considering national fiscal constraints. For Odisha, the evolving revenue-sharing framework has had profound implications. Higher devolution rates from the Eleventh FC onward provided the state with greater fiscal resources to address its socio-economic challenges. Additionally, the inclusion of performance-linked grants by later FCs further incentivized Odisha to adhere to fiscal discipline.

Analysis of FC's Criteria for Revenue Sharing

The distribution of tax revenues among states, as recommended by successive Finance Commissions is guided by various criteria. These criteria aim to balance equity, efficiency in order to fulfill the socio-economic needs of each state. The weights assigned to these criteria have evolved over time to reflect changing national priorities.

Table: Weightage for Revenue Sharing Across Finance Commissions

Criteria	9th Fc	10th Fc	11th Fc	12th Fc	13th Fc	14th Fc	15th Fc
Income Distance	50	60	62.5	50	*	50	45
Population 1971	25	20	10	25	25	17.5	*
Population 2011	*	*	*	*	*	10	15
Area	*	5	7.5	10	10	15	15
Poverty Ratio	12.5	*	*	*	*	*	*
Tax Effort	*	10	5	7.5	*	*	2.5
Fiscal Discipline	*	*	7.5	7.5	17.5	*	*
Fiscal Capacity Distance	*	*	*	*	47.5	*	*
Demographic Performance	*	*	*	*	*	*	12.5
Inverse Income	12.5	*	*	*	*	*	*
Index Of Infrastructure	*	5	7.5	*	*	*	*
Forest Cover	*	*	*	*	*	7.5	*
Forest & Ecology	*	*	*	*	*	*	10
Total	100	100	100	100	100	100	100

Sources: Reports of the various Finance Commissions.

Different Finance Commissions (FCs) have used various criteria to allocate tax revenues among states with changing national priorities. Throughout all FCs Income distance has been a dominant criterion ensuring equitable distribution by favoring states with lower per capita income, although its weight has declined from 62.5% in the 11th FC to 45% in the 15th FC. Population data also played a crucial role. Until 14^{th} FC the data of 1971 population census was used, after which the 2011 population has been introduced to account for demographic changes. Geographic area gained importance, with its weight rising to 15% in the 14th and 15th FCs, acknowledging the administrative costs of larger states. Likewise, environmental factors such as forest cover and ecology were included in later FCs, which reflects the growing focus on sustainability. Other criteria, such as tax effort and fiscal discipline, aimed to reward states for efficient financial management. For Odisha, these evolving criteria have been beneficial, particularly the emphasis on income distance and forest cover, which align with its socio-economic and environmental profile.

State wise devolution of central taxes from 11th FC onwards

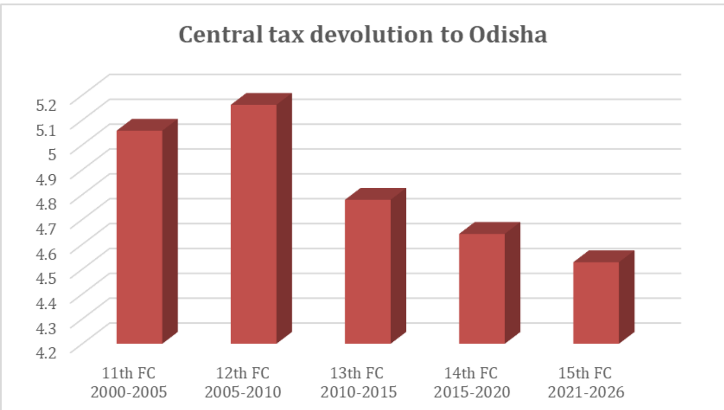
State	11th FC	12th FC	13th FC	14th FC	15th FC
Andhra Pradesh	7.356	7.356	6.937	4.305	4.047
Arunachal Pradesh	0.288	0.288	0.328	1.37	1.757
Assam	3.239	3.235	3.628	3.311	3.128
Bihar	14.597	11.028	10.917	9.665	10.058
Chhattisgarh	*	2.654	2.47	3.08	3.407
Goa	0.259	0.259	0.266	0.378	0.386
Gujarat	3.626	3.569	3.041	3.084	3.478
Haryana	1.081	1.075	1.048	1.084	1.093
Himachal Pradesh	0.536	0.522	0.781	0.713	0.83
Jammu & Kashmir	1.291	1.297	1.551	1.854	**
Jharkhand	*	3.361	2.802	3.139	3.307
Karnataka	4.459	4.459	4.328	4.713	3.647
Kerala	3.057	2.665	2.341	2.5	1.925
Madhya Pradesh	9.982	6.711	7.12	7.548	7.85
Maharashtra	4.623	4.997	5.199	5.521	6.317
Manipur	0.362	0.362	0.451	0.617	0.716
Meghalaya	0.371	0.371	0.408	0.642	0.767
Mizoram	0.239	0.239	0.269	0.46	0.5
Nagaland	0.263	0.263	0.314	0.498	0.569
Odisha	**5.057**	**5.161**	**4.779**	**4.642**	**4.528**
Punjab	1.147	1.299	1.389	1.577	1.807
Rajasthan	6.532	5.609	5.853	5.495	6.026
Sikkim	0.227	0.227	0.239	0.367	0.388
Tamil Nadu	5.385	5.305	4.969	4.023	4.079
Telangana	*	*	*	2.437	2.102
Tripura	0.428	0.428	0.511	0.642	0.708
Uttar Pradesh	19.262	19.264	19.677	17.959	17.939
Uttarakhand	*	0.939	1.12	1.052	1.118
West Bengal	7.058	7.057	7.264	7.324	7.523
Total	**100**	**100**	**100**	**100**	**100**

*These states were the part of their respective parent states.

** Withdrawal of statehood of Jammu & Kashmir after abolition of article 370.

Sources: Reports of various Finance Commissions.

The above table presents the state-wise devolution of central taxes as recommended by the 11th to the 15th FC. It highlights the shifting distribution of resources among Indian states with the allocation percentages reflecting the changing economic priorities and fiscal needs over time. For instance, UP consistently received the highest share accounting for around 19% of total devolution in each commission, while states like Arunachal Pradesh and Goa received smaller allocations reflecting their relatively lower fiscal demands. States like Bihar, Madhya Pradesh, and West Bengal saw notable shares due to their larger populations and greater developmental needs. Additionally, the introduction of new states like Telangana in the 14th and 15th FCs resulted in their gradual inclusion with 2.437% and 2.102%, respectively. Overall, the table underscores the evolving landscape of fiscal federalism in India where the allocation of central taxes is progressively adjusted based on factors like population, fiscal capacity, and development requirements. The central taxes devolution to Odisha can be explain with the help of the following diagram.



The graph depicting central tax devolution to Odisha across different Finance Commissions (11th to 15th) offers insight into the state's fiscal dynamics within the context of India's financial federalism. Central tax devolution is a significant component of state finance, as it directly impacts the resources available to the state for development, infrastructure, social welfare etc. From the 11^{th} to 12^{th} FC, Odisha’s share of central tax devolution was relatively high, peaking at about 5.161%. This higher allocation was likely due to the state’s socio-economic conditions, which included a lower revenue generation capacity and a higher dependency on central transfers to meet its fiscal needs. The 11th and 12th Finance Commissions recognized these disparities and allocated higher shares to states like Odisha, which were struggling with revenue deficits and fiscal inefficiency. However, the trend began to reverse from 13^{th} FC where Odisha’s share dropped to around 4.8%. The reduction continued into the 14^{th} FC, with the share further declining to about 4.6% and it further reduced slightly 15^{th} FC to around 4.5%. This decline can be attributed to several factors, such as the improvements in Odisha's fiscal health, increased revenue generation capacity and the evolving allocation criteria in successive Finance Commissions.

One of the major factors contributing to this decrease is the shift in the allocation formula of the Finance Commissions. While the earlier commissions were more focused on addressing fiscal imbalances between states but later on the 13th, 14th, and 15th FCs introduced greater weight on population and fiscal discipline, which benefitted other states with larger populations or stronger fiscal metrics. Additionally, Odisha’s improving fiscal situation, partly due to successful implementation of fiscal reforms like the Fiscal Responsibility and Budget Management (FRBM) Act, also resulted in a reduction in its dependence on central transfers.

In the broader context of state finances of Odisha, the decreasing share from central devolution presents both challenges and opportunities. While reduced transfers could constrain the state’s resources. On the other hand, it also signals an opportunity for the state to increase its own revenue generation through improved tax administration, resource mobilization and by boosting local economic activities. However, the state must continue to focus on efficient fiscal management and prioritize capital expenditure to ensure long-term economic development and address social welfare concerns. This shift reflects the evolving fiscal landscape in India, where states are encouraged to become more self-reliant while maintaining fiscal discipline.

Successive Finance Commissions and Their Prescriptions

Following the 11th FC’s recommendations, the Government of Odisha implemented a range of fiscal reforms I order to enhance revenue generation, improve expenditure management and to ensure fiscal sustainability. The major reforms includes the introduction of FRBM Act, 2005. It set targets to eliminate the revenue deficit, reduce the fiscal deficit to 3% of GSDP and to put a cap on public debt at 28% of GSDP. To boost revenue, the government of Odisha adopted the Value Added Tax (VAT) in 2005, computerized its tax administration and reformed property tax systems. The state also focused on expenditure rationalization by cutting non-developmental expenses, particularly salaries and subsidies and prioritizing developmental expenditures in sectors like infrastructure, education and healthcare. These reform measures significantly increased the share of developmental expenditure in the state’s GSDP, improve fiscal discipline and creates a stronger foundation for sustainable growth.

Likewise, the 12^{th} to 15^{th} FC introduced a series of recommendations that significantly influenced Odisha's fiscal management, by focusing on fiscal discipline, revenue generation and addressing specific state-level challenges. The 12^{th} FC emphasized fiscal discipline through the adoption of the FRBM Act, which helped the state to streamline its expenditure and improve revenue collection. This Commission also allocated grants for key sectors like health, education, and infrastructure which is directly benefiting Odisha’s rural and tribal populations. After that the 13^{th} FC continued this focus on fiscal sustainability by recommending a 3% fiscal deficit to GSDP ratio and linked grants to performance. Odisha utilized these funds for sectors like health and environmental conservation, aligning with its developmental goals. The 14^{th} FC marked a transformative phase by increasing Odisha’s share in central tax devolution from 32% to 42%, which enhanced the state's financial autonomy and allowed for increased spending on infrastructure, education and disaster management. It also emphasized strengthening local governance institutions like Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs). The 15^{th} FC came at a time when Odisha was grappling with the economic fallout from the COVID-19 pandemic, recommending a 41% share of central taxes to states, with specific grants for public health and disaster risk management. These funds supported Odisha's efforts to enhance healthcare access and disaster resilience. Apart from that, the 15^{th} FC introduced performance based grants for areas such as water management, sanitation and digital infrastructure which encourage the improvements in these sectors. The Commission also emphasized sustainable debt management and climate resilience. Collectively, the prescriptions of these Finance Commissions helped Odisha improve its fiscal health, expand public services and build resilience against natural and economic shocks, paving the way for more sustainable economic growth.

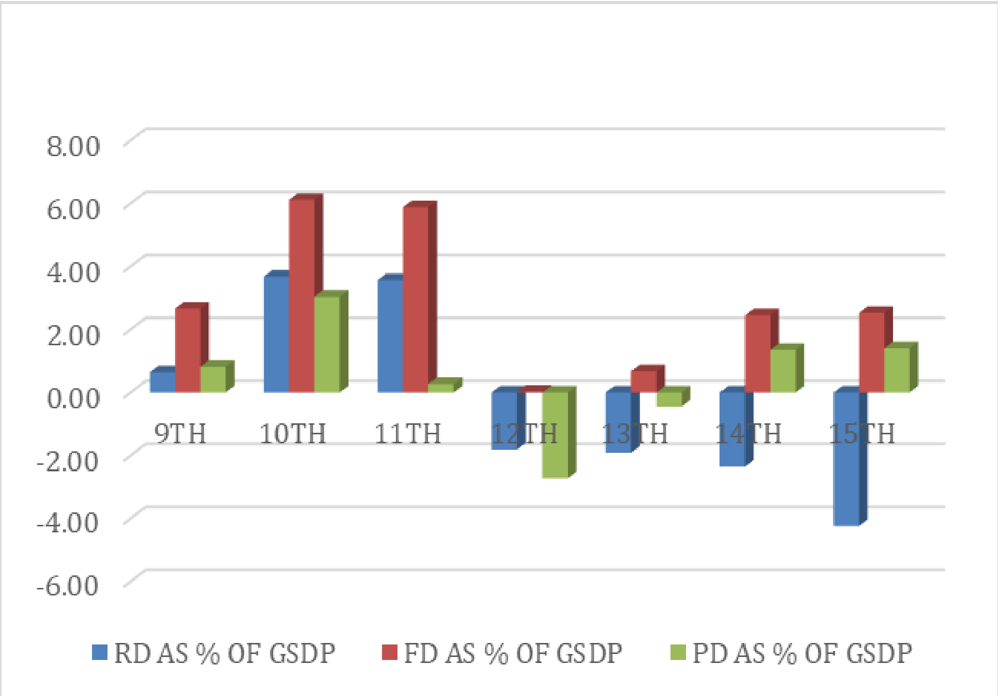
Analysis of fiscal performance since 11th FC

The fiscal performance of the state from 11th FC onwards can be explain through the help of the following diagram.

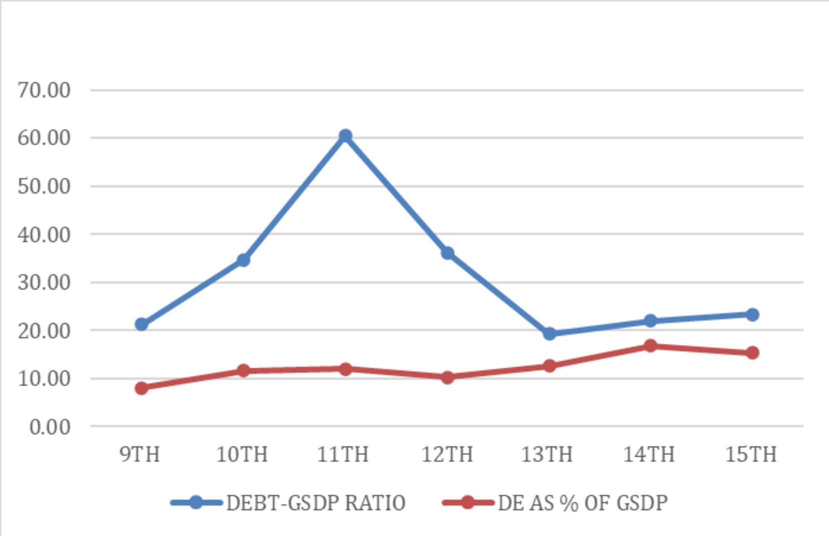
Fc	Rd As % Of Gsdp	Fd As % Of Gsdp	Pd As % Of Gsdp	Debt-Gsdp Ratio	De As % Of Gsdp
9th	0.64	2.66	0.81	21.29	8.07
10th	3.67	6.11	3.03	34.71	11.64
11th	3.56	5.87	0.27	60.51	12.01
12th	-1.81	0.02	-2.73	36.18	10.31
13th	-1.91	0.67	-0.45	19.31	12.57
14th	-2.36	2.45	1.35	21.96	16.82
15th	-4.24	2.52	1.40	23.33	15.32

Source: calculated by the author on the basis of different FC's recommendations.

The table above presents the key fiscal indicators for Odisha from the 9th to the 15th Finance Commission periods, highlighting trends in fiscal performance and reforms. The data reveals a significant improvement in fiscal discipline over the years, particularly after the 11th FC. Revenue deficit as a percentage of GSDP showed a reduction after the 11th FC and turning negative in the 12th FC, indicating a shift towards surplus revenue positions. Similarly, fiscal deficit as a percentage of GSDP decreased sharply after the 12th FC, reflecting effective fiscal consolidation measures. Likewise, primary deficit as a percentage of GSDP saw a notable reduction following the 11th FC, reaching its lowest level in the 13th FC, before rising slightly again in the 14th and 15th FCs. The debt-GSDP ratio showed a gradual decline from the 10th FC onwards, indicating a more sustainable debt management strategy. Developmental expenditure as a percentage of GSDP consistently increased from the 9th FC onwards with a remarkable rise during the 15th FC, highlighting the state's focus on enhancing infrastructure and public services. Overall, the reform measures initiated after the 11th FC contributed to significant fiscal improvements in Odisha.



The following diagram depicts the trends in revenue deficit, fiscal deficit, and primary deficit as percentages of GSDP across different Finance Commission periods which reflects Odisha's fiscal trajectory. During the 9th and 10th FCs, RD, FD, and PD were significantly positive, indicating fiscal imbalances and high levels of debt. However, following the 11th FC, fiscal reforms such as the implementation of the FRBM Act led to a marked improvement. RD turned negative from the 12th FC onwards, indicating revenue surpluses and FD dropped significantly, reflecting improved fiscal consolidation. PD also witnessed a consistent decline, showcasing effective debt management strategies. By the 14th and 15th FC periods, while FD slightly increased, RD remained negative, and PD stabilized at sustainable levels. This trend underscores Odisha's success in adopting fiscal discipline, enhancing revenue generation, and managing debt, aligning with the reformative measures introduced in post 11th FCs.



This following line chart illustrates the Debt-to-GSDP ratio and Developmental Expenditure as a percentage of GSDP across different Finance Commission periods from the 9th to the 15th. The Debt-to-GSDP ratio shows a sharp rise, peaking at around 60% during the 11th Finance Commission period, indicating high debt levels relative to the state's economic output. After this peak, there is a significant decline, with the ratio stabilizing at much lower levels from the 13th FC onwards, suggesting improved debt management. Developmental Expenditure as a percentage of GSDP remains relatively stable throughout the periods, averagely around 10%. This consistency in Developmental Expenditure despite fluctuations in debt levels, reflects Odisha's ongoing commitment to development spending, even as debt management improves over time.

V. Findings

- Odisha's fiscal reforms, initiated after the 11th Finance Commission, significantly improved the state's fiscal health, with notable reductions in revenue and fiscal deficits of the state.
- The implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, 2005, was instrumental in achieving fiscal consolidation, debt sustainability and enhanced fiscal discipline.
- Developmental expenditure as a percentage of GSDP increased consistently reflecting Odisha's focus on infrastructure, health and education.
- Revenue mobilization improved through tax reforms, such as the introduction of VAT and the computerization of tax administration, which broadened the tax base and increased compliance.
- Debt-to-GSDP ratio declined steadily over successive Finance Commissions, showcasing improved debt management and fiscal sustainability.
- Expenditure rationalization measures reduced non-developmental expenditures and redirected resources toward priority sectors, enhancing social and economic outcomes.
- Comparative analysis revealed that Odisha demonstrated stronger fiscal discipline and better utilization of Finance Commission recommendations than many other states.
- The state's progress underscores the effectiveness of targeted fiscal reforms and their potential as a model for other states aiming for sustainable development.

These findings encapsulate the essence of Odisha's fiscal trajectory and its strides toward achieving fiscal stability and inclusive growth.

VI. Conclusion

In conclusion, the study highlights the transformative impact of fiscal reforms implemented in Odisha from the 11th Finance Commission onwards. The adoption of measures such as the FRBM Act, tax reforms, and expenditure rationalization significantly improved the state's fiscal health. Key fiscal indicators, including the reduction in revenue and fiscal deficits, an increase in developmental expenditure, and better debt management, underscore Odisha's commitment to sustainable fiscal practices. These reforms not only enhanced revenue mobilization but also ensured greater fiscal discipline, enabling the state to allocate more resources toward developmental priorities like infrastructure, health, and education. The comparative analysis with other states further establishes Odisha's progress in achieving fiscal stability and governance. This research underscores the importance of adopting targeted fiscal measures and leveraging Finance Commission recommendations to drive long-term economic development and fiscal prudence.

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