Government Of Odisha

Fiscal Risk Statement

February 2021

Finance Department

FISCAL RISK STATEMENT

February 2021

FISCAL RISK & DEBT MANAGEMENT UNIT
FINANCE DEPARTMENT
ODISHA

CONTENT

GLOSSARY

BE	Budget Estimates
CAG	Comptroller and Auditor General
CL	Contingent Liability
CSS	Centrally Sponsored Scheme
ECI	Empowered Committee on Infrastructure
FD	Finance Department
FRBM	Fiscal Responsibility and Budget Management
FRU	Fiscal Risk Unit
FSR	Fiscal Strategy Report
FR&DU	Fiscal Risk and Debt Management Unit
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GridCo	Grid Corporation
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
HLCA	High Level Clearance Authority
ICRA	Investment Information and Credit Rating Agency
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
IPRR	Interest Payment to Revenue Receipt
OM	Office Memorandum
OMBADC	Odisha Mineral Bearing Areas Development Corporation
CAMPA	Compensatory Afforestation Fund Management and Planning Authority
PED	Public Enterprises Department
PEFA	Public Expenditure and Financial Accountability
PFRAM	Public Private Partnership Fiscal Risk Assessment Model
PPPs	Public Private Partnerships
PSUs	Public Sector Undertakings

PREFACE

In an endeavour to enhance fiscal transparency and in tradition with Odisha's continued effort at reforms in public finance management in the state, the Fiscal Risks & Debt Management Unit of Finance Department has brought out the Fiscal Risk Statement for the first time. This document aims to discuss the fiscal risk exposure of the State Government and corresponding risk mitigation measures.

Analysing fiscal risks is critical for devising appropriate risk mitigation measures. Identification of individual fiscal risk, qualitative and quantitative analysis of the identified fiscal risk, disclosure of the risk and finally devising suitable risk mitigation measure are the important aspects of the fiscal risk management.

Though data related to different fiscal risks is fragmented and distributed across different departments and agencies of the government, a Fiscal Risk Register has been designed and populated for the first time. Given that this is Odisha's first such statement and to be published annually now onwards, going forward the scope of coverage and depth of analysis will be expanded building on this work.

The identified fiscal risks have been categorized broadly into (i) macroeconomic risks, (ii) public debt, and (iii) specific risks which include Public Private Partnerships (PPP), Public Sector Undertakings (PSU), Government guarantees, natural disasters, and other risks.

While ensuring stronger management of fiscal risk, the Fiscal Risk Statement will also contribute to enhance sustainability of public service delivery in the state, to increase credibility to the Medium Term Fiscal Framework (MTFF), and to increase the confidence of all stakeholders in Odisha's fiscal management.

We sincerely hope that this document will enhance the fiscal transparency of the State Government.

ACKNOWLEDGEMENT

The Fiscal Risk Statement has been brought out by the **Fiscal Risks and Debt Management Unit**, Finance Department, Government of Odisha with the technical assistance from **IMF-SARTTAC.**

Our deepest gratitude and sincere thanks to Mr. Nabil Hamliri, IMF PSU Risk Analysis Expert for his technical support and guidance in risk analysis of Public Sector Enterprises and in development of **Odisha PSU Risk Analysis** tool. We also express our sincere gratitude to Mr. Murray Petrie, IMF consultant and Mr. Fritz Florian Bachmair, IMF Consultant for their invaluable technical inputs in PPP risk analysis.

Our sincere thanks to Ms. Lesley Fisher, IMF and Ms. Celeste Marie Kubasta, IMF for constantly monitoring all the activities related to fiscal risk management in the State and for providing valuable inputs. We also express our sincere thanks to Mr. Greg Rosenberg, Mr. Murray Petrie, and Mr. John Grinyer, Consultants, IMF-SARTTAC for reviewing the document and providing valuable inputs to enhance the overall quality and brevity of the document.

Finally, we extend our sincere thanks to Dr. S.P. Rath, Joint Secretary, Finance Department, Sri K.C. Satapathy, Director, PPP and the entire team of Fiscal Risk and Debt Management Unit, who have painstakingly designed and drafted this risk statement.

(Ashok K. K. Meena)
Principal Secretary

EXECUTIVE SUMMARY

1. **Fiscal Risks are factors that may cause fiscal outcomes (government revenues, expenditures, and the value of assets and liabilities) to deviate from expectations or forecasts.** The fiscal risks could be categorized into different types such as Macroeconomic Risks due to various macroeconomic factors, risks from Public Private Partnership Projects, contingent liabilities in the form of guaranteed and non-guaranteed loans extended to the State PSUs and economic loss and damage of critical assets and infrastructure due to natural disasters like cyclones.

2. **Revenues of the State Government are sensitive to various factors.** These include economic growth at the global, national and state level, iron ore prices, central transfers to the State, GST Compensation share etc. Similarly, expenditures of the government may change from budget estimates if specific financial risks materialize. The priorities of government expenditures change in the wake of any natural disaster or any public health crisis such as Covid-19 pandemic. In addition to this, contingent liabilities from guaranteed and non-guaranteed debt of State Public Sector Enterprises and Public Private Partnerships can also pose fiscal risk to the State Government.

3. **Fiscal Risk Register,** a top-down tool to identify different fiscal risks, has been developed. It lists fiscal risks with both qualitative and quantitative analysis. Each identified fiscal risk has been categorized based on the potential fiscal impact and the likelihood of materialization. The risk register will be progressively strengthened with more qualitative and quantitative analysis.

4. **Our analysis suggests that historically natural disasters, volatile revenues from mining, GST, Odisha's share of centrally collected taxes, and electricity sector are the sources of the largest fiscal risks.** However, for FY2020/21 these risks have been overtaken by Covid-19 pandemic. This raises the prospects of how future health emergencies will impact government finances, and how these risks can be best mitigated in the future.

5. The State Government has a growing portfolio of Public Private Partnership projects (PPPs). Total completed projects under PPP mode account for about Rs. 8,400 crore. More than Rs.12,000 crore worth of PPP projects are either under implementation or in pipeline. Majority of the projects under implementation are in transport sector and urban development sector. Depending on their mode of design and implementation, the PPP projects can create fiscal commitments as well as explicit and implicit contingent liabilities although there are very few annuity model projects in Odisha that commit the government to a stream of annual payments.

6. Mostly the PPP projects are executed through viability gap funding (VGF). The State Government also supplements the VGF of Central Government where the State Government contribute up to 20 percent of the total project costs and commit to a

stream of annual payments depending upon the design mode of the project. A PPP Directorate in Finance Department has been constituted to compile all information related to total fiscal commitments, contingent liabilities concerning all PPP projects under implementation and in pipeline. The **PPP Fiscal Risk Assessment Model (PFRAM)** is used to assess fiscal risk associated with the PPP project.

7. The State PSUs receive budgetary support in the form of equity capital, loans and subsidies. It is critical for the State Government to undertake strategic oversight, monitoring and fiscal analysis of high risk PSUs. Majority of government guarantees are in power sector PSUs. Using the **PSUs Risk Analysis tool**, risk analysis of around 30 major operating PSUs has been done.

8. Adopting suitable fiscal risk mitigation measure is extremely important in the entire exercise of fiscal risk management. Based on fiscal risk analysis done, appropriate measures could be adopted to mitigate any risk that could materialize. Some dedicated funds such **Guarantee Redemption Fund**, **Consolidated Sinking Fund** and **Disaster Risk Management Funds** have been set up as risk mitigation measure. In addition to this, some institutional arrangements have been made for fiscal risk management. The **Fiscal Risk and Debt Management Unit** and the **PPP Directorate** have been constituted in the Finance Department for fiscal risk analysis and management. A **Fiscal Risk Committee** under the chairmanship of Finance Secretary has been constituted for oversight and monitoring of the entire exercise of fiscal risk management.

9. Output of the fiscal risk analysis could give critical insight to the State Government for taking policy decisions like provision of budgetary support to any PSU or regarding viability of any PPP project etc. The fiscal risk statement not only increases financial transparency but also facilitates the State Government to take critical policy decisions.

1. INTRODUCTION

At times, fiscal parameters like revenue, expenditure, GDP growth etc. experience significant deviations from what is planned or projected in the budget or any forecast document. The deviations occur from shocks as varied as natural disasters, financial crisis, economic downturn, cost-overrun of big projects, realisation of government guarantees, or an unprecedented situation like Covid-19 health emergency. These shocks pose enough challenge to disrupt government finances and in turn smooth functioning of the economic activity of the government gets severely affected. Broadly speaking, these kinds of risks to government finances and budget are called fiscal risks. In recent times, cyclone Fani that hit Odisha coast in May of 2019 and the recent Covid-19 pandemic forced lockdown are examples of fiscal risks.

Over the past few decades, fiscal risk management by the governments worldwide has been an emerging trend precisely because there are countless sources of fiscal risks that can materialize and the degree of uncertainty that is associated with them. This implies forecasts and plans are always at risks of proven wrong or be far off the mark. In a responsible democracy like ours, government has the ultimate responsibility to ensure that economic system operates smoothly in the country and in the state. This makes fiscal risk disclosure and management ever so necessary for any government.

Traditional understanding of the government finances puts macroeconomic management as the sole responsibility of the central government. This in turn limits the fiscal risk exposure to the central government and its budget only. However, in recent times fiscal risk exposure at sub-national level is getting considerable attention and thus fiscal risk management at the sub-national level is getting traction. In India, the Fiscal Responsibility and Budget Management Act (FRBM Act), 2003 puts both the central and state governments under a legally sanctioned limited fiscal space. There are different tools for managing fiscal risks which also includes legislative intervention. The Fiscal Responsibility Legislation is one of those.

1.1 ODISHA ON THE PATH OF FISCAL SUSTAINABILITY

Government of Odisha has undertaken a number of fiscal reform measures in the last two decades which aimed at expenditure rationalization and revenue generation. It has succeeded in bringing about a turnaround in the State’s finances.

The State has been able to reduce the debt stock from 50.7% of GSDP in 2002-03 to below the prudential level of 25% as recommended by the 13th Finance Commission and prescribed in Odisha Fiscal Responsibility and Budget Management (OFRBM) Act, 2005. The ratio of interest payment to revenue receipt (IP/RR) ratio, which should be within the prudential level of 15%, has also been achieved and consistently maintained. Strong fiscal performance of the state by fulfilling these criteria gives the state an additional space for fiscal deficit (0.5% of GSDP) over the prescribed 3.0 % fiscal deficit.

1.2 SOURCES OF FISCAL RISK IN ODISHA

The major sources of fiscal risk in Odisha, which are subsequently dealt with in this document, are as follows:

(i) Macroeconomic Risk
(ii) Public Debt
(iii) Natural Disasters
(iv) Public Private Partnership
(v) Public Sector Undertaking;
(vi) Other Risks

1.3 FISCAL RISK IDENTIFICATION AND MEASUREMENT

All possible identified sources of fiscal risk were measured and the impact of each fiscal risk worked out as ratio to GSDP and classified as high, medium and low on the basis of the level and possibility of occurrence using a framework. For instance, if a particular risk factor (say reduction in central transfer) has potential to have a fiscal impact more than 0.5 per cent of GSDP and the possibility of occurrence is more than 50 per cent, that factor is regarded as high-risk. Similarly, all other identified fiscal risks are classified as low or high based upon the fiscal impact and likelihood of realization as represented in the chart below where green represents low fiscal risk, yellow corresponds to medium risk, and red to high risk.

Chart-1.1: Fiscal Risk identification framework

Fiscal impact[1]				
	High (>0.5% of GSDP)	• Growth slowdown • Inflation	• Electricity sector • Mining-related revenues • GST revenues • State Share of Central Taxes	• Natural disaster • Covid-19 shock
	Medium (0.1% - 0.5% of GSDP)		• Public sector undertakings • Social security programs • Food Supply Department	
	Low (<0.1% of GSDP)	• PPPs • Tax refunds under litigation • Pension schemes	• Variation in Interest Rate • Line departments	
		Low (<10%)	Medium (10%-50%)	High (>50%)
	Likelihood of realization[2]			

1.4 FISCAL RISK REGISTER

Fiscal risk reporting, critical for transparency and public disclosure, is envisaged through a two-stage approach. First, a Fiscal Risk Register as a continuous exercise of identifying the sources of fiscal risks, risk exposure and likelihood and severity of risk materialization is put in place in the form of a register. The State is maintaining separate Risk Registers for PPPs,

[1] Defined as marginal impact of risk realization on fiscal deficit.
[2] Over a three-year period, consistent with the timeframe of the Medium-Term Fiscal Framework.

PSUs etc., which contain details of the individual projects and PSUs which provide inputs to the consolidated Fiscal Risk Register. These Registers are updated every month. At the second stage, a Fiscal Risk Statement is released along with Annual Budget documents to incorporate all possible fiscal risks for the state in quantified terms. This statement is a part of the disclosure that the government is bringing out, starting from the financial year 2021-22.

Given that this is the Odisha's first FRS and it is to be published annually now onwards with depth and coverage of the risks expanded over time.

2. MACROECONOMIC RISKS

Macroeconomic Risks may be broadly classified into two types; first, risks due to ***Economic Volatility*** and second, risks due to ***Institutional Uncertainty***. The State receipts and thus expenditures are extremely sensitive to the macroeconomic risks. Materialization of any of the macroeconomic risks could put budgetary constraint on the State Government to spend on critical areas such as education, health, employment generation and infrastructure. Macroeconomic risks such as *slower than projected GSDP growth*, *volatility in mining revenue collection*, *variation in inflation and interest rate* are generally classified under the **Economic Volatility Risks.** The fiscal risks due to *uncertainty in GST compensation to the State*, *uncertainty in share in central taxes to the State Government*, *Finance Commission Devolution Criteria* could be classified under the **Institutional Uncertainty Risks.**

2.1 FISCAL RISKS FROM ECONOMIC VOLATILITY

2.1.1 SLOWER THAN PROJECTED GROWTH IN GSDP

The main risk to fiscal consolidation in any country is slower-than-projected GDP growth. Consequently, inaccurate or biased economic forecasts undermine the fiscal outlook.

The global economy is experiencing a period of turbulence amid COVID-19 pandemic. This pandemic has brought considerable economic bearing, disrupting demand and supply along with hampering lives and livelihoods across the globe. According to IMF's World Economic Outlook (2020), the global GDP growth is expected to contract by 4.9 percent in 2020 with slow recovery in 2021 as economic activity normalizes gradually. The national economy has contracted by 23.9 percent in the first quarter of FY 2020-21 because of the COVID-19 pandemic. As per the advance estimates released by *National Statistical Office*, the real GDP is estimated to contract by 7.7 percent in FY 2020-21. Similarly, the real GSDP of Odisha is estimated to contract by 4.92 percent as per the advance estimates released by *Directorate of Economics and Statistics, Government of Odisha*.

The chart-2.1 below shows the downward revision of growth forecast from budget estimate to revised estimates. GSDP growth forecasts have been revised downwards in most of the years. The reason for such downward revision in growth forecasts is mainly due to change in underlining macroeconomic assumptions and downward revision of growth forecast of national GDP. Besides, the uncertainty in agricultural sector due to frequent erratic monsoon as well as natural calamities and volatility in the mining sector due to weak domestic and global demand have caused downward revision of growth forecasts. Due to revision in GSDP growth forecasts, tax revenue projection is also affected by virtue of the relationship between tax and tax base (GSDP).

Chart-2.1: Variation between Budget Estimates and Revised Estimates

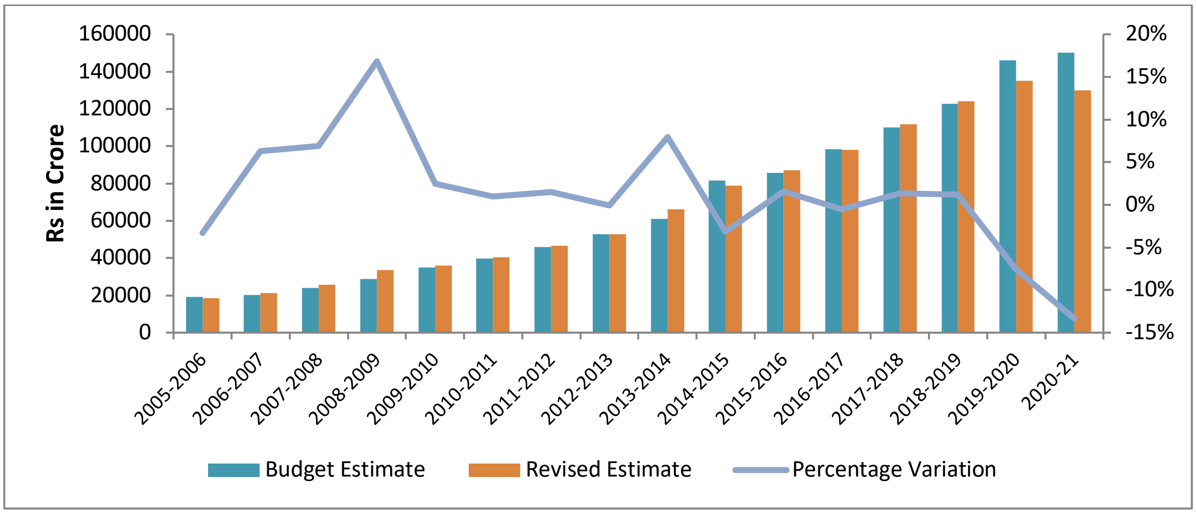
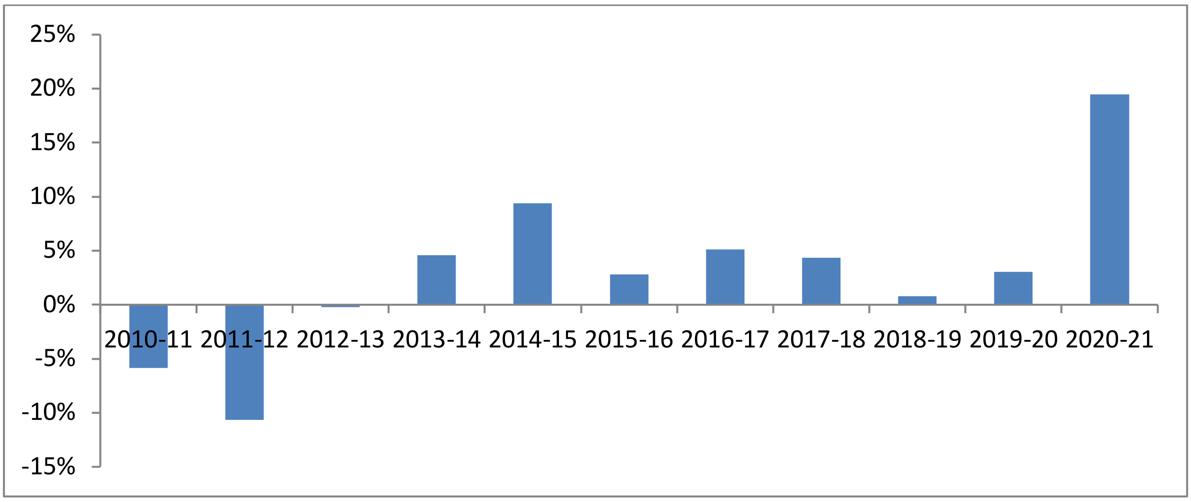


Chart-2.2 below shows the forecast error analysis of total revenue receipts (budget estimates for total revenue receipts minus actual revenue receipts) as a percentage of GSDP. A negative value indicates a pessimistic forecast (the actual receipt is higher than the budgeted estimate) whilst a positive value indicates an optimistic forecast (the actual receipt is lower than the budgeted estimate). A higher value indicates the uncertainty in revenue estimation due to uncertain economic conditions.

Chart-2.2: Forecast Error of Revenue Receipts, percent of GSDP



* For FY 2020-21, revised estimate value has been considered.

2.1.2 VOLATILITY IN MINING REVENUE

Mining revenue constitutes about 72 percent of own non-tax revenue of the State and about 11 percent of total revenue receipts of the State. Major industries of the State are largely concentrated in the metals and minerals sector. Historically, mining industry has driven the economic growth of the State. The growth of these sectors, however, is predominantly dependent on global metal price and demand. The growth in mining sector is

fluctuating which reflects in uncertain revenue collection from mining sector. Mining royalties account for almost 22 percent of State's own revenue. A significant amount of revenue is also collected in the form of stamp duties and registration fees in case of mine-lease renewal. Naturally uncertainty around mining revenue collection has a direct bearing on the fiscal outcome of the State. The variation in international and national metal prices needs to be closely monitored for accurate estimation of mining royalty.

2.1.3 VARIATION IN INFLATION, INTEREST RATE & EXCHANGE RATE

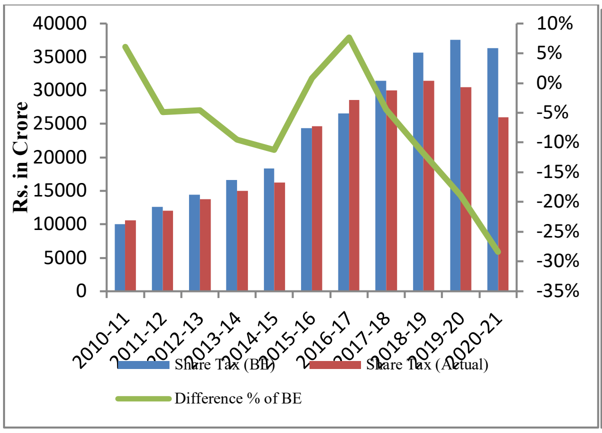
Although majority of the State government's public debt is in Indian Rupees, around 8% of total borrowing is from external agencies in foreign currency. Due to change in currency exchange rate and interest rate, debt serving cost is affected. Debt servicing cost constitutes a significant portion of revenue expenditure. Some of external debts are LIBOR linked and their interest costs vary according to changes in the LIBOR rate. The loans are borrowed mostly in US dollar and Japanese yen. The Indian rupee has been fluctuating against these foreign currencies. Depreciation in the Indian currency alongside variable interest rates raises the cost of servicing this debt. Variation in inflation has a direct bearing on debt servicing cost. A relatively higher level of inflation during FY 2020 has eroded the savings of the people. Because of dampened demand, the economy has contracted in the current financial year.

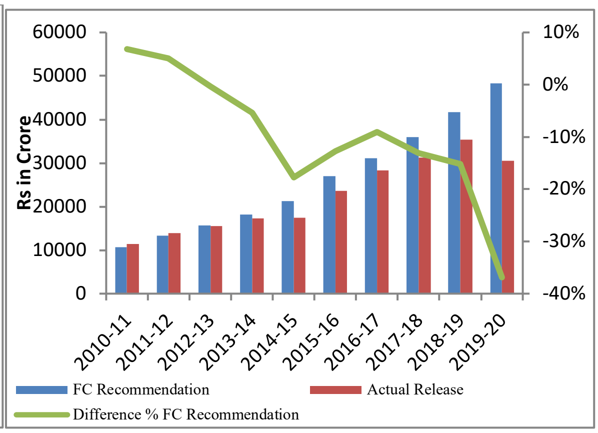
2.2 INSTITUTIONAL UNCERTAINTY

2.2.1 UNCERTAINTY AROUND SHARE IN CENTRAL TAXES

A fall in economic activity reduces national tax collections which results in lower central transfers to the State. The State share in central taxes is based upon the recommendation of the Finance Commission. The Finance Commission recommendation is for a period of five years. The current 15th Finance Commission has recommended reduction in State Share (all states) from earlier 42 percent to 41 percent owing to bifurcation of Jammu & Kashmir into two Union Territories. The share of Odisha has been reduced from 4.64 percent to 4.52 percent for the 15th FC award period.

Chart-2.3: Difference in Share Tax (BE) and Actual Share Tax & FC Recommendation and Actual Release





For FY 2020-21, revised estimated value of share tax has been taken.

2.2.2 UNCERTAINTY AROUND GST COMPENSATION

The State was assured for compensation for the losses incurred on account of GST implementation till June 2022. But due to pandemic the cess collection in the GST Compensation Fund has been very low. The State is currently heavily dependent on compensation as GST performance has been much below the protected revenue as a result of this reform. This has led to uncertainty in the flow of revenue to the state. The initiative of the GST Council to compensate a portion of the pandemic related GST loss through a special borrowing window will give partial relief to the State. But uncertainty still prevails in the receipts of the compensation revenue.

2.2.3 CHANGE IN DEVOLUTION CRITERIA OF THE FINANCE COMMISSION

The revenue receipt in coming years is likely to be affected by changes in the devolution structure recommended by Fifteenth Finance Commission. This change will be mainly due to updated population data being used as a basis for determining the share of central taxes that each State receives. Odisha’s share of total population has declined, which has resulted in decline in State’s horizontal share of central taxes proportionately from 4.64 percent to 4.52 percent as per recommendations of 15th Finance Commission. The State will continue to receive share in central taxes at this reduced rate during next five years 2021-26.

3. DEBT MANAGEMENT

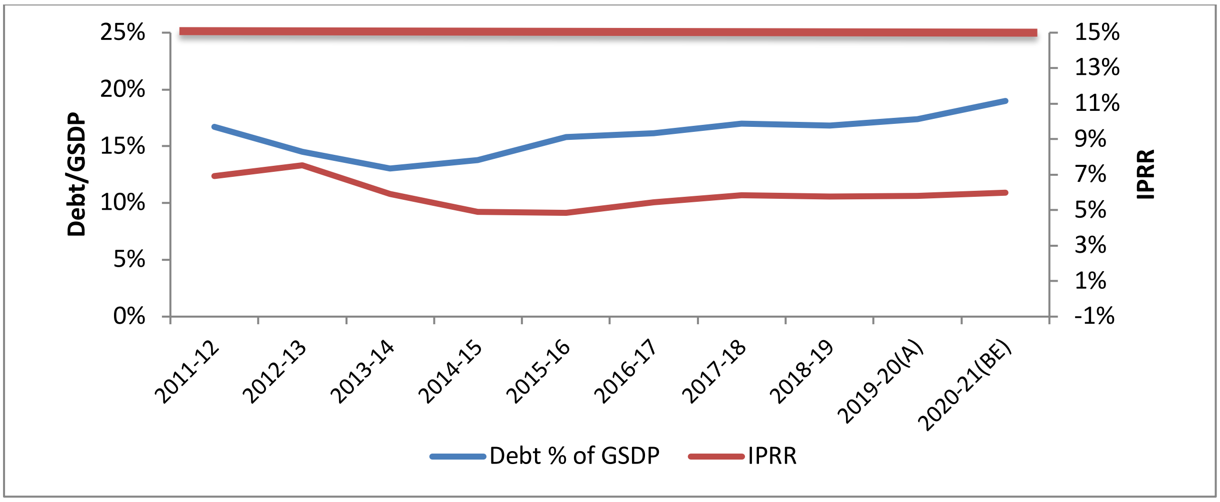
The total outstanding public debt of the State as on 31st March 2020 stands at Rs.92,775 crore which is 17.8 percent of the State's gross domestic product (GSDP). The borrowing undertaken by the Government of Odisha is fully used to finance capital investment. Whilst the total stock of debts is increasing over time, the public debt of Odisha is sustainable, meaning that the Government of Odisha can service its debts without difficulty. Strong revenue growth is helping to keep interest payments manageable, and within the limits of the Fiscal Responsibility and Budget Management (FRBM) Act.

3.1 FISCAL RISK DUE TO PUBLIC DEBT

The long maturity profile of Odisha's debts reduces the risk from an economic shock and the low percentage of foreign currency debts has lowered Odisha's vulnerability to any exchange rate depreciation. It is worth noting that Odisha's debt to GSDP ratio of 17.8 percent is considerably lower than that for India as a whole (68 percent of GDP).

Recently, the Odisha is availing short-term loans from dedicated funds like OMBADC and CAMPA at much cheaper rates (about 150-200 basis points less than market rates). This is reducing the average cost of borrowing for the State. Through these short-term loans, the State is exposed to rollover risk. However, the rollover risk is not likely to have a significant impact on the State finances in view of the comfortable liquidity position.

Chart 3.1- Debt to GSDP and Debt servicing as a percentage of Total Revenue Receipts



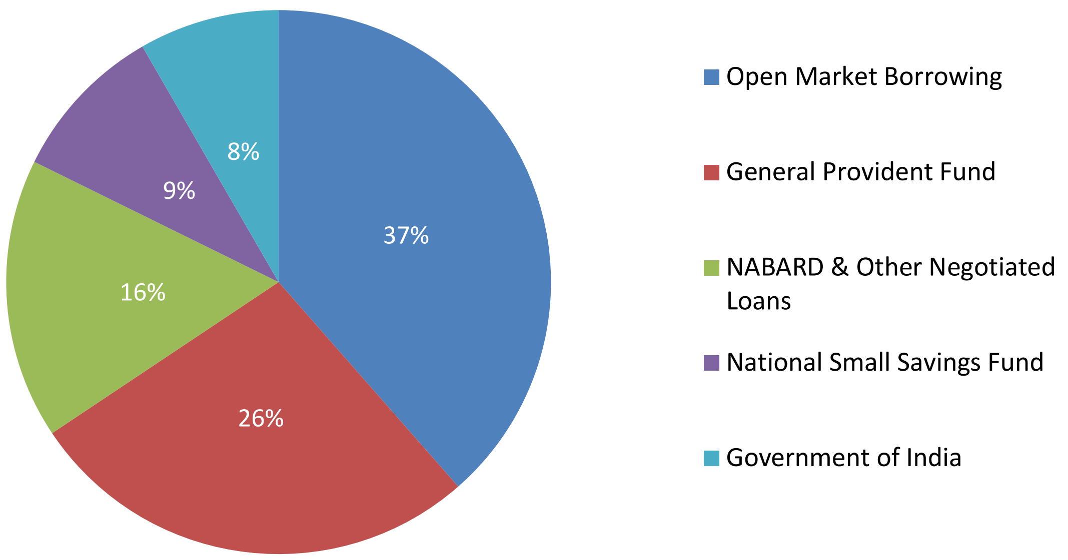
3.2 DEBT PORTFOLIO OF THE STATE

The composition of debt stock in the State (Chart-3.2) has also witnessed a transition from some of the high cost borrowing sources such as National Small Saving Fund (NSSF) to low cost borrowing sources. The State is availing short-term loans at cheaper interest rate from funds setup for dedicated purposes such as OMBADC and CAMPA. The State Government can borrow up to 60 percent of the surplus fund available in these funds. These loans

substitute some of the high cost borrowings of the State Government. Therefore, overall the cost of borrowing and thus debt servicing cost will come down in coming years.

Broadly the five largest sources of borrowing are shown in the chart below.

Chart 3.2- Composition of Public Debt



3.3 DEBT OUTLOOK

The debt outlook of the State Government in the medium term appears to be within the FRBM Act prescribed ceiling and sustainable level. The State Government has to resort to higher borrowing in the current financial year to meet the immediate Covid-19 expenditure. The total debt stock of the State is 20.91 percent of GSDP in FY 2020-21. The total debt stock is set to increase over the next three years. It is estimated to be approximately 22.46 percent of GSDP in FY2023-24. The higher borrowing is mainly to meet higher capital expenditure, which in turn facilitates higher growth of the State Economy. The Interest payment cost is expected to fall to 1.27 percent of GSDP in FY 2023-24 from 1.41 percent of GSDP in FY 2020-21. The fall in debt servicing cost is mainly due to borrowing from cheaper sources such as open market borrowing, loans from OMBADC and CAMPA etc. At the same time, with the retirement of some high cost old loans, the interest payment will go down in near future.

4. SPECIFIC RISKS

The specific risks include risks emerging out of the various factors like risks associated with Public Private Partnerships, Public Sector Undertakings, risks due to natural disasters, risks out of Government Guarantee and others which have been discussed as under.

4.1 PUBLIC PRIVATE PARTNERSHIPS

Public Private Partnership (PPP) is a significant global concept for developing infrastructure especially meant for public use. PPPs have opened up an alternate route for private sector investment, while utilizing the managerial & technical competencies of the private sector, to achieve the goals of sustainable, inclusive economic growth and accelerated human development. Odisha State PPP Policy, 2007 was formulated to popularise the use of PPP for development of public infrastructure in the State.

4.1.1 ODISHA PPP POLICY, 2007

The Odisha PPP Policy - 2007 envisages following objectives to guide the State Government initiatives on PPP:

(i) To leverage State and Central Government funds, support private investment and to create a conducive environment to utilize the efficiencies, innovativeness & flexibility of the private sector to provide better infrastructure & service at an optimal cost.

(ii) To set up a transparent, consistent, efficient administrative mechanism to create a level playing field for all participants and protect interest of all stakeholders.

(iii) To prepare a shelf of projects to be offered for PPP and take them forward with assistance of the owner departments through a transparent selection process.

(iv) To put in place an effective and efficient institutional mechanism for speedy clearance of the projects.

(v) To provide necessary risk sharing framework in the project structure so as to assign risks to the entity most suited to manage them.

(vi) To create a robust dispute redressal mechanism / regulatory framework for PPP projects.

(vii) To provide the required Viability Gap Funding (VGF) where the essential projects are intrinsically unviable.

4.1.2 CREATION OF DIRECTORATE OF PPP IN FINANCE DEPARTMENT

Earlier PPP & PM Cell functioning in Planning & Convergence Department was the nodal office for PPP projects in Odisha which is now disbanded. This responsibility has been transferred to newly formed Directorate of PPP in Finance Department since 2019. The prime objective of the Directorate is to put in place an institutional mechanism for monitoring the operation of completed, on-going and pipeline PPP projects with due recognition to fiscal risk associated with each project. The Directorate of PPP functions as an integrated Directorate within Finance Department and the Finance Secretary acts as the PPP Secretary.

4.1.3 STATUS OF PPP PROJECTS

Government of Odisha has a growing portfolio of PPPs. Completed projects account for 1.64 percent of GSDP and are concentrated in the transport sector. Projects in pipeline and ongoing projects account for 1.43 percent and 0.95 percent of GSDP respectively. Ongoing projects are concentrated mainly in sectors such as transport and urban development. As per the priorities of the government, the PPP projects in pipeline are concentrated in the sectors like energy, health, and urban development.

Table 4.1.1- Project Cost of PPPs in Odisha by Sector (Rs. in Crores)

Sector	Status of Project					
	Completed		On-going		In Pipeline	
	Number	Cost	Number	Cost	Number	Cost
Urban Development	17	669	9	1,645	9	847
Health	10	-	2	322	2	2,620
Finance & Revenue Related	1	87				
Transport	3	5,061	4	2,784	1	2,110
Industrial Infrastructure	4	785	1	100		
Roads	2	1,479				
Tourism	2	51				
Education	14	35	1	10	1	40
Energy Related	2	158			2	1,616
Food Supplies & Consumer Welfare	2	40			1	46
Total Percent of GSDP	**57**	**8,365 (1.64)**	**17**	**4,861 (0.95)**	**16**	**7,279 (1.43)**

Source: Directorate of PPP

4.1.4 RISKS ASSOCIATED WITH PPPs

Depending on the design, PPPs can create fiscal commitments as well as explicit and implicit contingent liabilities. In Odisha, some of the PPP projects like Road, Bulk Water supply Project are injected with Viability Gap Funding (VGF) by Government of India as well as the State. Similarly, Rice Storage godowns created through PPP are funded with state VGF. Under Government of India (GoI) VGF funding a one-time grant of up to 20 percent of total project costs is paid to the operator to construct and operate a facility. The State also contributes VGF funding up to a maximum of a further 20 percent if required.

On 7th December, 2020 GoI has issued revamped guidelines for PPP extending the VGF to social sectors like wastewater treatment, water supply, solid waste management where VGF shall be up to 60% of the capital cost of the project with 30% share from Government of India and balance from State. For pilot projects in social sectors like healthcare & education,

VGF amount shall be up to 80% of the capital cost (40% by Central Government) and provision of funding support to cover 50% of Operational expenses for 5 years.

The VGF mode avoids annual payment commitments by government but depending on the details of the contract it may involve the government to bear any explicit or implicit risk. There are also projects based on a revenue sharing model concession in Odisha, especially in port sector projects that generate a stream of annual revenues for government from a share of the concessioner's revenue stream. However, there are very few annuity model PPPs in Odisha, under which government is committed to a stream of annual payments to a PPP operator to finance services in a long-term contract.

Table 4.1.2- Major PPP Projects

Sl No.	Name of the project	Sector	Project Cost Amount (Rs. in Crore)		
			Govt. Contribution	Private Contribution	Total
1	4 Laning of Sambalpur-Rourkela SH-10 Highway	Road & Transport	465	966	1,431
2	Dhamara Port	Road & Transport	-	3,639	3,639
3	Gopalpur Port	Road & Transport	-	1,411	1,411
4	Riverine Port at Mahanadi	Road & Transport	-	2,110	2,110
5	Greenfield energy efficient street lighting project in 113 ULBs	Urban Development	270	-	270
6	Development of Regional Landfill and Municipal Solid Waste Processing Facility for Bhubaneswar and Cuttack + Waste to Energy	Urban Development	-	252	252
	Total		**735**	**8,378**	**9,113**

4.1.5 PPP RISK ANALYSIS

Looking at the investment in PPP projects as a percentage of GSDP, the risk associated with PPP projects is insignificant. Odisha has replicated projects having a success history thus is exposed to lower risk. The land alienation process experiences a risk to housing, road and port projects. In renewable energy sector, the cost of production is higher making them unviable. Odisha is in the process of maturity of PPP projects and handles risks by learning from own experiences and from others as well, by way of risk avoidance, mitigation, intermittent modification of contract agreement by incorporation of suitable clause. Hence, fiscal risk associated with the PPP projects has been estimated as low.

A register has been developed with the help of IMF SARTTAC experts to record, monitor and assess the risk components of PPP projects. The projects have been divided into three broad categories, viz., completed, on-going and pipeline projects. It is being updated regularly with

the inputs received from various line departments. It captures all relevant data and necessary information relating to any specific PPP project. This will enable in assessing and quantifying any potential risk that may arise from a project. This in turn will help policymakers in timely and well-informed decision making to minimise the risks.

4.2 PUBLIC SECTOR UNDERTAKINGS

At present there are 36 working PSUs in the State in various sectors such as power, agriculture, finance, infrastructure, manufacturing etc. Majority of the working PSUs are profit making. As per 2018-19 data, out of 36 PSUs, only 8 PSUs have incurred losses in that financial year. However, if we consider cumulative profit or loss till end of FY 2018-19, about 18 PSUs are operating with losses. The State PSUs receive budgetary support in the form of equity capital, loans and subsidies from the State Government. The total investment[3] of the State Government in PSUs is about Rs.18,297 crore which include both equity investment as well as long term loans extended to the PSUs. Therefore, it is critical to monitor the fiscal position of the PSUs and assess contingent liabilities so that appropriate risk mitigation measures could be adopted.

Table 4.2.1: Sector-wise State Government investment (Rs. in crore) in PSUs

Name of Sector	Equity	Long Term Loans	Total Investment
Power	4048.67	11354.6	15403.27
Finance	582.08	570.14	1152.22
Service	218.68	3.29	221.97
Infrastructure	678.31	240.05	918.36
Others	502.6	98.14	600.74
TOTAL (Percent of GSDP)	**6030.34 (1.18%)**	**12266.22 (2.41%)**	**18296.56 (3.59%)**

4.2.1 FISCAL PERFORMANCE OF PSUs

Some of the profit-making PSUs of the State are Odisha Mining Corporation (OMC), Odisha Power Generation Corporation (OPGC), and Odisha Hydro Power Corporation (OHPC). On the other hand, GridCo, Odisha Rural Housing and Development Corporation (ORHDC) and IDCOL Kalinga Iron Works are some of the loss incurring PSUs of the State. The State Government is most vulnerable to risks from the power sector PSUs, especially GridCo. The power sector PSUs represent about 70 percent of State Government investment in PSUs, about 94 percent of outstanding government guarantees and 86 percent of loans extended to PSUs.

Financial stress is mostly concentrated in the power sector. The architecture of the power sector is that there are multiple electricity generators, an electricity company and multiple distribution companies. The GridCo purchases power from multiple power generating companies at a price higher than the regulated sale price of electricity. The DISCOMs are

[3] CAG Report on functioning of State PSUs

operating at loss too. The reasons for poor financial health of the DISCOMs are unscientific tariff schemes, high AT&C losses and operational inefficiencies. GridCo is incurring consistent losses because of unrealized receivables from the DISCOMs over the years.

Although the State PSUs are subject to oversight by their respective Administrative Departments and Public Enterprises Department, but no consolidated report on the financial health of all the PSUs is being produced. It is critical for the State Government to closely monitor the performance and financial condition of each PSU because they can pose significant fiscal risks to the State Government. It is on this backdrop, Finance Department in consultation with *IMF SARTTAC* has undertaken fiscal risk assessment of major PSUs of the State. Since this is the first time fiscal risk analysis of PSUs is being done, a sample of 30 important PSUs of the State is taken for conducting the risk analysis.

4.2.2 RISK ASSESSMENT OF STATE PSUs

The *IMF Risk Assessment Tool* is used to assess the fiscal health of the PSUs. The PSUs have been segregated into Non-financial and Financial sector PSUs following the best practices for financial health analysis of the PSUs. The qualitative assessment of the PSUs has been supplemented with quantitative analysis through analysis of annual reports of PSUs. The quantitative analysis constitutes both balance sheet and profit-loss statements analysis of PSUs.

Risk assessment of PSUs has been done based on four risk indicators such as liquidity, solvency, profitability and financial performance of the PSU. Each of the indicators has been assessed based on certain ratio calculation such as *Current Ratio, Quick Ratio, Debt to Equity Ratio, Debt to Assets Ratio, ROA, ROE, Cost Recovery Ratio* etc.

The risk assessment of PSUs indicates that the likelihood of risk materialization from PSUs of the State is low to moderate. The power sector PSUs especially Grid Corporation of Odisha (GridCo) and Odisha Power Grid Corporation (OPGC) are currently operating at relatively higher risk level vis-à-vis other power sector PSUs. The financial sector PSUs such as Odisha State Financial Corporation (OSFC) and Utkal Grameen Bank (UGB) are too operating at moderate to high risk level. The overall fiscal risk associated with the State PSUs would be moderate. The financial position and functioning of these PSUs will be monitored actively. Please refer the FISCAL RISK MITIGATION chapter for measures taken to improve fiscal condition of PSUs.

4.3 GOVERNMENT GUARANTEES

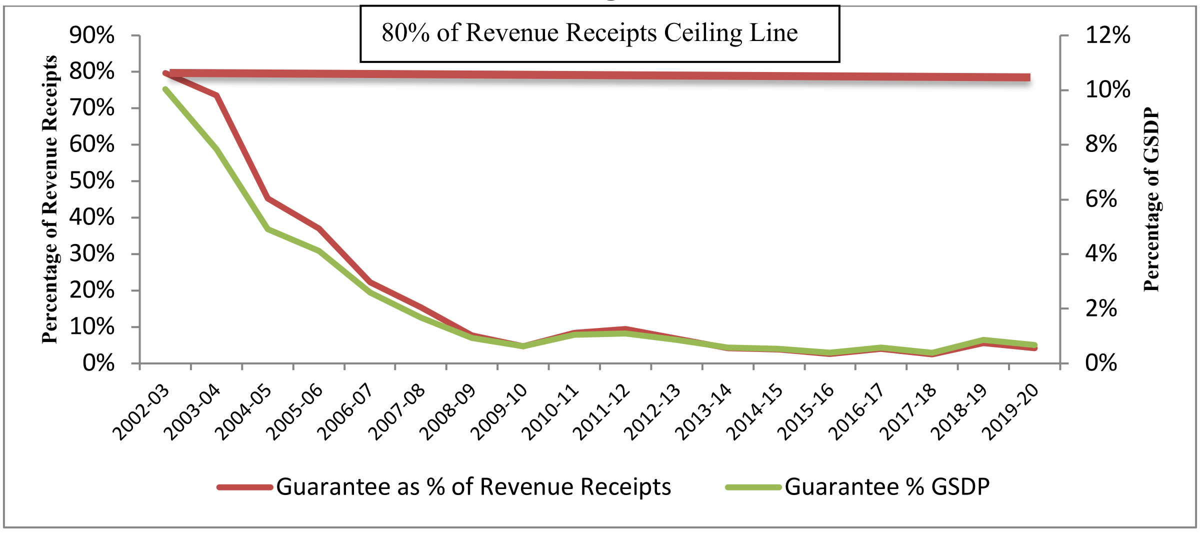
The total outstanding government guarantee as on 31st December 2020 is Rs.7,085.51 crore which is 1.39 percent of GSDP. The guarantees do not form a part of the State government's loans, but it becomes incumbent on the State Government to discharge the guaranteed loan liability in case of failure on part of the borrowing organisations to service their debt covered under such guarantee. The guaranteed loan as a percentage of revenue receipts

(Total Revenue Receipts of the second preceding year) has reduced significantly from 123.37% in 2001-2002 to 5.23% during 2019-20. Major part of the guaranteed loan is availed by power sector PSUs.

Table 4.3.1- Sector-wise Outstanding State Guaranteed Loan (Rs. in Crore) as on 31st December 2020

Sector	Guaranteed Loan Availed	Outstanding Loan
Energy	14835	6985.29
Housing & Urban Development	719.13	0.84
Agriculture	18.41	11.29
Handlooms	69.63	0.08
Co-Operatives	1277.35	54.11
Women & Child Development	17.13	1.84
MSME	595.23	14.39
Others	NA	17.66
TOTAL (Percent of GSDP)		**7085.51 1.39%**

Chart 4.3.1 - Outstanding State Guaranteed loan



As per the ceiling policy of the State Government, the outstanding government guarantees in a financial year should not exceed 80 percent of revenue receipts of the second preceding financial year. The outstanding government guarantee as a percentage of revenue receipts has been consistently reduced from as high as 80 percent in 2002-03 to about 5 percent in 2019-20. The overall fiscal risk exposure of the State Government due to guaranteed loan is low (about 1 percent of State GSDP). In addition, the Government has a Guarantee Redemption Fund with a balance equivalent to approximately 20 percent of the outstanding stock of guarantees (see section 5.2.2) and an Escrow Account requirement for the repayment of guaranteed loans (section 5.2.3). Nevertheless, the total guarantee exposure is monitored closely to avoid materialization of any risk in future.

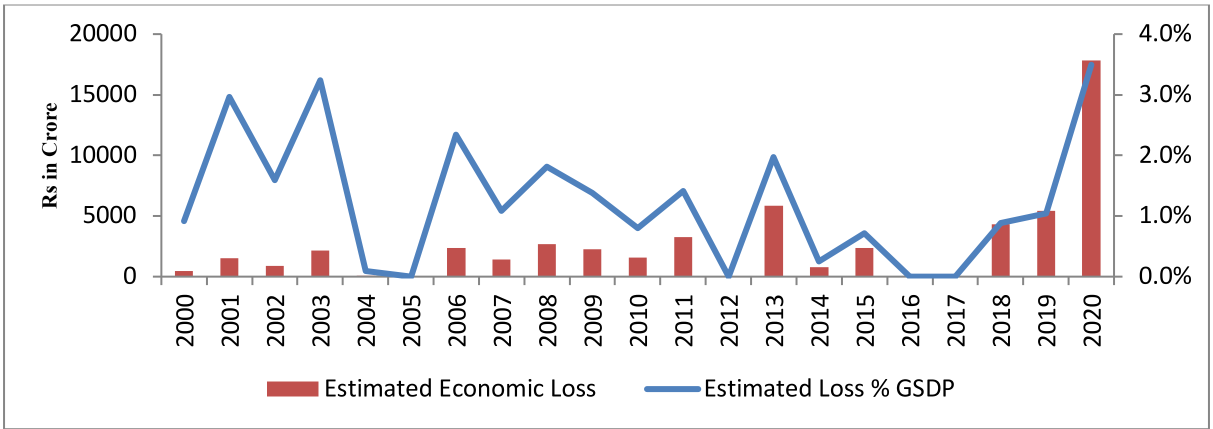
4.4 NATURAL DISASTERS

The geographical position of Odisha makes it prone to various natural disasters. Tropical cyclones ravage the coastal districts of the State almost every year. Besides the tropical cyclone, the State faces frequent floods due to heavy rain. Agriculture being an important economic activity of the State is heavily affected due to flood and drought because of unpredictable rainfall pattern across the State. The economic loss due to such frequent natural disasters put heavy burden on the State Finances. A lot of State resources go in management and mitigation of such frequent natural disasters. The State Government has to deploy resources immediately towards rescue, relief, rehabilitation, resettlement and restoration of critical infrastructure.

4.4.1 ECONOMIC LOSS DUE TO NATURAL DISASTERS

Apart from losses to life and property, natural disasters also lead to crop failure, decline in surface and groundwater level, increasing unemployment and under-employment, migration, and indebtedness. The natural disasters dent economic growth of the State. In addition to frequent tropical cyclones, the frequency of drought and flood is increasing every year. On an average, the State incurs losses of about 0.5 percent of GSDP. In the year 2020, the economic loss due to natural disaster was around Rs.17.804 crore (3.5 percent of GSDP).

Chart 4.4.1 – Estimated Economic Losses in Odisha due to natural disasters 2000-2020



**Source: Revenue & Disaster Management Department, Odisha Government*
** Economic Losses include crop loss, infrastructure damage, livestock loss, private property*

4.4.2 OVERALL RISK LEVEL DUE TO NATURAL DISASTERS:

The fiscal risk analysis shows that the financial risk to the State due to various natural disasters is very high. Therefore, recognition of fiscal risks due to Natural Disaster is critical for devising risk mitigation strategy effectively and efficiently. Besides the dedicated constituted funds to finance disaster response and management (section 5.2.6), it is critical to frame appropriate fiscal policy because the frequency of extreme climatic events will be higher in future due to climate change.

5. FISCAL RISK MITIGATION

Fiscal risk mitigation framework consists of mechanisms to handle the wide array of fiscal risks that the state is exposed to while carrying out social and economic developments. There are number of State public sector enterprises especially in the power sector for providing necessities to people. It has to undertake Public Private Partnerships in areas like infrastructure development where the private sector is non-existent. Natural disaster is yet another risk that shatters the social and economic fabric every now and then.

This creates a huge opportunity to put in place a robust fiscal risk mitigation framework so as to ensure rapid development of the state. The three broad pillars of the fiscal risk mitigation framework are-

Institutional arrangement	**Macroeconomic policy response**	**Administrative/Legal Framework**

5.1 INSTITUTIONAL ARRANGEMENT

5.1.1 FISCAL RISK COMMITTEE

The biggest institutional arrangement for oversight of fiscal risk is the creation of Fiscal Risk Committee in Finance Department under the chairmanship of Principal Secretary Finance.

The broad functions of the committee are

- To monitor the framework for fiscal risk management, quantifying risks and developing risk mitigation measures in priority areas.
- To evaluate Fiscal Risk Statements, drawing on inputs from Strategic Macro Fiscal Planning Unit and other parts of Finance Department and Government.
- Reviewing fiscal flows and transaction between government and PSUs; Financial performance and the position of PSU sector and individual PSUs.

5.1.2 DEPARTMENT OF PUBLIC ENTERPRISES

To regulate the functioning of State Public Sector Enterprises, Public Enterprises Department was created as the "Nodal Department of State Enterprises" on 4th January 1991. Since then it is rendering service in all functional areas of control and management in State Public Sector Enterprises.

5.1.3 DIRECTORATE OF PUBLIC PRIVATE PARTNERSHIP

The Directorate of PPP evaluates different aspects of risks and financial viability of the projects. All the PPP projects are also appraised to the ECI or HLCA where a panel of senior officers examined the projects in details including financial implications. Again the basic documents like RFPs, DPRs are also evaluated by PPP Directorate in terms of fiscal prudence. Project monitoring is also made by the PPP Directorate as the projects are

evaluated at different stages starting from commencement of projects till the implementation and concession period. Some of the projects are modified in terms of fiscal prudence when it is replicated after taking the feedback from the implemented projects of similar types.

5.2 MACROECONOMIC POLICY RESPONSE

5.2.1 CEILING ON GUARANTEES

The State Government has fixed the ceiling on guarantees during 2002-03 to regulate the guarantees as follows: “The total outstanding Government guarantees as on 1st day of April every year shall not exceed 100 per cent of the State Revenue Receipts of the second preceding year as reflected in the books of accounts maintained by the Accountant General. Attempts should be made to bring this gradually to the level of 80 per cent over next five years.”

The guaranteed loan outstanding as percentage of the Revenue Receipts of the 2nd preceding year has been reduced drastically in the last seventeen years and the same has come down from 127.37% during 2001-2002 to 5.04 % during 2019-20.

5.2.2 GUARANTEE REDEMPTION FUND

The Govt. of Odisha has created a “Guarantee Redemption Fund” during 2002-03 with initial contribution of Rs.20.00 crore. The Fund is operated outside the State Government account and is administered by Reserve Bank of India. The proceeds of the fund are being invested and re-invested in Government of India Securities. The accumulation in the Guarantee Redemption Fund along with the interest accrued thereon stands at Rs. 1400 crore as on December 2020 and would be utilised for meeting the payment obligations arising out of guarantees.

5.2.3 ESCROW ACCOUNT

In order to enforce financial discipline in the Public Sector Undertakings/Urban Local Bodies/ Co-operative Institutions and State owned companies etc., and to minimize the risk of default on payment of Government Guaranteed Loans, the State Government (Finance Department) in their resolution No. 11311/F., dt.19.03.2004 have issued instructions that the Public Sector Undertakings/Urban Local Bodies/Co-operatives institutions who have borrowed or intend to borrow against Govt. Guarantee will open an “Escrow Account” in a Nationalized Bank for timely repayment of Guaranteed Loans. The proceeds of this account shall first be utilized for payment of dues of the Financial Institutions and it is only after meeting such payments, the surplus amount shall be diverted for other payments including salaries.

5.2.4 GUARANTEE COVER ONLY FOR THE PRINCIPAL AMOUNT

With a view to limiting the guarantee exposure of the State, the Government took a decision during Nov, 2006. (Finance Department Resolution No.46546/F., dt.14.11.2006) that hence forth, the government guarantee shall be confined only to Principal Amount

borrowed by the Public Sector Undertakings/ Urban Local Bodies/ Co-operative Institutions/ Companies etc.

5.2.5 CONSOLIDATED SINKING FUND

Government of Odisha created a Consolidated Sinking Fund (CSF) in 2002-03 with objective to utilize the corpus of the fund for amortization of debt in crisis years. The State had been making annual contribution equivalent to 0.5 percent of outstanding liability to the fund till the corpus reached 5 percent of outstanding liability. The scope of the fund has been expanded now to cover the foreign currency exchange risk related to external borrowing. The present corpus of the CSF is about 10 percent of the outstanding liability of the State Government.

5.2.6 DISASTER RESPONSE AND MITIGATION FUND

The State Government maintains a State Disaster Response and Mitigation Fund (SDRMF) with annual contribution of about 0.3 percent of GSDP as determined by successive Finance Commissions. The corpus of the fund takes care of the immediate response and restoration from the natural calamities. If the corpus of the fund becomes inadequate to meet the requirement in case of severe calamities, there is a mechanism of transfer of resources from the National Response and Mitigation Fund (NDRMF).

5.2.7 CORPORATE GOVERNANCE MANUAL FOR THE STATE PSUS

The State Government has adopted the “Corporate Governance Manual for the State PSUs” in 2010 as a policy to institute a system of good corporate Governance practices for Public Enterprises so as to enhance transparency, accountability & certain measure of autonomy in their operations and improving their performance.

5.3 ADMINISTRATIVE/LEGAL FRAMEWORK

5.3.1 INDUCTION OF INDEPENDENT DIRECTORS IN THE BOARD OF PSUs

As part of Corporate Governance measure, Department of Public enterprises has created a panel of eminent persons of various fields/ professionals as Independent Directors and hoisted the same in the Department website and intimated the same to the PSUs out of which PSUs can select Independent Directors to be in their Boards. The main responsibility of the Independent Directors is to provide independent and broader perspective suggestions to their respective Board as well as the company.

5.3.2 AUDIT OF PSUs

Department of Public Enterprises, Odisha in the presence of the Administrative Department of the State PSUs and Accountant General, Odisha review the audit position of the PSUs at regular interval and advise the defaulting PSUs to complete the annual audit and compilation of accounts in time.