

EVALUATION OF STATE FINANCES

With Reference to the State of Nagaland

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CHAPTER 1

INTRODUCTION

1.1 Profile of Nagaland

Nagaland attained statehood on 1st December, 1963 as a special category state. It is one of the states in North Eastern region of India, bounded by three states viz. Assam in the North and West, Arunachal Pradesh in the East and Manipur in the South. The state shares international border with Myanmar in the East. The state's topography is mountainous and the altitude varies approximately between 194 meters and 3048 meters above sea level. The state has a geographical area of 16579 sq.kms (0.51% of the country's area). The State's capital is Kohima town and it has 11 districts. According to 2011 census, it has a total population of 19,78,502, (constituted 5.09 per cent of the population of NER), out of which, 71.14 reside in rural areas and 28.86 per cent live in urban areas. The sex ratio is 943 females per '1000 male, with a density of 119 people per sq km. The state's literacy rate is 79.55 per cent, out of which the male literacy is higher with 82.75 per cent against female rate of 76.11 per cent. Since its statehood, the state has made significant progress specially in human development aspect, where the literacy rate, infant and maternal mortality rates are above the national average.

The state is home to 16 major tribes, viz., Angamis, Aos, Lothas, Sumis, Konyaks, Rengmas, Chakesangs, Khiamniungan, Chang, Sangtam, Phom, Yimchungru, Pochury, Zeliang and numerous other tribes. Each tribe is unique in character with its own distinct customs, languish and dresses.

For Local self-governance, Nagaland has institutionalised its traditional village administration system well ahead the commencement of the Panjayati Raj Act through the Nagaland Village and Tribal council Act, 1978. Each village has Village Council (VC) that looks after administration and under its ambit, Village Development Board looks after developmental activities in the village. Enactment of Communitization of Public Institutions and Services Policy, 2002 is an important step towards decentralization of the resource management that opens avenue for community/stake holders to directly get involved in planning, management, supply of basic services like education, health, electricity, water supply etc.

In urban areas, Urban Local Body (ULBs) of the municipalities and town councils are engaged in providing basic services and resource mobilization. Sufficient fund needs to be allocated to these grass root institutions to ensure effective and inclusive growth. In recent years these Local bodies in villages and towns are assuming more active roles in carrying out a number of centrally sponsored programmes. Therefore, Finance Commission needs to recommend performance and basic funds for both local bodies, otherwise it may hamper their activities.

1.2 The Economy

The GSDP in Nagaland has been growing although at a fluctuating rate over the recent years. The cumulative growth rate of GSDP is estimated at 7.91% during 2006 – 2016.

Table no 1.1: **GSDP and percentage increase 2006-07 to 2015-16**

years	GSDP (Rs. in crores)	% increase
2006-07	6937.85	7.80%
2007-08	7445.37	7.32%
2008-09	7916.87	6.33%
2009-10	8462.58	6.89%
2010-11	9253.99	9.35%
2011-12	10023.85	8.32%
2012-13	10671.06	6.46%
2013-14	11367.06	6.52%
2014-15	12139.65	6.80%
2015-16	14851.11	22.34%

Sources: RBI and Central Statistical Office.

The percentage growth rate ranges from 6 % to 9% during 2006-07 to 2014-15, there after observed an abrupt increase of 22% during 2015-16, the highest rate. The GSDP increased from Rs. 6937.85 crores in 2006-07 to Rs.14851.11 crore in 2015-16. The per capita income (in NSDP) has increased from Rs.53010 in 2011-12 to Rs.63568 in 2016-17. Nagaland Economic Survey (2015-16) reveals that tertiary sector is the largest contributing sector in GSDP (with 56.18%), followed by primary (with 31.41) and Secondary sectors (with 12.41%).

Among the sub-sectors in the economy, Crop production continue to be the most dominant activity in the State, which share constituted for 20.44% in GSDP during 2015-16, followed by

other services with 17.51% and construction with 12.98%. At the bottom, Mining and Quarrying and Fishing and Aquaculture were with 0.32% and 0.42% respectively.

1.3 State's Fiscal Position:

In 2015-16, the State has a revenue surplus of Rs.461.47 crore, which show positive trend during the observed period. The revenue surplus as percentage of GSDP ranges between 3.11 per cent to 8.78 per cent during 2006-07 to 2015-16. While the fiscal deficit accounted for Rs. 3139.42 crores and primary deficit of Rs.2552.97 crores in 2015-16. It is seen that fiscal deficit as percentage of GSDP varies from 5.04 to 26.51 per cent during 2006-07 to 2015-16. The primary deficit has varied during the period of observation with an annual average of Rs.1151.88 crores during 2006-2016, whereas, the percentage of GSDP fluctuated between 0.78 to 22.29 per cent.

Revenue

It is seen that the share of state own tax revenue in the total revenue was 4.29% in 2006-07 which rose to 5.31% in 2015-16. The share of state own non-tax revenue in the total revenue was 3.29% in 2006-07, which decline to 3.19% in 2015-16. Thus, it can be seen that only a meagre percentage of revenue comes from State's own resources during 2006-07 to 2015-16. The balance revenue comes from GoI in the form of State's share of taxes and grants-in-aid. The share of central transfer through tax devolution in State's total revenue receipt has increased from 11.43% in 2006-07 to 15.53% percent in 2015-16, but the share of grants-in-aid from centre to the state in the total revenue receipts of the state declined significantly from 80.99% in 2006-07 to 75.97% percent in 2015-16. Thus, it can be seen that the state heavily dependent on central aid, as state own revenue (tax and non-tax revenue) accounted for only 8.50% of the total revenue in 2015-16.

Total revenue receipts of the State increase from Rs. 2772.52 crore in 2006-07 to Rs. 8043.57 crore in 2015-16 showing an annual compound growth rate of 11.24% during the period. The growth rate for four years, viz, 2006-07, 2008-09, 2010-11 and 2014-15 remained higher than the overall growth of revenue receipts whereas, the growth rate in 2007-08, 2009-10, 2011-12, 2012-13, 2013-14 and 2015-16 remained lower than the overall growth of revenue receipts.

Expenditure:

The state expenditure has increased from Rs. 2932.88 crores during 2006-07 to Rs. 8641.15 crores during 2015-16. The contribution of revenue expenditure to the total expenditure continue about 75% during the whole period, followed by capital outlay which fluctuates between 12 to 25 per cent during the same period. The contribution of loans and advances in the total expenditure remains negligible, with less than 1%.

The annual average growth rate of total expenditure during 2006-16 was 11.41% which ranges from 1.45% to 25.19%. In the total expenditure, the average growth rate of revenue expenditure was with 13.06%, which is higher than the average growth rate of total expenditure. The average annual growth rate of total capital outlay during 2006-16 was 4.07% with wide fluctuation in the year-wise growth rate. For loans and advances, the average annual growth rate was negative with -16.40% during 2006-16.

Debt:

Due to limited capacity to mobilise its own resources, with increasing activities and expenditures, the mismatch between the expenditure and revenue collection effort of the state government led to continuous borrowing and cumulative debt burden to the problem of fiscal imbalance. The fiscal scenario of the state became so precarious that the State had to depend on Ways and Means Advance mainly to meet the needed expenditure obligations, which shares 65.34% of the total internal debt in 2015-16. The public debt has accumulated to Rs.6736.24 crore in 2015-16 (33 per cent of GSDP) and the total liabilities accumulated at Rs. 8931 crores (44% of GSDP). That constituted 111% of the total revenue receipt in 2015-16. Annual payment of interest on liabilities grow at 8.9 % during 2006 to 20016 and the interest payment of Rs. 586.45 crores in 2015-16 constituted 7 % of the total revenue receipt.

The annual addition to public debt increased from Rs.722.2 crores to Rs.3546.13 crores during 2006-07 to 2015-16, correspondingly, its percentage share in GSDP increased from 10.41 to 23.88 per cent. In 2015-16 the current year addition to public debt constituted 58% of the total revenue receipt. The State government is increasingly relying on internal debt to raise fund for its functioning. The market loans were the major source till 2010-11 (with 76.69%), since then the share of Ways and Means Advances from RBI assumes major share with 65.35% in 2015-16.

The increased diversion of borrowed funds to meet the revenue expenditure, reduction in capital component expenditure and mounting debt burden are the prominent symptoms of serious illness of the fiscal system of the state. With the poor fiscal health, which deteriorates on yearly basis, the Chief Minister of Nagaland, in the 13th Nagaland Legislative Assembly stated that Nagaland budget of 2018-19 closed with a deficit of Rs. 1,661.68 crore. This is substantiated by the RBI data, which says fiscal deficit soars with Rs.11.6 billion in the fiscal year 2015-16 in the state.

To medicate the fiscal problem, Nagaland Government signed a MOU with the Ministry of Finance and introduced fiscal as well as institutional and sectoral reforms. Some of these are, (i) introduction of VAT, now GST in the state, which is to increase the revenue from its own source and (ii) legislation of Fiscal Responsibility and Budget Management Act, 2005. The objective of the bill was to provide for the responsibility of the State Government to ensure prudence in fiscal management and fiscal stability by achieving revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium-term framework and for matters connected therewith or incidental thereto.

It strives to:

- i) *build and maintain revenue surplus*
- ii) *bring down fiscal deficit to 3% of projected Gross State Domestic Product (GSDP) by the year ending 31st March 2009.*
- iii) *the total debt stock does not exceed 40 per cent of the estimated GSDP for that year*
- iv) *limit the amount of annual incremental risk weighted guarantees to 1% of the Total Revenue Receipt (TRR) or the estimated GSDP in the year preceding the current year, whichever is lower;*
- v) *the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 61% in any financial year.*

The implementation of FRBM, 2005 show some mixed outcome on the state fiscal situation that,

- a. *The revenue surplus as a percentage to GSDP remained positive*

- b. The state could not maintain the fiscal deficit below 3.5% of GSDP as targeted during any of its mid-term fiscal plan (MTFP).*
- c. The primary deficit as a percentage to GSDP was above 10% for most of the years.*
- d. Total salary and wages as a percentage to total revenue net of pension and interest payment remained below 61% of the target for most of the mid-term fiscal plan.*
- e. The total debt stock of the state did not increase beyond 40% during the whole period.*

CHAPTER 2

REVENUE RECEIPTS

2.1. Composition, Trends and Growth in Revenue Receipts:

Revenue Receipts of the State Government consist of own tax revenue, own non-tax revenue, central tax transfers and grants-in-aid from Government of India (GoI). Table 2.1 depicts the composition of revenue receipts of the state government. It is seen that the share of state own tax revenue in the total revenue was 4.29% in 2006-07, which rose to 5.48% in 2012-13 and then decline to 5.31% in 2015-16. The share of state own non-tax revenue in the total revenue was 3.29% in 2006-07 which rose to 5.31% in 2008-09 and then decline to 3.19% in 2015-16. Thus, it can be seen that only a meager percentage of revenue comes from State's own sources during 2006-07 to 2015-16. The balance revenue comes from GoI in the form of State's share of taxes and grants-in-aid. The share of central transfer through tax devolution in State's total revenue receipt has increased from 11.43% in 2006-07 to 15.53% percent in 2015-16, but the share of grants-in-aid from centre to the state in the total revenue receipts of the state declined significantly from 80.99% in 2006-07 to 75.97% percent in 2015-16. Thus, from the table it can be seen that the state dependence on central aid is still large. Revenue Receipts' and GSDP:

The annual growth rate of state revenue is shown by figure 2.1 and table no 2.2. Total revenue receipts of the State increase from Rs. 2772.52 crore in 2006-07 to Rs. 8043.57 crore in 2015-16 showing an annual compound growth rate of 11.24% over a period of 2006-07 to 2015-16. However, it can be seen that there is high fluctuation in year wise growth rate of revenue during this period ranging from 4.73% in 2013-14 to 34.42% in 2010-11. The growth rate for four years, viz, 2006-07, 2008-09, 2010-11 and 2014-15 remained higher than the overall growth of revenue receipts whereas, the growth rate in 2007-08, 2009-10, 2011-12, 2012-13, 2013-14 and 2015-16 remained lower than the overall growth of revenue receipts.

The overall growth rate of state's own tax revenue was 13.63% during 2006-2016 which is higher than state own non-tax revenue. It also shows high fluctuations in the growth rate during this period from -1.93% in 2013-14 to 33.68% in 2011-12. The yearly growth rate of own tax revenue was higher than the overall growth rate except for 2006-07, 2007-08, 2012-13, 2013-14

and 2015-16. The overall growth rate of state's own non-tax revenue was 10.90% during 2006-2016. It also shows high fluctuations in the growth rate during the same period from -30.02% in 2009-10 to 51.11% in 2008-09. The growth rate for five years, viz, 2007-08, 2008-09, 2010-11, 2011-12, and 2014-15 remained higher than the overall growth of state own non-tax revenue receipts whereas, the growth rate in 2006-07, 2009-10, 2012-13, 2013-14 and 2015-16 remained lower than the overall growth of own non-tax revenue receipts.

The overall growth rate of shared tax was 14.70% during 2006-2016 exhibiting highest growth rate among revenue receipts. However, it also shows high fluctuations in the growth rate during the same period from 2.89% in 2009-10 to 58.85% in 2010-11. Except for 2006-07, 2007-08, 2010-11, 2011-12 and 2015-16 all the other years growth rate is lower than the overall growth of the shared tax. The overall annual growth rate of grant in aid was 10.53% during 2006-2016. The data shows high fluctuations in the growth rate during the same period from -2.68% in 2015-16 to 30.92% in 2010-11. Except for 2007-08, 2011-12, 2013-14 and 2015-16, all the other year growth rate is higher than the overall growth rate of grant in aid from centre.

The overall growth rate of GSDP was 7.91% during 2006-2016. The analysis shows that there is not much fluctuation during the period except that it increased to nearly three folds during 2015-16. Except for 2006-07, 2010-11, 2011-12 and 2015-16, all the other years growth rate is lower than the overall growth rate of GSDP.

The trends and composition in the revenue receipts as a percentage of GSDP are given in table no 2.3. It has been found that own tax revenue as a percentage of GSDP increased from 1.72% in 2006-07 to 2.88% in 2015-16, whereas, own non-tax revenue shows an increase from 1.32% in 2006-07 to 2.32% in 2011-12 but then declined to 1.73% in 2015-16. The figures in the table reveals that shared tax as a percentage to GSDP increased from 4.57% in 2006-07 to 8.41% in 2015-16. Grants from centre as a percentage to GSDP also increased from 32.36% in 2006-07 to 48.84% in 2014-15 but then declined to 41.15% in 2015-16. The total revenue as a percentage to GSDP also increased from 39.96% in 2006-07 to 63.02% in 2014-15 but then decline to 54.16% in 2015-16.

Table 2.1: Composition of Revenue Receipts of the state government (Rs. Crores)

Year	Own Tax Revenue	Own Non-Tax Revenue	Shared tax	Grants from centre	Total Revenue Receipt
2006-07	119.03 (4.29%)	91.14 (3.29%)	316.93 (11.43%)	2245.42 (80.99%)	2772.52 (100%)
2007-08	131.37 (4.38%)	119.48 (3.99%)	399.78 (13.34%)	2345.39 (78.28%)	2996.02 (100%)
2008-09	156.02 (4.59%)	180.55 (5.31%)	421.85 (12.40%)	2642.47 (77.70%)	3400.89 (100%)
2009-10	180.51 (4.85%)	126.35 (3.40%)	434.03 (11.67%)	2978.87 (80.08%)	3719.76 (100%)
2010-11	227.32 (4.55%)	183.14 (3.66%)	689.46 (13.79%)	3900.07 (78.00%)	4999.99 (100%)
2011-12	303.88 (5.44%)	232.95 (4.17%)	803.2 (14.38%)	4246.35 (76.01%)	5586.38 (100%)
2012-13	339.95 (5.48%)	207.17 (3.34%)	917.14 (14.78%)	4740.03 (76.40%)	6204.29 (100%)
2013-14	333.4 (5.13%)	216.57 (3.33%)	1001.27 (15.41%)	4946.67 (76.13%)	6497.91 (100%)
2014-15	388.62 (5.08%)	270.62 (3.54%)	1062.68 (13.89%)	5929.04 (77.49%)	7650.96 (100%)
2015-16	427.10 (5.31%)	256.39(3.19%)	1249.18 (15.53%)	6110.9 (75.97%)	8043.57 (100%)

Sources: RBI

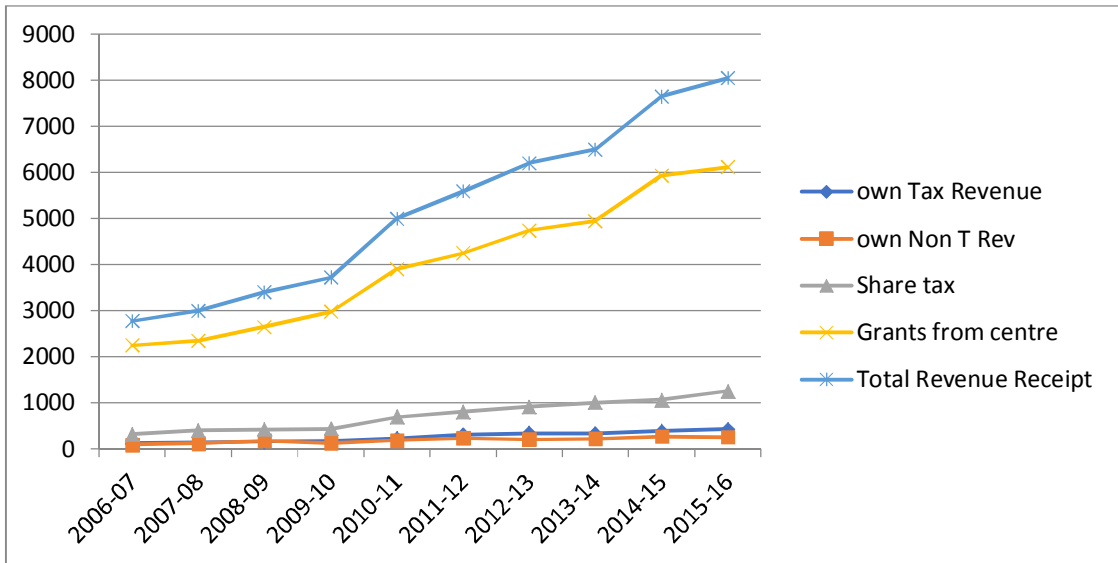
**Figure 2.1: Trends in Revenue Receipts' (Rs. Crores).**

Table 2.2: Annual growth of Revenue Receipts and GSDP (In Percentage)

Year	Own Tax Revenue	Own Non-Tax Revenue	Shared tax	Grants from centre	Total Revenue Receipt	GSDP
2006-07	12.80%	-5.87%	27.53%	23.62%	22.29%	7.80%
2007-08	10.37%	31.10%	26.14%	4.45%	8.06%	7.32%
2008-09	18.76%	51.11%	5.52%	12.67%	13.51%	6.33%
2009-10	15.70%	-30.02%	2.89%	12.73%	9.38%	6.89%
2010-11	25.93%	44.95%	58.85%	30.92%	34.42%	9.35%
2011-12	33.68%	27.20%	16.50%	8.88%	11.73%	8.32%
2012-13	11.87%	-11.07%	14.19%	11.63%	11.06%	6.46%
2013-14	-1.93%	4.54%	9.17%	4.36%	4.73%	6.52%
2014-15	16.56%	24.96%	6.13%	19.86%	17.74%	6.80%
2015-16	9.9%	-5.25%	17.55%	3.06%	5.13%	22.34%
2006-16 (CAGR)	13.63%	10.90%	14.70%	10.53%	11.24%	7.91%

Table 2.3: Component of Revenue Receipts as a percentage of GSDP

Year	Own Tax Revenue/ GSDP	Own Non-Tax Revenue/ GSDP	Shared tax/GSDP	Grants from centre/ GSDP	Total Revenue Receipt/ GSDP	GSDP (Rs. Crores)
2006-07	1.72%	1.31%	4.57%	32.36%	39.96%	6937.85
2007-08	1.76%	1.60%	5.37%	31.50%	40.24%	7445.37
2008-09	1.97%	2.28%	5.33%	33.38%	42.96%	7916.87
2009-10	2.13%	1.49%	5.13%	35.20%	43.96%	8462.58
2010-11	2.46%	1.98%	7.45%	42.14%	54.03%	9253.99
2011-12	3.03%	2.32%	8.01%	42.36%	55.73%	10023.85
2012-13	3.19%	1.94%	8.59%	44.42%	58.14%	10671.06
2013-14	2.93%	1.91%	8.81%	43.52%	57.16%	11367.06
2014-15	3.20%	2.23%	8.75%	48.84%	63.02%	12139.65
2015-16	2.88%	1.73%	8.41%	41.15%	54.16%	14851.11

Sources: RBI and Central Statistical Office.

Revenue buoyancy with respect to GSDP can be seen from Table 2.5. It shows that the buoyancy of own tax revenue, own non-tax revenue, shared tax, grants from centre and total revenue are more than unity for a period of 2006-07 to 2015-16. This indicates that revenue in the state grows more than proportionately to the growth of GSDP. It can also be seen that own tax revenue and own non-tax revenue are more responsive to GSDP than total revenue of the state. However, shared tax and grants from centre are less responsive to GSDP as compared to total revenue of the state. It can be seen from the table 2.4 that the year-wise

revenue buoyancy shows a wide fluctuation during 2006-07 to 2015-16. The buoyancy of own tax revenue shows that it increased from 1.64 in 2006-07 to 4.05 in 2011-12 and then decreased to -.30 during 2013-14 than increased to 2.44 during 2014-15 but decreased to 0.44 during 2015-16. The own non-tax revenue buoyancy exhibits the widest fluctuation from -4.36 during 2009-10 to 8.07 during 2008-09. For the shared tax it was 3.53 in 2006-07 which falls to .42 in 2009-10. However, it rose sharply to 6.29 in 2010-11 and then decreased to .79 in 2015-16. The grants from centre also shows fluctuation from .44 in 2015-16 to 3.31 in 2010-11 which was the highest year-wise buoyancy for grant from centre. The buoyancy of total revenue also shows fluctuation with one-year increase followed by a decline in buoyancy. The highest buoyancy was shown during 2010-11 while the lowest buoyancy was during 2013-14 with .73.

Table 2.4: Year wise Buoyancy of Revenue with respect to GSDP

Year	Buoyancy of Own Tax Revenue with respect to GSDP	Buoyancy of Own Non-Tax Revenue with respect to GSDP	Buoyancy of Shared tax with respect to GSDP	Buoyancy of Grants from centre with respect to GSDP	Buoyancy of Total Revenue Receipt with respect to GSDP
2006-07	1.64	-0.75	3.53	3.03	2.86
2007-08	1.42	4.25	3.57	0.61	1.10
2008-09	2.96	8.07	0.87	2.00	2.13
2009-10	2.28	-4.36	0.42	1.85	1.36
2010-11	2.77	4.81	6.29	3.31	3.68
2011-12	4.05	3.27	1.98	1.07	1.41
2012-13	1.84	-1.71	2.20	1.80	1.71
2013-14	-0.30	0.70	1.41	0.67	0.73
2014-15	2.44	3.67	0.90	2.92	2.61
2015-16	0.44	-0.24	.79	.14	0.23

Table 2.5: Buoyancy of State Revenue (2006 to 2016)

Revenue Heads	GSDP	R2	F- Test
Own Tax Revenue	1.89	0.93	103.67*
Own Non-Tax Revenue	1.89	0.93	109.67*
Shared Tax	1.32	0.76	26.20*
Grants from Centre	1.522	0.93	133.27*
Total Revenue	1.59	0.94	136.84*

*indicates 5% level of significant.

2.2: State's Own Revenue:

State's own revenue compose of state own tax revenue and state own non-tax revenue and the composition and trends of state own revenue is shown by table 2.6 and figure 2.2. From the table it is seen that except in 2008-09 the share of state own tax revenue to total own revenue was more than 50%. The share of own tax revenue to total own revenue was highest during 2015-16 with 65.18%. In contrary, the share of own non-tax revenue to total own revenue rose from 43% during 2006-07 to 53.64% during 2008-09, then the percentage share falls at a fluctuating rate to 34.82% during 2015-16.

Table 2.6: Composition of Own Revenue of the state government (Rs. Crores)

Year	Own Tax Revenue	Own Non-Tax Revenue	Total Own Revenue
2006-07	119.03 56.64%	91.14 43%	210.17 100%
2007-08	131.37 52.37%	119.48 47.63%	250.85 100%
2008-09	156.02 46.36%	180.55 53.64%	336.57 100%
2009-10	180.51 58.82%	126.35 41.18%	306.86 100%
2010-11	227.32 55.38%	183.14 44.62%	410.46 100%
2011-12	303.88 56.61%	232.95 43.39%	536.83 100%
2012-13	339.95 62.13%	207.17 37.87%	547.12 100%
2013-14	333.4 60.62%	216.57 39.38%	549.97 100%
2014-15	388.62 58.95%	270.62 41.05%	659.24 100%
2015-16	445.21 65.18%	237.82 34.82%	683.03 100%

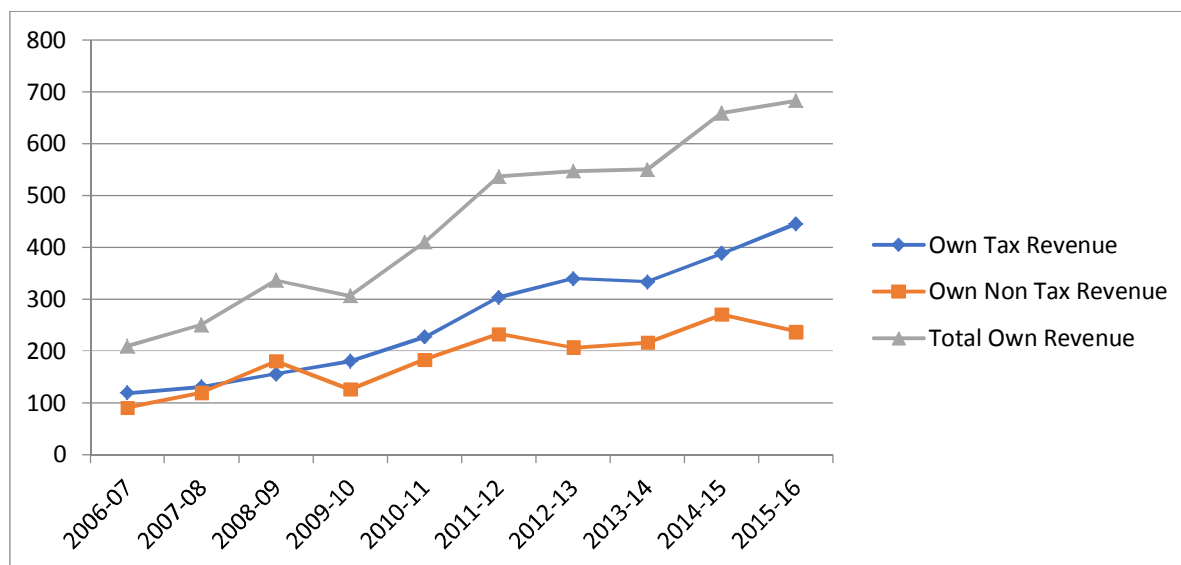


Figure 2.2: Trends in Own Revenue

2.3: Own Tax Revenue:

The total collection in respect of state's major taxes and duties during 2006-07 to 2015-16 is presented in table 2.7. Sales Tax/VAT is the major source of revenue for state government during the same period. Its share increases from 71.43% during 2006-07 to 76.93% in 2015-16. The other important source of revenue was taxes on vehicles which remained around 11% during 2006-16. The share of professional tax which was 13.74% during 2005-06 decreases to 6.94% during 2015-16. The share of land revenue remained below 1%, stamps and registration remained between 0 to 1 percent, state excise fluctuates between 1% to 2%, taxes on goods and passengers also fluctuates between 1% to 2% and the share of electricity was very insignificant during the entire period.

Own Tax Revenue has made a progressive increase from Rs.119.03 crores in 2006-07 to Rs.427.10 crores in 2015-16 as shown in table 2.7 with an annual compound growth rate of 13.63% during 2006-16 as shown in table 2.8. The taxes which have more than average annual growth of total own tax revenue are sales tax/vat (14.48%), taxes on vehicle (15.78%), and others (17.83%). Taxes that have less than the average annual growth of total own tax revenue are taxes on goods and passengers (13.28%), electricity (11.61%), state excise (9.17%), professional tax (6.13%), stamps and registration (6.77%) and land revenue (4.14%). The trends of different tax revenue over a period of 2006-16 are shown in figure 2.3. It is seen from the

figure that only sales tax/VAT shows an increasing trend during 2006-16. The rest of the taxes shows only a nominal increase during the same period.

The trends in the composition of own tax revenue as a percentage to GSDP are shown in table 2.9. The table shows that sales tax with respect to GSDP is the highest among the own tax revenue. Its percentage with respect to GSDP rose from 1.23% during 2006-07 to 2.21% during 2015-16. The other tax revenue has a very low tax/GSDP ratio, ie, less than 1 percent as shown in table 2.9.

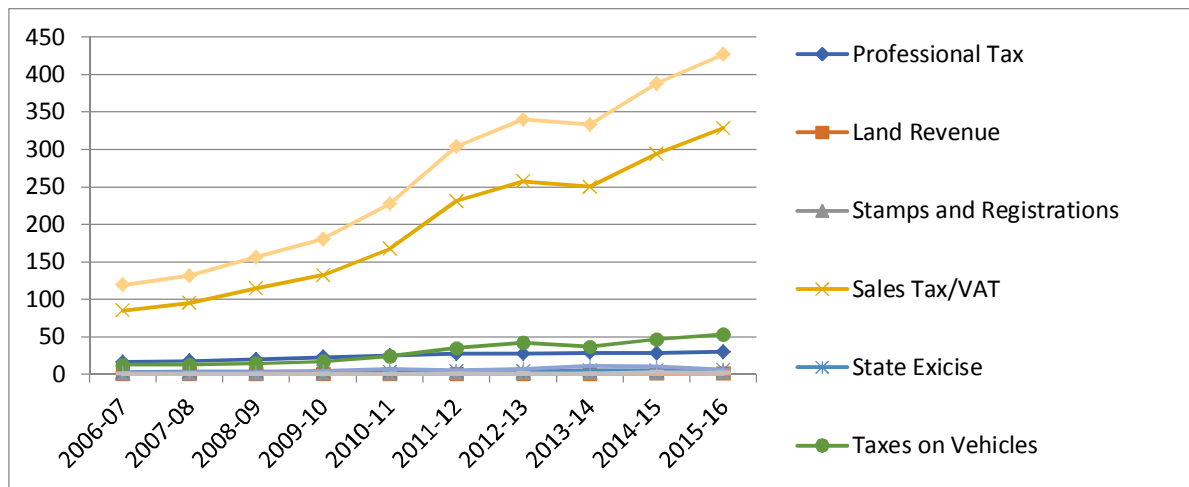


Figure 2.3: Trends of Own Tax Revenue

Table 2.7: Composition of Own Tax Revenue of the state government (Rs. Crores)

Year	Professional Tax	Land Revenue	Stamps and Registrations	Sales Tax/Vat	State Excise	Taxes on Vehicle	Taxes on Goods and Passengers	Taxes and Duties on Electricity	Others	Total Own Tax Revenue
2006-07	16.35 (13.74%)	0.5 0.42%	1.06 0.89%	85.02 71.43%	2.13 1.79%	12.26 10.30%	1.69 1.42%	0.02 0.017%	0	119.03 100%
2007-08	17.72 13.49%	0.5 0.38%	1.02 0.78%	94.79 72.15%	2.83 2.15%	12.3 9.36%	2.19 1.67%	0.02 0.015%	0	131.37 100%
2008-09	19.86 12.73%	0.6 0.38%	1.01 (0.65%)	114.7 73.52%	3.34 2.14%	14.14 9.06%	2.34 1.50%	0.03 0.019%	0	156.02 100%
2009-10	22.54 12.49%	0.63 0.35%	1.19 0.66%	132.22 73.24%	3.14 1.74%	16.73 9.27%	3.96 2.19%	0.11 0.061%	0	180.52 100%
2010-11	24.57 10.81%	0.59 0.26%	1.35 0.59%	167.22 73.56%	3 1.32%	23.92 10.52%	6.62 2.91%	0.05 0.022%	0	227.32 100%
2011-12	27.02 8.89%	0.68 0.22%	1.85 0.61%	231.12 76.06%	3.36 1.11%	34.58 11.38%	4.85 1.60%	0.04 0.013%	0.38 0.13%	303.88 100%
2012-13	27.22 8.01%	0.72 0.21%	1.58 0.46%	257.21 75.66%	3.73 1.10%	41.59 12.23%	6.71 1.97%	0.05 0.015%	1.14 0.34%	339.95 100%
2013-14	28.3 8.49%	0.7 0.21%	1.77 0.53%	250.21 75.05%	4.86 1.46%	36.15 10.84%	10.79 3.24%	0.04 0.012%	0.58 0.17%	333.4 100%
2014-15	27.96 7.19%	0.75 0.19%	1.93 0.50%	294.29 75.73%	4.7 1.21%	46.46 11.96%	9.73 2.50%	0.03 0.008%	2.77 0.71%	388.62 100%
2015-16	29.65 6.94%	0.75 0.18%	2.04 0.48%	328.58 76.93%	5.12 1.2%	53.08 12.43%	5.88 1.38%	0.06 0.014%	1.94 0.45%	427.10 100%

Table 2.8: Annual Growth Rate of Own Tax Revenue of the state government (in percentage)

Year	Professional Tax	Land Revenue	Stamps and Registrations	Sales Tax/Vat	State Excise	Taxes on Vehicle	Taxes on Goods and Passengers	Taxes and Duties on Electricity	Others	Total Own Tax Revenue
2006-07	9.95%	-9.09%	19.10%	10.19%	8.67%	40.60%	25.19%	100.00%	0	12.80%
2007-08	8.38%	0.00%	-3.77%	11.49%	32.86%	0.33%	29.59%	0.00%	0	10.37%
2008-09	12.08%	20.00%	-0.98%	21.00%	18.02%	14.96%	6.85%	50.00%	0	18.76%
2009-10	13.49%	5.00%	17.82%	15.27%	-5.99%	18.32%	69.23%	266.67%	0	15.70%
2010-11	9.01%	-6.35%	13.45%	26.47%	-4.46%	42.98%	67.17%	-54.55%	0	25.93%
2011-12	9.97%	15.25%	37.04%	38.21%	12.00%	44.57%	-26.74%	-20.00%	0	33.68%
2012-13	0.74%	5.88%	-14.59%	11.29%	11.01%	20.27%	38.35%	25.00%	200.00%	11.87%
2013-14	3.97%	-2.78%	12.03%	-2.72%	30.29%	-13.08%	60.80%	-20.00%	-49.12%	-1.93%
2014-15	-1.20%	7.14%	9.04%	17.62%	-3.29%	28.52%	-9.82%	-25.00%	377.59%	16.56%
2015-16	6.04%	0	5.7%	11.65%	8.94%	14.25%	-39.57	100%	-29.24%	9.9%
2006-16	6.13%	4.14%	6.77%	14.48%	9.17%	15.78%	13.28%	11.61%	17.83%	13.63%

Table 2.9: Composition of Own Tax Revenue as a percentage of GSDP

Year	Professional Tax	Land Revenue	Stamps and Registrations	Sales Tax/Vat	State Excise	Taxes on Vehicle	Taxes on Goods and Passengers	Taxes and Duties on Electricity	Others
2006-07	0.236%	0.0072%	0.0153%	1.23%	0.031%	0.177%	0.024%	0.00029%	0
2007-08	0.238%	0.0067%	0.0137%	1.27%	0.038%	0.165%	0.029%	0.00027%	0
2008-09	0.251%	0.0076%	0.0128%	1.45%	0.042%	0.179%	0.030%	0.00038%	0
2009-10	0.266%	0.0074%	0.0141%	1.56%	0.037%	0.198%	0.047%	0.00130%	0
2010-11	0.266%	0.0064%	0.0146%	1.81%	0.032%	0.258%	0.072%	0.00054%	0
2011-12	0.270%	0.0068%	0.0185%	2.31%	0.034%	0.345%	0.048%	0.00040%	0.004%
2012-13	0.255%	0.0067%	0.0148%	2.41%	0.035%	0.390%	0.063%	0.00047%	0.011%
2013-14	0.249%	0.0062%	0.0156%	2.20%	0.043%	0.318%	0.095%	0.00035%	0.005%
2014-15	0.230%	0.0062%	0.0159%	2.42%	0.039%	0.383%	0.080%	0.00025%	0.023%
2015-16	0.2%	0.0051%	0.0137%	2.21%	0.034%	0.357%	0.04%	0.0004%	0.013%

2.3.a: Productivity of Own Tax Revenue.

The relative composition of tax revenue has implication for revenue growth and stability when taxes are mobilized to finance government expenditures. High revenue productivity is usually considered as one of the good measures of good tax system. The revenue productivity in the state is measured by tax buoyancy and tax elasticity.

From table 2.10, we can see that the year wise buoyancy of own tax revenue was above unity for 2006-13 and 2014-15. This indicates that the total own tax revenue of the state responds more than proportionately to the growth of GSDP in these years. The professional tax year-wise buoyancy was more than unity during 2006-10 and 2011-12, land revenue buoyancy was more than unity for only three years (2008-09, 2011-12 and 2014-15), for stamps and registrations except for four years (2007-09, 2012-13 and 2015-16) all the years have buoyancy greater than unity. The buoyancy for sales tax/VAT shows similar year wise tax buoyancy with that of total own tax revenue. The year wise buoyancy's were greater than unity for most of the period except for two years, ie, 2013-14 and 2015-16.

State excise shows buoyancy more than unity for six years (2006-09 and 2011-14) and for the rest of the year, the buoyancy is less than unity. Taxes on vehicles also show a high productivity for most of the year except for 2007-08, 2013-14 and 2015-16. Taxes on goods and passengers have buoyancy more than unity for most of the years except for 2011-12, 2014-15 and 2015-16. Taxes on electricity shows that except for 2010-12 and 2013-15, the buoyancy was high for the rest of the years.

From table 2.11, it can be seen that the buoyancy of state's total own revenue has remained above unity from 2006-07 to 2015-16. This indicates that the total own tax revenue responds proportionately to the growth of GSDP. From the table it is also observed that the buoyancy of total own tax revenue is mostly influenced by the buoyancy of stamps and registration, sales tax, excise, taxes on vehicle and goods and passengers. These five taxes have buoyancy more than unity indicating that they respond more than proportionately to the growth of GSDP during the same period. The buoyancy of all other taxes was less than unity, indicating low productivity. Therefore, there is a need to increase the productivity of these taxes in Nagaland.

2.3.b: Suggestion for improving Tax-GSDP ratio.

From the analysis, it is observed the tax-GSDP ratio of grants from the centre is higher than any other components. The ratio is still above 35% indicating that financial dependence of Nagaland state on centre is still high. Within the tax revenue, the performance of own tax revenue is better than own non-tax revenue. However, the tax-GSDP ratio for both tax revenue is lower than 5%. In terms of GSDP ratio, shared tax fared better than own tax revenue and own non-tax revenue. Among the own tax revenue, sales tax/VAT performed better than any other revenue. However, its GSDP ratio is very low, lower than 3% for the entire period. It is also seen that all other taxes have GSDP ratio lower than 1%. The state in order to raise own tax revenue should rationalize tax rate on sales and excise taxes. Proper accounts on revenue from electricity, vehicles, stamps and registration, professional tax and lands, be maintained so that there is less misappropriation on the revenue earned. Moreover, the government should provide adequate staff for timely collection of revenue.

Table 2.10: Year wise Buoyancy of Own Tax Revenue with respect to GSDP

Year	Professional Tax	Land Revenue	Stamps and Registrations	Sales Tax/Vat	State Excise	Taxes on Vehicle	Taxes on Goods and Passengers	Taxes and Duties on Electricity	Total Revenue
2006-07	1.2756	-1.1651	2.4481	1.3056	1.1116	5.2031	3.2279	12.8166	1.6409
2007-08	1.1454	0.0000	-0.5159	1.5709	4.4925	0.0446	4.0444	0.0000	1.4172
2008-09	1.9070	3.1582	-0.1548	3.3168	2.8457	2.3622	1.0816	7.8954	2.9630
2009-10	1.9577	0.7254	2.5855	2.2160	-0.8687	2.6573	10.0436	38.6866	2.2781
2010-11	0.9630	-0.6789	1.4377	2.8306	-0.4768	4.5955	7.1827	-5.8326	2.7722
2011-12	1.1986	1.8336	4.4520	4.5934	1.4424	5.3569	-3.2139	-2.4041	4.0484
2012-13	0.1146	0.9110	-2.2604	1.7483	1.7055	3.1397	5.9396	3.8719	1.8384
2013-14	0.6083	-0.4259	1.8437	-0.4173	4.6448	-2.0054	9.3226	-3.0664	-0.2954
2014-15	-0.1768	1.0509	1.3300	2.5920	-0.4844	4.1961	-1.4454	-3.6782	2.4369
2015-16	.2704	0	.2552	.5216	.4003	.638	-1.7716	4.4772	-1.3091

Table 2.11: Buoyancy of State Own Tax Revenue (2006 to 2016)

Revenue Heads	GSDP	R2	F- Test
Professional Tax	0.82	0.86	48.57*
Land Revenue	0.58	0.83	39.13*
Stamps and Registration	1.09	0.87	54.55*
Sales Tax/VAT	11.19	0.76	24.94*
State Excise	2.3	0.91	91.26*
Taxes on Vehicles	2.3	0.90	91.26*
Taxes on Goods and Passengers	2.18	0.67	16.16*
Taxes and Duties on Electricity	0.88	0.16	1.26
Total Revenue	1.89	0.93	109.67*

*Indicates at 5% level of significance

2.4: State Own Non-Tax Revenue

State own non-tax revenue compose of interest receipts, dividends and profits, general services, social services and economic services. General services consist of public service commission, police, jails, supplies and disposals, stationary and printing, public works, other administrative services, contribution and recoveries towards pension and other retirement benefits and other miscellaneous general service. Social service composes of education, sports, arts and culture, medical, public health and family welfare, water supply and sanitation, housing, urban development and other social services. Economic services compose of crop husbandry, animal husbandry, fisheries, forestry and wild life, co-operation, other agricultural and rural programmes, major and medium irrigation, minor irrigation, village and small-scale industries, industries, plantations, power, petroleum, ports and light houses, road transport, tourism and others.

2.4.a: Composition and trends of state own non-tax revenue:

The composition and trends of state own non-tax revenue is shown in table 2.12 and figure 2.4. It can be seen that revenue from economic services constitute major part of the total own non-tax revenue. Its share in the total own non-tax revenue was 64% on an average for a period of 2006-16. However, there is fluctuation in its share to the total own non-tax revenue during this period. Its share was 66.51% during 2006-07 which rose to 80.28% during 2009-10 and then decline to

48.36% during 2014-15 which was the lowest during the same period. After 2014-15 its share in the total own non-tax revenue rose to 55.48% during 2015-16.

The next important component of state own non-tax revenue was social services. Its share during 2006-07 was 7.11%, which falls to 2.75% during 2008-09. But after 2008-09 it began to rise and reached to 33.23% during 2015-16. The share of general services in the total own non-tax revenue has been decreasing over the years. Its share was 20.65% during 2006-07 which falls to 7.39% during 2015-16. The share of interest receipt revolves around 2 to 4 percent on an average during 2006-16.

It is seen from figure 2.4 that economic and social services exhibit an upward trend with that of own non-tax revenue while interest receipt and general services have a downward trend with respect to total own non-tax revenue.

The growth rate of each components of state own non-tax revenue is shown in table 2.13. From the table it is clear that interest receipt starts with a negative growth rate of -6.79% during 2006-07. After 2006-07 it starts increasing and reached its highest growth rate of 104.42% during 2008-09. The following year it exhibits a negative growth rate of -13.40% during 2009-10. From the table it is seen that the growth rates of interest receipt and general services exhibit wide fluctuation during 2006-16. For social services, the growth rate was positive for most of the year except for 2007-08 and 2015-16. The highest growth rate was exhibited during 2010-11 while the lowest growth rate was shown during 2007-08. The growth rate of economic services also shows a wide fluctuation like interest receipt and social services. Its growth rate was negative for five years and positive for another five years as shown in table 2.13. The highest growth rate was during 2008-09 while its lowest growth rate was during 2009-10.

State own non-tax revenue as a percentage to GSDP is shown in table 2.14. From the table it is observed that, the percentage of total state own non-tax revenue with respect to GSDP was above 1% during the entire period. Among the components of state own non-tax revenue, economic services exhibit a higher percentage of GSDP. It can be seen from the table that except for 2006-07 and 2015-16, the percentage of economic services with respect to GSDP was higher than 1%. For interest receipt, general services and social services the percentage with respect to GSDP were all below 1% during the entire period.

Table. 2.12: Composition and trends in State Own Non-Tax Revenue (Rs. Crore)

Year	Interest Receipt	General Services	Social Services	Economic services	Total
2006-07	5.22 5.73%	18.82 20.65%	6.48 7.11%	60.62 66.51%	91.14 100%
2007-08	5.66 4.74%	24.5 20.51%	4.22 3.53%	85.1 71.23%	119.48 100%
2008-09	11.57 6.41%	31.83 17.63%	4.97 2.75%	132.18 73.21%	180.55 100%
2009-10	10.02 7.93%	9.75 7.72%	5.14 4.07%	101.43 80.28%	126.34 100%
2010-11	14.35 7.84%	50.89 27.79%	17 9.28%	100.9 55.09%	183.14 100%
2011-12	9.62 4.13%	63.1 27.09%	19.2 8.24%	141.03 60.54%	232.95 100%
2012-13	5.9 2.85%	18.85 9.10%	53.52 25.83%	128.9 62.22%	207.17 100%
2013-14	7.62 3.52%	13.97 6.45%	76.86 35.49%	118.12 54.54%	216.57 100%
2014-15	7.23 2.67%	19.61 7.25%	112.92 41.73%	130.86 48.36%	270.62 100%
2015-16	10.13 3.95%	18.96 7.39%	85.21 33.23%	142.08 55.45%	256.39 100%

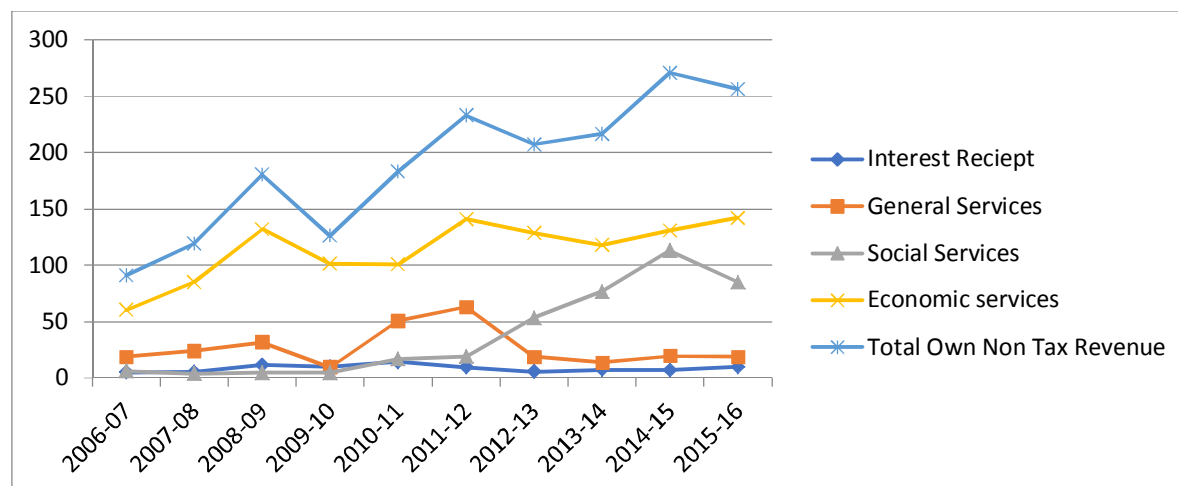


Figure 2.4: Trends of State Own Non-Tax Revenue**2.13: Growth rate in State Own Non-Tax Revenue**

Year	Interest Receipt	General Services	Social Services	Economic services	Total
2006-07	-6.79%	-24.51%	64.05%	-2.76%	-5.87%
2007-08	8.43%	30.18%	-34.88%	40.38%	31.10%
2008-09	104.42%	29.92%	17.77%	55.32%	51.11%
2009-10	-13.40%	-69.37%	3.42%	-23.26%	-30.02%
2010-11	43.21%	421.95%	230.74%	-0.52%	44.95%
2011-12	-32.96%	23.99%	12.94%	39.77%	27.20%
2012-13	-38.67%	-70.13%	178.75%	-8.60%	-11.07%
2013-14	29.15%	-25.89%	43.61%	-8.36%	4.54%
2014-15	-5.12%	40.37%	46.92%	10.79%	24.96%
2015-16	40.25%	-3.31%	-24.54%	8.57%	-5.25%

Table 2.14: Composition of State Own Non-Tax Revenue as a percentage of GSDP

Year	Interest Receipt	General Services	Social Services	Economic services	Total
2006-07	0.075%	0.271%	0.093%	0.874%	1.31%
2007-08	0.076%	0.329%	0.057%	1.143%	1.60%
2008-09	0.146%	0.402%	0.063%	1.670%	2.28%
2009-10	0.118%	0.115%	0.061%	1.199%	1.49%
2010-11	0.155%	0.550%	0.184%	1.090%	1.98%
2011-12	0.096%	0.629%	0.192%	1.407%	2.32%
2012-13	0.055%	0.177%	0.502%	1.208%	1.94%
2013-14	0.067%	0.123%	0.676%	1.039%	1.91%
2014-15	0.060%	0.162%	0.930%	1.078%	2.23%
2015-16	0.068%	0.128%	0.574%	.957%	1.73%

2.4.b: Recovery:

Although many of the goods and services provided by the state government are pure public goods, some of them may not be pure public goods. Thus, it is important to examine the recovery percentage of government expenditure from different services. From table 2.15, it is observed that the recovery percentage in economic services is higher than all other services. Its recovery rate was 5.97% during 2006-07 which rose to 10.52% during 2008-09 then it decreases

to 5.55% during 2010-11. For the rest of the years, the recovery rate fluctuates between 5-6 percent but the decreased to 4.70% during 2015-16. The recovery rate of social services was 0.78% during 2006-07 which rose to its highest rate during 2014-15 with 5.12% and then it decreases to 2.65% during 2015-16. For general services, the recovery rate rose from 1.73% during 2006-07 to 2.47% during 2011-12 with little fluctuation. After 2011-12, the recovery rate falls below 1% for the rest of the year. The recovery rate of interest receipt was above 1% for the whole period. The highest rate was 3.46% during 2008-09. To increase the recovery rate of the services the state provides, it is suggested that the state should levy appropriate charges for all different services it provides.

Table 2.15: Recovery of non-plan expenditure from own non-tax revenue.

Year	Interest Receipt	General services	Social Services	Economic Services
2006-07	1.87%	1.73%	0.78%	5.97%
2007-08	1.95%	1.84%	0.45%	7.63%
2008-09	3.46%	2.12%	0.50%	10.52%
2009-10	2.60%	0.55%	0.49%	7.22%
2010-11	3.41%	2.47%	1.19%	5.55%
2011-12	2.16%	2.47%	1.29%	6.79%
2012-13	1.22%	0.69%	2.96%	5.61%
2013-14	1.51%	0.48%	3.79%	5.84%
2014-15	1.21%	0.60%	5.12%	5.73%
2015-16	1.18%	0.48%	2.65%	4.70%

2.4.c: Productivity:

The productivity of own non-tax revenue for Nagaland has been estimated by measuring the buoyancies for interest receipt, general services, social services and economic services. The buoyancy for 2006 to 2016 (Table 2.17) shows that the total own non-tax revenue is above unity indicating that total own non-tax revenue responds more than proportionately than the growth in GSDP. In other words, the productivity of own non-tax revenue is high. Among the services, only social services have a buoyancy more than unity with 4.64 during 2006-16 period. The rest of the services have buoyancy less than unity. From the table it is also observed that general services have negative buoyant value. From this analysis, one can observed that the productivity of own non-tax revenue is mostly influenced by social services and less by economic services. The year-wise buoyancy of own non-tax revenue (Table 2.16) shows high fluctuation in the level

of buoyancy indicating that the level of growth for different own non-tax revenue is not consistent.

From the analysis of buoyancy, it is seen that economic services are less productive than social services. Therefore, it is suggested that the state government levy appropriate taxes for economic services it provides. Moreover, the buoyancy also reveals that there is still a large scope for increasing the productivity of social services.

Table 2.16: Year wise Buoyancy of Own Tax Revenue with respect to GSDP

Year	Interest Receipt	General Services	Social Services	Economic services	Total
2006-07	-0.86	-3.14	8.21	-0.35	-0.75
2007-08	1.152	4.13	-4.77	5.52	4.25
2008-09	16.48	4.72	2.81	8.73	8.07
2009-10	-1.94	-10.06	0.49	-3.37	-4.35
2010-11	4.62	45.12	24.67	-0.055	4.80
2011-12	-3.96	2.88	1.56	4.78	3.26
2012-13	-5.98	-10.86	27.68	-1.33	-1.71
2013-14	4.46	-3.97	6.68	-1.28	0.69
2014-15	-0.75	5.94	6.90	1.58	3.67
2015-16	1.8	-1.48	-1.09	0.383	-0.54

Table 2.17: Buoyancy of State Own Non-Tax Revenue (2006 to 2016)

Revenue Heads	GSDP	R2	F- Test
Interest Receipt	0.294	0.04	0.37
General Services	-0.231	0.009	0.077
Social Services	4.04	0.84	43.33*
Economic services	0.838	0.55	9.67*
Total Revenue	1.32	0.77	26.19*

*indicates at 5% level of significant

CHAPTER 3

STATE'S EXPENDITURE

3.1: Composition of Expenditure in terms of Economic classification:

Total expenditure of the state includes revenue expenditure, capital outlay and loans and advances. Table 3.1, 3.2 and figure 3.1 shows the broad composition of state expenditure. From the table we can see that the contribution of revenue expenditure to the total expenditure is maintained about 75% for the whole period followed by capital outlay which fluctuates between 12 to 25 percent during the same period. The contribution of loans and advances in the total expenditure is negligible and is less than 1% for the whole period. From table no 3.2, it can be seen that the state expenditure has increased from Rs. 2932.88 crores during 2006-07 to Rs. 8641.15 crores during 2015-16.

The annual average growth rate of total expenditure during 2006-16 was 11.41% with wide fluctuation ranging from 1.45% to 25.19% (shown in table 3.2). Among the total expenditure, the average growth rate of revenue expenditure with 13.06% was higher than the average growth rate total expenditure during the same period. The year-wise growth rate shows a similar fluctuating trend with that of the total expenditure as seen from figure 3.1. The average annual growth rate of total capital outlay during 2006-16 was 4.07% with wide fluctuation in the year-wise growth rate. For loans and advances, the average annual growth rate was negative with -16.40% during 2006-16.

The total expenditure as a proportion to GSDP shows an increasing trend as depicted in table 3.3. Its percentage as a proportion to GSDP increased from 42.27% during 2006-07 to 64.14% during 2014-15 but then declined to 58.19% during 2015-16. Like the total expenditure, revenue expenditure as a percentage to GSDP shows an increasing trend and rose from 32.03% during 2006-07 to 55.71% during 2014-15 but declined to 51.05% during 2015-16. For total capital outlay it revolves in between 7 to 12 percent during the same period while loans and advances as a percentage to GSDP is negligible. The total loan and advances as a percentage of GSDP is negligible as it lies below 1% for the entire period.

Table 3.1: Composition of Total Expenditure excluding Debt Repayment (Rs. Crores).

Year	Total Revenue Expenditure	Total Capital Expenditure (Outlay)	Total Loan	Total Expenditure (excluding debt repayment)
2006-07	2222.16 75.77%	710.48 24.22%	0.24 0.008%	2932.88 100.000%
2007-08	2572.26 75.74%	821.48 24.19%	2.61 0.077%	3396.35 100.000%
2008-09	2889.54 77.18%	853.09 22.78%	1.47 0.039%	3744.1 100.000%
2009-10	3252.42 76.61%	989.53 23.31%	3.56 0.084%	4245.51 100.000%
2010-11	4187.82 78.79%	1122.94 21.13%	4.12 0.078%	5314.88 100.000%
2011-12	4875.66 79.57%	1249.39 20.39%	2.76 0.045%	6127.81 100.000%
2012-13	5601.39 81.67%	1255.18 18.30%	2.16 0.031%	6858.73 100.000%
2013-14	5750.35 82.64%	1207.07 17.35%	0.92 0.013%	6958.34 100.000%
2014-15	6762.41 86.86%	1023.17 13.14%	0.19 0.002%	7785.77 100.000%
2015-16	7582.107 4.66%	1059.23 10.43%	0.04 0.0004%	8641.15 100.000%

Sources: RBI and CAG Nagaland

Table 3.2: Annual Growth Rate of Total Expenditure excluding Debt Repayment

Year	Total Revenue Expenditure	Total Capital Expenditure (Outlay)	Total Loan	Total Expenditure (excluding debt repayment)
2006-07	7.85%	37.20%	-60.66%	13.72%
2007-08	15.75%	15.62%	987.50%	15.80%
2008-09	12.33%	3.85%	-43.68%	10.24%
2009-10	12.56%	15.99%	142.18%	13.39%
2010-11	28.76%	13.48%	15.73%	25.19%
2011-12	16.42%	11.26%	-33.01%	15.30%
2012-13	14.88%	0.46%	-21.74%	11.93%
2013-14	2.66%	-3.83%	-57.41%	1.45%
2014-15	17.60%	-15.24%	-79.35%	11.89%
2015-16	12.12%	3.52%	-78.95%	10.99%
2006-16	13.06%	4.07%	-16.40%	11.41%

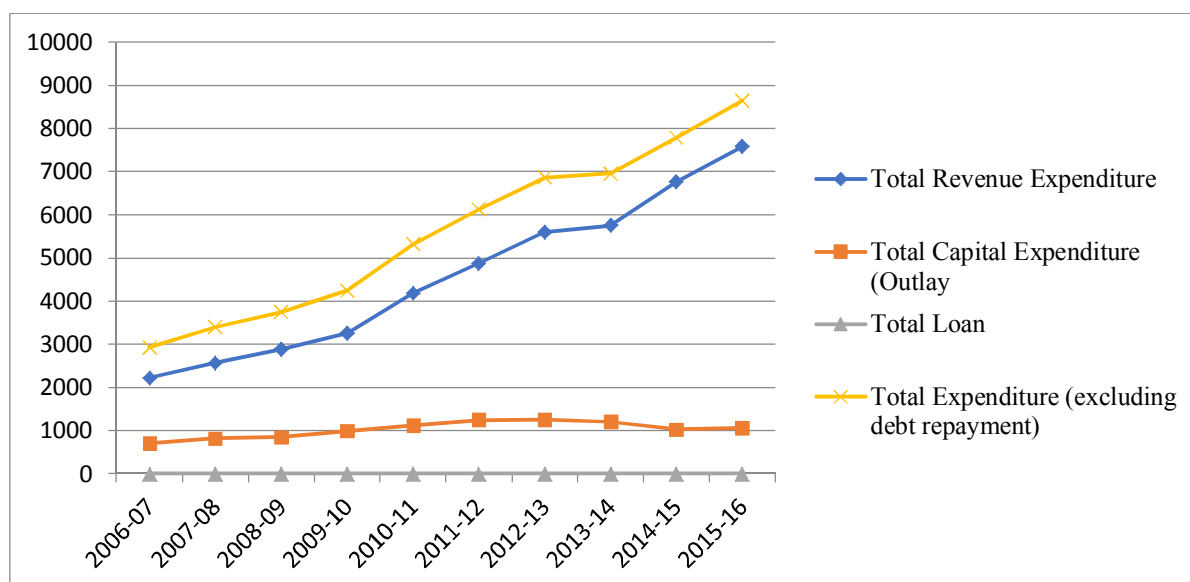


Figure 3.1: Trends in Composition of Expenditure (Rs. Crores)

Table 3.3: Total Expenditure excluding Debt Repayment as a proportion of GSDP (%)

Year	Total Revenue Expenditure	Total Capital Expenditure (Outlay)	Total Loan	Total Expenditure (excluding debt repayment)
2006-07	32.03%	10.24%	0.003%	42.27%
2007-08	34.55%	11.03%	0.035%	45.62%
2008-09	36.50%	10.78%	0.019%	47.29%
2009-10	38.43%	11.69%	0.042%	50.17%
2010-11	45.25%	12.13%	0.045%	57.43%
2011-12	48.64%	12.46%	0.028%	61.13%
2012-13	52.49%	11.76%	0.020%	64.27%
2013-14	50.59%	10.62%	0.008%	61.21%
2014-15	55.71%	8.43%	0.002%	64.14%
2015-16	51.05%	7.13%	0.0003%	58.19%

3.2: Composition and trends of Plan and Non-plan Expenditure:

The total expenditure has been divided into plan and non-plan expenditure. From table no 3.4, it can be seen that the share of plan expenditure to total expenditure is lower than non-plan expenditure. The share of plan expenditure in the total expenditure was 38.95% during 2006-07 which decreased to 25.25% during 2015-16. For non-plan expenditure, its share to total expenditure rose from 61.05% during 2006-07 to 74.75% during 2015-16.

The growth rate of non-plan expenditure is higher than the overall expenditure during 2006-16. The annual growth rate of non-plan expenditure during 2006-16 was 13.69% with fluctuation in the year-wise growth rate ranging from the lowest 7.38% during 2013-14 to the highest growth rate of 24.34% during 2010-11. The annual growth rate of plan expenditure during 2006-16 was 6.08% which is lower than the annual growth rate of total expenditure. It can be seen that there is a wide fluctuation in the year-wise growth rate for plan expenditure ranging from -10.52% during 2013-14 to 26.27% during 2010-11. The annual growth rate of total expenditure was 11.41% during 2006-16. It can also be seen from figure 3.2 that the growth trend of total non-plan expenditure follows the similar pattern with that of the total expenditure.

The composition of plan and non-plan expenditure as a percentage of GSDP is shown in table no. 3.5. From the table it is clear that non-plan expenditure as a percentage of GSDP is higher than plan expenditure. The percentage of non-plan expenditure to GSDP rose from 25.81% during 2006-07 to 43.49% during 2015-16. For plan expenditure, its percentage to GSDP rose from 16.47% during 2006-07 to 21.30% during 2010-11 and then decreased to 14.69% during 2015-16. Like the non-plan expenditure, the total expenditure as a percentage to GSDP increases from 42.27% during 2006-07 to 58.19% during 2015-16.

Table 3.4: Composition and trends of Plan and Non-plan Expenditure (Rs. Crore and %).

Year	Total Plan Expenditure	Percentage (%) of Plan to Total Expenditure	Growth Rate of Plan Expenditure	Total Non-Plan Expenditure	Percentage (%) of Non-Plan to Total Expenditure	Growth Rate of Non-Plan Expenditure	Total Expenditure	Growth Rate of Non-Plan Expenditure
2006-07	1142.47	38.95%	23.22%	1790.41	61.05%	8.39%	2932.88	13.72%
2007-08	1294.97	38.13%	13.35%	2101.38	61.87%	17.37%	3396.35	15.80%
2008-09	1401.87	37.44%	8.26%	2342.23	62.56%	11.46%	3744.1	10.24%
2009-10	1588.81	37.42%	13.34%	2656.51	62.57%	13.42%	4245.51	13.39%
2010-11	2011.82	37.85%	26.62%	3303.06	62.15%	24.34%	5314.88	25.19%
2011-12	2070.55	33.79%	2.92%	4057.26	66.21%	22.83%	6127.81	15.30%
2012-13	2272.53	33.13%	9.75%	4586.2	66.87%	13.04%	6858.73	11.93%
2013-14	2033.57	29.22%	-10.52%	4924.77	70.78%	7.38%	6958.34	1.45%
2014-15	2264.24	29.08%	11.34%	5521.53	70.92%	12.12%	7785.77	11.89%
2015-16	2181.72	25.25%	-3.64%	6459.44	74.75%	16.99%	8641.16	40.15%
2006-16			6.68%			13.69%		11.41%

Sources: RBI

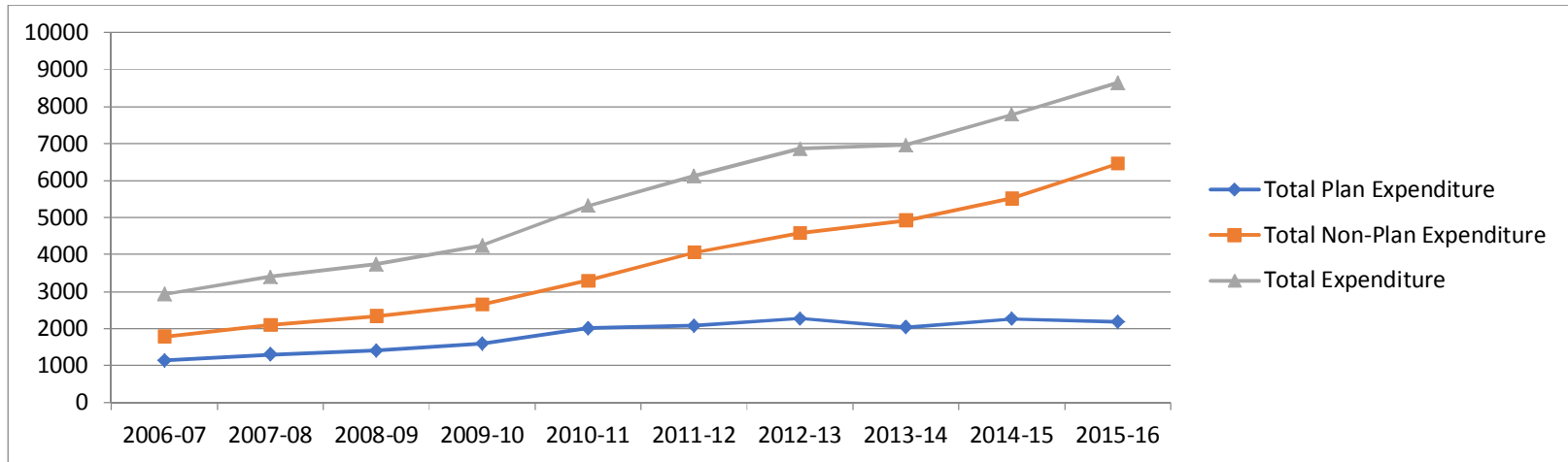
**Figure 3.2: Trends of Plan and Non-plan Expenditure.**

Table 3.5: Plan and Non-plan Expenditure as a percentage of GSDP.

Year	Total Plan Expenditure	Non-Plan Expenditure	Total Expenditure
2006-07	16.47%	25.81%	42.27%
2007-08	17.39%	28.22%	45.62%
2008-09	17.71%	29.59%	47.29%
2009-10	18.77%	31.39%	50.17%
2010-11	21.74%	35.69%	57.43%
2011-12	20.66%	40.48%	61.13%
2012-13	21.30%	42.98%	64.27%
2013-14	17.89%	43.32%	61.21%
2014-15	18.65%	45.48%	64.14%
2015-16	14.69%	43.49%	58.19%

3.3: Revenue expenditure:

The total revenue expenditure is divided in plan and non-plan expenditure. The composition and trends of plan and non-plan revenue expenditure are shown in table no 3.6 and figure 3.3. It is clearly seen that non-plan expenditure has the major share in the total revenue expenditure during 2006-16. Its share in the total revenue expenditure rose from 79.88% during 2006-07 to 85.30% during 2013-14, but then it decreases during the subsequent year and its share was 85.20% during 2015-16. The share of plan revenue expenditure to the total revenue expenditure decreased from 20.12% during 2006-07 to 14.80% during 2015-16.

The trends and growth rate of revenue expenditure from table no 3.6 and figure 3.3 shows that non-plan revenue expenditure follows the same trends as that of the total revenue expenditure. It can also be seen that the average annual growth rate of plan expenditure with 9.64% is lower than non-plan and total revenue expenditure during 2006-16. However, the year-wise growth rate for plan revenue expenditure shows a wide fluctuation ranging from -17.97% during 2013-14 to 46.89% during 2014-15. The annual growth rate of non-plan revenue expenditure was 14.19% during 2006-16 which is slightly lower than the annual average growth rate of total revenue (3.06%). Revenue expenditure as a proportion to GSDP is depicted by table no 3.7. From the table it can be seen that the percentage of non-plan revenue expenditure to GSDP is higher than the plan revenue expenditure. Its share as a percentage to GSDP increase from 25.58% during 2006-07 to 43.49% during 2015-16. The plan revenue expenditure share as a percentage to GSDP also increases from 6.44% 2006-07 to 10.23% during 2014-15 and then decreased to 7.56% during 2015-16.

Table 3.6: Revenue Expenditure: Plan and Non Plan (Rs. Crore and %)

Year	Plan Revenue Expenditure	Growth Rate	Non-plan Revenue Expenditure	Growth Rate	Total Revenue Expenditure	Growth Rate
2006-07	447.14 20.12%	5.84%	1775.02 79.88%	8.36%	2222.16 100%	7.85%
2007-08	482.99 18.78%	8.02%	2089.27 81.22%	17.70%	2572.26 100%	15.75%
2008-09	547.97 18.96%	13.45%	2341.57 81.04%	12.08%	2889.54 100%	12.33%
2009-10	595.92 18.32%	8.75%	2656.5 81.68%	13.45%	3252.42 100%	12.56%
2010-11	884.85 21.13%	48.48%	3302.97 78.87%	24.34%	4187.82 100%	28.76%
2011-12	818.78 16.79%	-7.47%	4056.88 83.21%	22.83%	4875.66 100%	16.42%
2012-13	1030.08 18.39%	25.81%	4571.31 81.61%	12.68%	5601.39 100%	14.88%
2013-14	845.02 14.70%	-17.97%	4905.33 85.30%	7.31%	5750.35 100%	2.66%
2014-15	1241.28 18.36%	46.89%	5521.13 81.64%	12.55%	6762.41 100%	17.60%
2015-16	1122.49 14.80%	-9.17%	6459.44 85.2%	16.99%	7581.93 100%	12.12%
2006-16		9.64%	13.79%		13.06%	

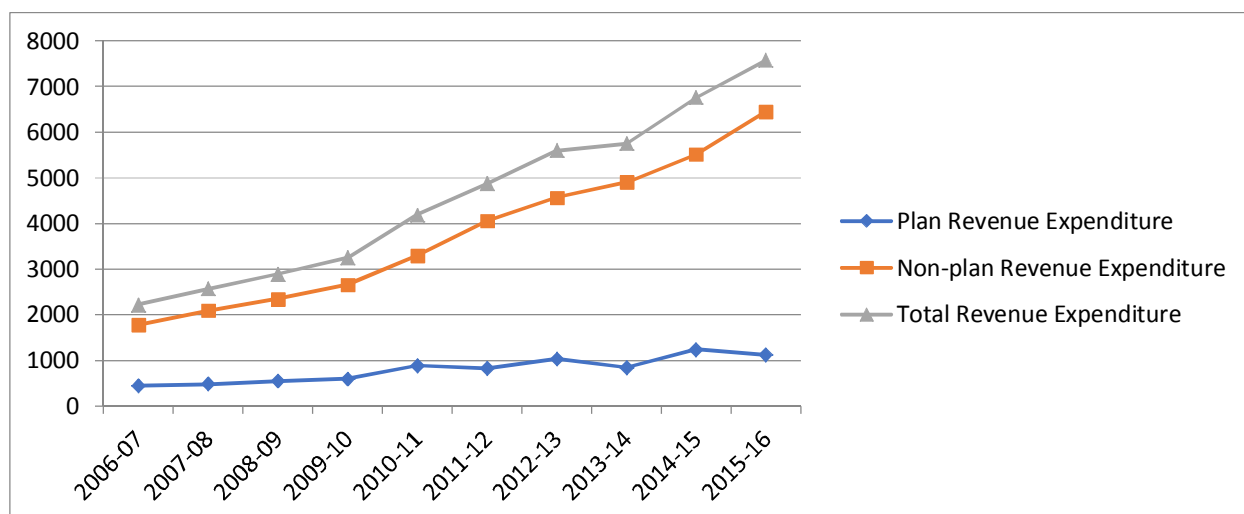


Figure 3.3: Trends of Plan and Non-plan Revenue Expenditure

Table 3.7: Plan and Non-plan Revenue Expenditure as a proportion of GSDP (%)

Year	Plan Revenue Expenditure	Non-Plan Revenue Expenditure	Total Revenue Expenditure
2006-07	6.44%	25.58%	32.03%
2007-08	6.49%	28.06%	34.55%
2008-09	6.92%	29.58%	36.50%
2009-10	7.04%	31.39%	38.43%
2010-11	9.56%	35.69%	45.25%
2011-12	8.17%	40.47%	48.64%
2012-13	9.65%	42.84%	52.49%
2013-14	7.43%	43.15%	50.59%
2014-15	10.23%	45.48%	55.71%
2015-16	7.56%	43.49%	51.05%

3.4: Capital Expenditure (Outlay): Plan and Non-plan Expenditure.

The total capital expenditure (outlay) is divided in plan and non-plan expenditure. The composition and trends of plan and non-plan capital expenditure are shown in table no 3.8 and figure 3.4. It is clearly seen that plan capital expenditure has the major share in the total capital expenditure during 2006-16. Its share in the total capital expenditure rose from 97.86% during 2006-07 to 100% during 2015-16. It is also seen that the share of non-plan capital expenditure in the total capital expenditure is negligible during 2006-16.

The trends and growth rate of capital expenditure from table no 3.8 and figure 3.4 shows that plan capital expenditure follows the same trends as that of the total capital expenditure. It can also be seen that the average annual growth rate of plan capital expenditure with 4.30% is lower than total capital expenditure during 2006-16. However, the year-wise growth rate for plan capital expenditure shows a wide fluctuation ranging from -13.89% during 2014-15 to 37.85% during 2006-07. The annual growth rate of non-plan capital expenditure was -34.83% during 2006-16 which is lower than the annual average growth rate of total capital expenditure (6.80%).

Capital expenditure as a proportion to GSDP is depicted by table no 3.9. From the table it can be seen that the percentage of plan capital expenditure to GSDP is higher than the plan capital expenditure. Its share as a percentage to GSDP increase from 10.02% during 2006-07 to 12.46% during 2011-12. The non-plan capital expenditure share as a percentage to GSDP is negligible during the same period. The total capital expenditure as a percentage share to GSDP shows the same pattern as that of plan capital expenditure.

Table 3.8: Plan and Non-plan Capital Expenditure (Rs. Crore and %).

Year	Plan Capital Expenditure	Growth Rate	Non-plan Capital Expenditure	Growth Rate	Total Capital Expenditure (Outlay)	Growth Rate
2006-07	695.29 97.86%	37.85%	15.19 2.14%	12.77%	710.48 100%	37.20%
2007-08	809.37 98.53%	16.41%	12.11 1.47%	-20.28%	821.48 100%	15.62%
2008-09	853.07 100.00%	5.40%	0.02 0.00%	-99.83%	853.09 100%	3.85%
2009-10	989.52 100.00%	16.00%	0.01 0.001%	-50.00%	989.53 100%	15.99%
2010-11	1122.94 100.00%	13.48%	0	0.00%	1122.94 100%	13.48%
2011-12	1249.35 100.00%	11.26%	0.04 0.0032%	0.00%	1249.39 100%	11.26%
2012-13	1240.63 98.84%	-0.70%	14.55 1.16%	36275.00%	1255.18 100%	0.46%
2013-14	1187.97 98.42%	-4.24%	19.1 1.58%	31.27%	1207.07 100%	-3.83%
2014-15	1022.96 99.98%	-13.89%	0.21 0.02%	-98.90%	1023.17 100%	-15.24%
2015-16	1059.23 100.00%	3.55%	0	0.00%	1059.23 100%	3.52%
2006-16		4.30%		-34.83%		6.80%

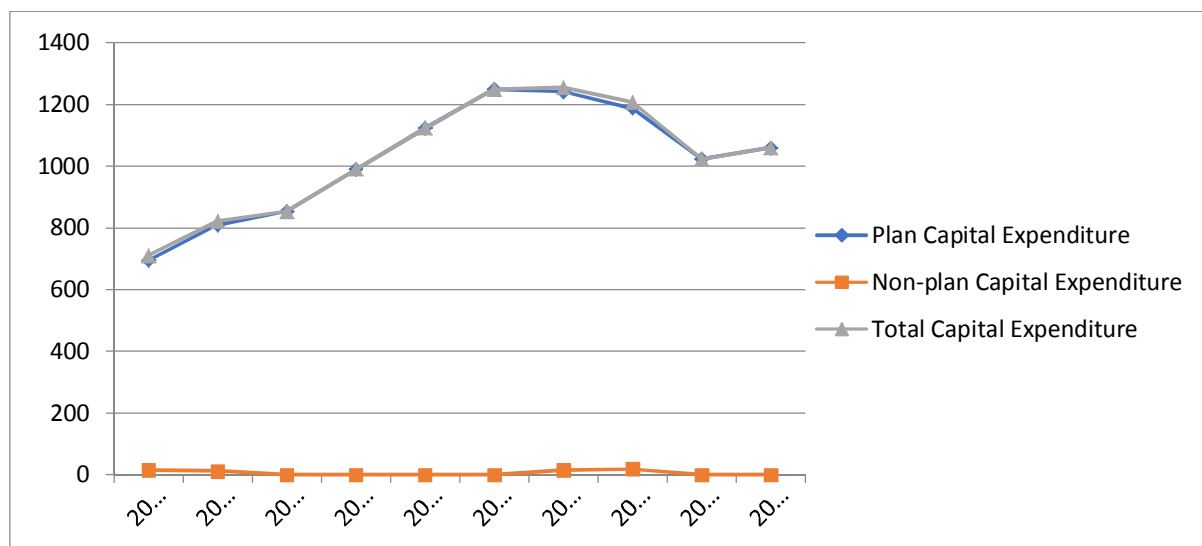


Figure 3.4: Trends of Plan and Non-plan Capital Expenditure

Table 3.9: Plan and Non-plan Capital Expenditure as a proportion of GSDP (%)

Year	Plan Capital Expenditure	Non-Plan Capital Expenditure	Total Capital Expenditure
2006-07	10.02%	0.22%	10.24%
2007-08	10.87%	0.16%	11.03%
2008-09	10.78%	0.00%	10.78%
2009-10	11.69%	0.0001%	11.69%
2010-11	12.13%	0.	12.13%
2011-12	12.46%	0.0004%	12.46%
2012-13	11.63%	0.14%	11.76%
2013-14	10.45%	0.17%	10.62%
2014-15	8.43%	0.000%	8.43%
2015-16	7.13%	0	7.13%

3.5: Functional Composition of Expenditure:

Functional composition of total expenditure of the state consists of expenditure on general services including interest payments, social services (Education, Health, Housing, Urban Development, Welfare of SC, ST & OBC, Women & Child Development, Labour welfare etc.), economic services (Agriculture, Animal Husbandry, Forestry, Co-operation, Rural Development, Irrigation, Energy, Transport etc), and loans and advances. Relative share of these components in total expenditure are shown in Table 3.10

Table 3.10: Functional Composition of Total Expenditure (Rs. Crore):

Year	General Services	Social Services	Economic Services	Loans and Advances	Total Expenditure
2006-07	1087.49 37.08%	829.8 28.29%	1015.35 34.62%	0.24 0.0082%	2932.88 100%
2007-08	1331.17 39.19%	947.77 27.91%	1114.81 32.82%	2.61 0.0768%	3396.35 100%
2008-09	1497.99 40.01%	988.54 26.40%	1256.09 33.55%	1.46 0.0390%	3744.08 100%
2009-10	1777.55 41.90%	1058.61 24.95%	1405.79 33.14%	3.55 0.0837%	4242.14 100%
2010-11	2060.34 38.77%	1431.81 26.94%	1818.61 34.22%	4.12 0.0775%	5314.88 100%
2011-12	2554.02 41.68%	1492.89 24.36%	2078.14 33.91%	2.76 0.0450%	6127.81 100%
2012-13	2748.82 40.08%	1808.59 26.37%	2299.16 33.52%	2.16 0.0315%	6858.73 100%
2013-14	2912.09 41.85%	2026.03 29.12%	2021.3 29.05%	0.92 0.0132%	6958.34 100%
2014-15	3294.19 42.31%	2206.16 28.34%	2285.23 29.35%	0.19 0.0024%	7785.77 100%
2015-16	3729.03 43.15%	2381.1 27.56%	2531.02 29.29%	0.04 0.0005%	8641.15 100%

Sources: RBI and CAG Nagaland.

The share of general services expenditure (including interest payment), also considered as non-developmental expenditure, has increased from 37.08% during 2006-07 to 43.15% during 2015-16. Compared to other services, the share of general services in the total expenditure is the highest during the entire period. The combine shares of social and economic services which constitute developmental expenditure has decreased from 62.92% during 2006-07 to 56.85% during 2015-16. The relative share of social services in the total expenditure decreased from 28.29% during 2006-07 to 27.56% during 2015-16 while the share of economic services decreased more than the social services from 34.62% during 2006-07 to 29.29% during 2015-16. It is also seen that the share of loans and advances in the total expenditure is insignificant during the same period.

The annual growth rate of the functional expenditure is given in table 3.11. From the table it is seen that the average annual growth rate from 2006-07 to 2015-16 of general services (13.1%) is higher than the total expenditure, social services, economic services and loans and advances. The average annual growth rate from 2006-07 to 2015-16 of social services (11.1%), economic services (9.6%) and loans and advances (-16.4%) is lower than the total expenditure

(11.4%). The year-wise growth rate shows that there is a fluctuation in the growth rate of general services ranging from the lowest with 5.94% (2013-14) to the highest 23.96% (2011-12) during 2006-16. For social services the fluctuation ranges from the lowest with 4.27% to the highest 35.25% during 2006-16. For economic services it is clearly seen that there is a wide fluctuation from -12.09% to 29.37% during the same period. The growth rate in loan and advances shows that for most of the years the growth rate was negative. The highest growth rate was in 2007-08 with 987.5%.

The trend and composition of functional expenditure is shown by figure 3.5. From the figure it can be seen that the trends in general services follow the same pattern with that of the total expenditure. While the trend line of social and economic services are almost the equal.

The percentage shares of the functional expenditure as a percentage to GSDP are presented in table 3.12. From the table it can be seen that the relative share of general services to GSDP has grown from 15.67% during 2006-07 to 25.11% during 2015-16. For social services, it increased from 11.96% during 2006-07 to 16.03% during 2015-16 while the relative share of economic services increased from 14.63% to 17.04% during the same period. The relative share of loans and advances as a percentage to GSDP remained insignificant during the same period.

Table 3.11: Annual growth rate of Functional expenditure

Year	General Services	Social Services	Economic Services	Loans and Advances	Total Expenditure
2006-07	8.56%	17.32%	16.80%	-60.65%	13.72%
2007-08	22.41%	14.22%	9.80%	987.5%	15.80%
2008-09	12.53%	4.30%	12.67%	-44.06%	10.23%
2009-10	18.66%	7.09%	11.92%	143.15%	13.30%
2010-11	15.91%	35.25%	29.37%	16.05%	25.28%
2011-12	23.96%	4.27%	14.27%	-33.01%	15.29%
2012-13	7.63%	21.15%	10.64%	-21.73%	11.92%
2013-14	5.94%	12.02%	-12.09%	-57.41%	1.45%
2014-15	13.12%	8.89%	13.06%	-79.35%	11.89%
2015-16	13.20%	7.93%	10.76%	-78.94%	10.98%
2006-16	13.1%	11.1%	9.6%	-16.4%	11.4%

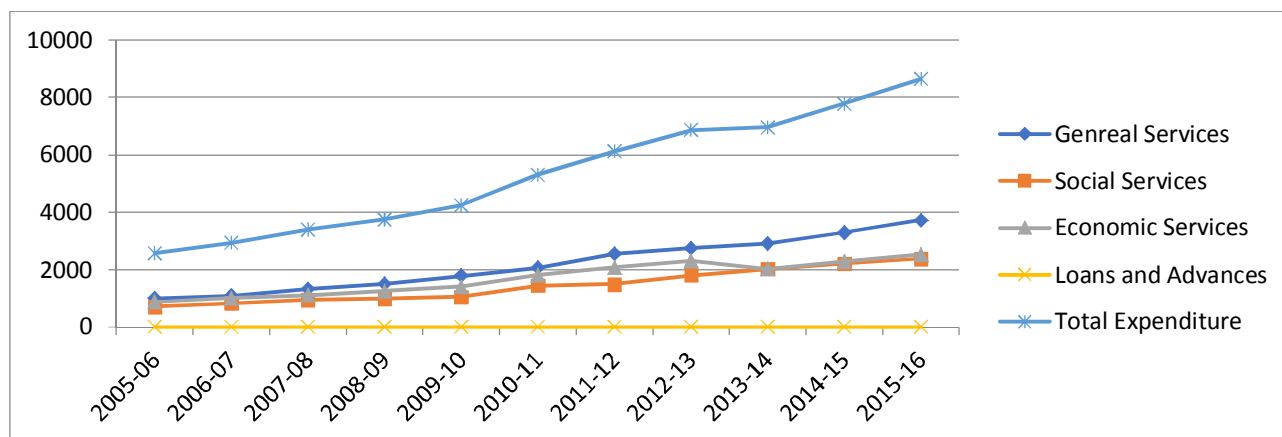


Figure 3.5: Trends in Functional composition of expenditure

Table 3.12: Functional composition of expenditure as a percentage of GSDP

Year	General Services	Social Services	Economic Services	Loans and Advances	Total Expenditure
2006-07	15.67%	11.96%	14.63%	0.0035%	42.27%
2007-08	17.88%	12.73%	14.97%	0.0351%	45.62%
2008-09	18.92%	12.49%	15.87%	0.0184%	47.29%
2009-10	21.00%	12.51%	16.61%	0.0419%	50.13%
2010-11	22.26%	15.47%	19.65%	0.0445%	57.43%
2011-12	25.48%	14.89%	20.73%	0.0275%	61.13%
2012-13	25.76%	16.95%	21.55%	0.0202%	64.27%
2013-14	25.62%	17.82%	17.78%	0.0081%	61.21%
2014-15	27.14%	18.17%	18.82%	0.0016%	64.14%
2015-16	25.11%	16.03%	17.04%	0.0003%	58.19%

3.4: Committed Expenditure:

Committed Expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages and pensions. The composition of committed expenditure is given in table no. 3.13. from the table it can be seen that the share of total committed expenditure to total revenue expenditure increased from 65.06% during 2006-07 to 68.07% during 2015-16. The annual average growth rate for 2006-16 was 13.2%.

3.4.1: Salary and Wages.

The expenditure for salaries and wages has increased from Rs. 1143.25 crore in 2006-07 to Rs. 3546.21 crore in 2015-16 as shown in table 3.13. Moreover, the share in revenue expenditure has increased from 44.45% during 2006-07 to 46.77% during 2015-16. This increase in the share of revenue expenditure has led to an increase in the expenditure on non-

developmental expenditure. Thus, to increase the development expenditure, the state has to limit the expenditure on salary and wages. The annual average growth rate of salary and wages was 13.3% during 2006-16 higher than the revenue expenditure.

3.4.2: Interest Payment.

The expenditure on interest repayment has increased from Rs. 270.46 crore in 2006-07 to Rs. 586.45 crore in 2015-16. However, the share in revenue expenditure has decreased from 10.51% during 2006-07 to 7.73% during 2015-16. This decrease in the share of revenue expenditure is important because it indicates low dependent of state finance on others. The annual average growth rate of interest payment was 8.9% during 2006-16.

3.4.2: Pensions and Retirement.

Table 3.13: Component of Committed expenditure (Rs. crore and %).

Year	Salary and Wages (% to Revenue Expenditure)	Interest Payment (% to Revenue Expenditure)	Pensions and Retirement (% to Revenue Expenditure)	Total Committed Expenditure (% to Revenue expenditure)
2007-08	1143.25 44.45%	270.46 10.51%	259.73 10.10%	1673.44 65.06%
2008-09	1249.39 43.24%	313.99 10.87%	228.96 7.92%	1792.34 62.03%
2009-10	1442.85 44.36%	362.51 11.15%	279.06 8.58%	2084.42 64.09%
2010-11	2033.93 48.57%	394.33 9.42%	335.97 8.02%	2764.23 66.01%
2011-12	2358.94 48.38%	417.39 8.56%	586.68 12.03%	3363.01 68.98%
2012-13	2673.9 47.74%	481.64 8.60%	677.03 12.09%	3832.57 68.42%
2013-14	3151.35 54.80%	493.85 8.59%	695.11 12.09%	4340.31 75.48%
2014-15	3316.17 49.04%	555.34 8.21%	905.15 13.39%	4776.66 70.64%
2015-16	3546.21 46.77%	586.45 7.73%	1028.8 13.57%	5161.46 68.07%
2007-16	13.3%	8.9%	16.3%	13.2%

The expenditure on pensions and retirement has increased from Rs. 259.73 crore in 2006-07 to Rs. 108.8 crore in 2015-16. The annual average growth rate of pension and retirement was

16.3% during 2006-16. Moreover, the share in revenue expenditure has increased from 10.10% during 2006-07 to 13.57% during 2015-16.

3.5: Efficiency of Public Spending:

The analysis of public expenditure efficiency is divided into two parts: the efficiency of resource allocation and technical efficiency.

3.5.1. Measures for Allocative Efficiency:

The efficiency of resource allocation among different activities can be assessed through the share of different types of expenditure with respect to total public spending. It can be seen from Table 3.14 that the share of general services has increased from 37.08% in 2006-07 to 43.15% during 2015-16. However, interest payment which is a major component of general service sector, shows a declining trend from 9.54% during 2006-07 to 8.45% during 2015-16. Its share declined sharply from 15.09 per cent in 2007-08 to 6.48 per cent in 2011-12.

The relative share of social services increased from 28.29% in 2006-07 to 31.61% during 2015-16. Among different heads, education sector has always received major share in the total expenditure. Its share was 12.93% during 2006-07 which rose to 16.2% during 2015-16. The next major head under was health whose share rose from 4.38% to 5.79% during the same period. Water supply share in total expenditure did not change much with 2.59% during 2006-07 which rose slightly to 2.96% during 2015-16. For housing the share decreased from 1.96% to .55% during the same period. The attention towards urban development was also not much with a share of 1.94% during 2006-07 which slightly to 1.99% during 2015-16. The expenditure on SC/ST and labour was below 1 percent during the entire period. Moreover, the attention towards social security was also less with a share of 1.98% during 2006-07 which slightly declined to 1.57% during 2015-16. The share of nutrition and others are almost below 1 percent for the entire period.

The relative share of economic services declined from 34.62% in 2006-07 to 29.78% during 2015-16. The decline can be mainly due to a decline in the share of public expenditure by agriculture and allied sector, special area development, energy and industry. Among different heads, agriculture and allied share decreased from 7.57% during 2006-07 which rose to 5.04% during 2015-16. The share of rural development increased from 2.38% to 6.62% during the same

period. Special area development shares in total expenditure also decreased from 4.70% during 2006-07 to 3.59% during 2015-16. The expenditure on irrigation sector decreased slightly from 1.17% to 1.35% during the same period. It can also be seen that the expenditure on energy and industry also decreased from 5.44% and 2.39% to 3.95% and 1.28% respectively during the same period. However, the expenditure on transport has risen from 2.69% to 5.78% during 2006-16. The expenditure on science and technology remained below 1 percent during the entire period.

The allocation of expenditure as a percentage to GSDP were shown in table 3.15. From the table it is seen that the share of general services as a percentage to GSDP is higher than social and economic services for the entire period. The percentage share of general services grows from 15.67% during 2006-07 to 26.41% during 2015-16. Among the general services, interest payment increased from 4.03% to 5.78% during the same period. The percentage share of social services also increases from 11.96% to 21.62% during the same period. Among the social services, the percentage share of education, water supply, housing, urban development and social security shows an increasing share during the same period. However, the percentage share of education sector is higher than any other social services during the entire period. The percentage share of economic services in the GSDP also increased from 14.63% in 2006-07 to 20.36% during 2015-16. Among the economics services, the percentage share of agriculture and allied and transport sector is higher than the other services.

The above analysis shows that there is an increasing allocation of expenditure on general services and a decreasing allocation of expenditure on social and economic services. Thus, there is a need to increase allocation of expenditure on social and economic services as this will bring the long-term growth of state economy and higher human development.

Table 3.14: Composition of Major Heads in Total government Expenditure (In percentage).

Year	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
General services	37.08%	39.19%	40.01%	41.87%	38.77%	41.68%	40.08%	41.85%	42.31%	43.15%
Interest Payment	9.54%	8.53%	8.93%	9.06%	7.91%	7.28%	7.02%	7.27%	7.66%	8.45%
Social Services	28.29%	27.91%	26.40%	24.93%	26.94%	24.36%	26.37%	29.12%	28.34%	31.61%
Education	12.93%	11.98%	11.79%	12.03%	14.03%	12.74%	13.87%	15.90%	14.28%	16.2%
Health	4.38%	4.56%	3.97%	4.18%	4.54%	4.54%	4.26%	4.32%	5.34%	5.79%
Water Supply	2.59%	2.38%	2.74%	2.36%	1.21%	1.26%	1.28%	1.12%	2.11%	2.96%
Housing	1.96%	2.43%	1.86%	1.34%	1.64%	1.18%	1.84%	1.29%	1.52%	.55%
Urban Development	1.94%	3.23%	2.48%	1.99%	1.17%	1.27%	1.09%	1.94%	1.36%	1.99%
Welfare ST/ST	0.50%	0.04%	0.39%	0.38%	0.33%	0.29%	0.41%	0.32%	0.33%	.49%
Labour	0.33%	0.33%	0.29%	3.61%	0.35%	0.35%	0.38%	0.37%	0.43%	.71%
Social Security	1.98%	1.39%	1.21%	1.12%	1.86%	1.50%	1.79%	1.74%	1.71%	1.57%
Nutrition	0.86%	0.77%	0.83%	0.56%	1.00%	0.64%	0.77%	1.01%	0.42%	.54%
Others	0.86%	0.81%	0.83%	0.19%	0.81%	0.59%	0.70%	1.11%	0.84%	.79%
Economic Services	34.62%	32.82%	33.55%	33.11%	34.22%	33.91%	33.52%	29.05%	29.35%	29.78%
Agriculture & Allied	7.57%	7.19%	6.69%	6.96%	7.02%	7.23%	7.43%	6.20%	6.38%	5.04%
RD	2.38%	2.63%	3.18%	2.26%	2.49%	1.55%	1.94%	1.24%	3.57%	6.62%
Special Area	4.70%	3.32%	4.33%	2.29%	3.41%	3.08%	3.18%	3.09%	2.57%	3.59%
Irrigation	1.17%	1.94%	2.06%	1.70%	2.15%	2.16%	1.88%	1.22%	0.99%	1.35%
Energy	5.44%	4.96%	6.97%	5.67%	5.36%	6.21%	6.37%	5.56%	5.08%	3.95%
Indus	2.39%	2.05%	2.73%	2.48%	2.08%	1.84%	1.81%	0.98%	1.33%	1.28%
Transport	2.69%	3.43%	4.09%	8.89%	8.56%	9.00%	8.48%	3.68%	6.93%	5.78%
Science and Tech.	0.24%	0.15%	0.83%	0.15%	0.15%	0.12%	0.15%	0.23%	0.39%	.32%
Others	2.40%	2.32%	1.18%	1.13%	3.01%	2.73%	2.28%	2.13%	2.12%	1.83%

Table 3.15: Composition of Major Heads in Government Expenditure as a percentage of GSDP

Year	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
General services	15.67%	17.88%	18.92%	21.00%	22.26%	25.48%	25.76%	25.62%	27.14%	26.41%
Interest Payment	4.03%	3.89%	4.23%	4.55%	4.54%	4.45%	4.51%	4.45%	4.91%	5.78%
Social Services	11.96%	12.73%	12.49%	12.51%	15.47%	14.89%	16.95%	17.82%	18.17%	21.62%
Education	5.46%	5.46%	5.57%	6.04%	8.06%	7.79%	8.91%	9.73%	9.16%	11.08%
Health	1.85%	2.08%	1.88%	2.10%	2.61%	2.78%	2.74%	2.65%	3.42%	3.96%
water Supply	1.09%	1.08%	1.30%	1.19%	0.69%	0.77%	0.82%	0.69%	1.35%	2.03%
Housing	0.83%	1.11%	0.88%	0.67%	0.94%	0.72%	1.18%	0.79%	0.97%	0.38%
Urban Development	0.82%	1.47%	1.17%	1.00%	0.67%	0.78%	0.70%	1.19%	0.87%	1.37%
Welfare ST/sc	0.21%	0.02%	0.18%	0.19%	0.19%	0.18%	0.26%	0.19%	0.21%	.33%
Labour	0.14%	0.15%	0.14%	1.81%	0.20%	0.21%	0.25%	0.22%	0.28%	.48%
Social Security	0.84%	0.63%	0.57%	0.56%	1.07%	0.92%	1.15%	1.06%	1.09%	1.07%
Nutrition	0.36%	0.35%	0.39%	0.28%	0.57%	0.39%	0.49%	0.62%	0.27%	.37%
Others	0.36%	0.37%	0.39%	0.09%	0.47%	0.36%	0.45%	0.68%	0.54%	.45%
Economic Services	14.63%	14.97%	15.87%	16.61%	19.65%	20.73%	21.55%	17.78%	18.82%	20.36%
Agriculture & Allied	3.20%	3.28%	3.16%	3.49%	4.03%	4.42%	4.78%	3.80%	4.09%	3.45%
RD	1.01%	1.20%	1.50%	1.13%	1.43%	0.95%	1.25%	0.76%	2.29%	4.53%
special Area	1.99%	1.51%	2.05%	1.15%	1.96%	1.88%	2.04%	1.89%	1.65%	2.46%
Irrigation	0.49%	0.88%	0.97%	0.85%	1.23%	1.32%	1.21%	0.75%	0.63%	.93%
Energy	2.30%	2.26%	3.30%	2.85%	3.08%	3.79%	4.09%	3.40%	3.26%	2.69%
Indus	1.01%	0.94%	1.29%	1.24%	1.19%	1.12%	1.17%	0.60%	0.85%	.87%
Transport	1.14%	1.56%	1.94%	4.46%	4.92%	5.50%	5.45%	2.25%	4.44%	3.95%
Science and Tech	0.10%	0.07%	0.39%	0.08%	0.09%	0.07%	0.09%	0.14%	0.25%	.22%
Others	1.02%	1.06%	0.56%	0.57%	1.73%	1.67%	1.47%	1.30%	1.36%	1.25%

3.5.2. Measures of Technical Efficiency:

The other aspect of measuring efficiency of public spending is to examine the cost recovery in the public provision of various goods and services. The result of the analysis are depicted in table no. 3.16. The recovery rate in the social sector, viz, education, health and water supply, are low and they are below 10% for the entire period. The year-wise recovery rate in education sector shows a fluctuating rate. The recovery rate 0.49% during 2006-07 which increased to 9.73% during 2014-15 but it falls to 3.15% in the following year. The recovery rate in health sector was below 1 percent for the entire period. The recovery rate in water supply decreased from 8.31 to 1.21 from 2006-07 to 2015-16. This low rate of recovery has ultimately resulted in the massive increase in the amount of implicit subsidies.

The recovery rate in economic services shows that except for power, the recovery rate of industries and roads has been decreasing over the years. The recovery rate in industries which was 36.78% in 2006-07 drastically decreased to 1.25% during 2015-16. The recovery rate in power sector increased from 10.56% in 2006-07 to 24.97% during 2015-16. The recovery rate in road sector also drastically decreased from 10.56% in 2006-07 to 2.59% in 2015-16.

Table 3.16: Cost Recovery of Selected Services

Year		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	Social Services										
Education		0.49%	0.13%	0.14%	0.09%	1.33%	1.81%	5.24%	6.59%	9.73%	3.15%
Health		0.11%	0.13%	0.13%	0.06%	0.04%	0.09%	0.13%	0.19%	0.13%	0.13%
Water Supply		8.31%	4.84%	2.87%	4.44%	3.62%	4.56%	3.58%	3.72%	3.26%	1.21%
	Economic Services										
Industries		36.78%	58.85%	1.80%	1.00%	1.08%	1.24%	0.96%	1.84%	1.80%	1.25%
Power		10.56%	9.02%	73.23%	44.33%	33.27%	32.02%	29.78%	29.70%	28.75%	24.97%
Roads		10.56%	9.02%	7.98%	9.19%	8.97%	6.48%	5.06%	5.45%	4.96%	2.59%

3.6: Suggestions for improving efficiency in public spending:

The above analysis reveals that there is a declining allocation of expenditure in social and economic services and increasing allocation of expenditure in general services. Thus, there is more allocation of expenditure on non-development than development activities. Although there is an allocation of expenditure on both social and economic services, the government needs to enhance the allocation to these sectors. The government needs to enhance expenditure on education, health, water supply, agriculture, irrigation energy, industry, transport (including road and bridge) and science and technology.

From the analysis, it is seen that the recovery rate of education which has been increasing over the last four years has to be maintained. For health there is a need to increase the recovery cost since its recovery rate is below 1 percent for the entire period. The recovery rate of water supply needs to be given a big push since it has been continuously decreasing over the years. The recovery rate in power sector needs to be encouraged so as to maintain stability. For industries and roads, the recovery rate needs to be increased. The increase in recovery rate in all these services is needed because it will lead to progressive reduction of subsidies and push the growth of state economy.

Chapter 4

ANALYSIS OF DEFICIT

The overall deficit shows the gap between the revenues of the government and its total expenditure (including net lending to others). It indicates the borrowing requirements of the government to be met through domestic and external sources. It is a useful measure from the view point of macro- economic balance of the economy. The extent of overall fiscal position in the finances of state government can be indicated by three key parameters- revenue, fiscal and primary deficit. The table below shows the trends of different parameters of fiscal imbalance in respect of state finances from 2006-07 to 2015-16.

Table 4.1: Deficit indicators of Nagaland (in crores)

Year	Revenue Deficit (-) /surplus (+)	Fiscal Deficit (-) /surplus (+)	Primary Deficit (-) /surplus (+)
2006-07	550.36	-670.28	-390.59
2007-08	423.76	-1044.59	-774.13
2008-09	511.36	-818.28	-504.29
2009-10	467.34	-1442.54	-1080.03
2010-11	812.17	-466.69	-72.36
2011-12	710.72	-894.05	-476.66
2012-13	602.9	-2829.13	-2378.49
2013-14	747.56	-1565.6	-1071.75
2014-15	888.55	-2772.83	-2217.49
2015-16	461.47	-3139.42	-2552.97

Source: RBI and Central Statistical Office.

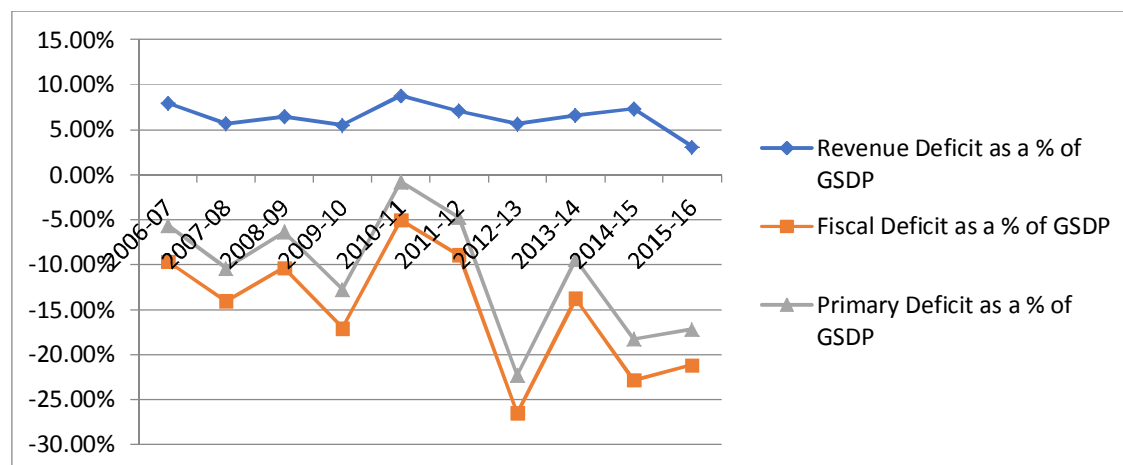


Figure 4.1: Trends in deficit indicators as a percentage of GSDP.

Table 4.2: Deficit/surplus as percentage of GSDP

Year	Revenue surplus (+)	Deficit (-)/	Fiscal /surplus (+)	Deficit (-)	Primary /surplus (+)	Deficit (-)
2006-07	7.93%			-9.66%		-5.63%
2007-08	5.69%			-14.03%		-10.40%
2008-09	6.46%			-10.34%		-6.37%
2009-10	5.52%			-17.05%		-12.76%
2010-11	8.78%			-5.04%		-0.78%
2011-12	7.09%			-8.92%		-4.76%
2012-13	5.65%			-26.51%		-22.29%
2013-14	6.58%			-13.77%		-9.43%
2014-15	7.32%			-22.84%		-18.27%
2015-16	3.11%			-21.14%		-17.19%

Revenue deficit/surplus:

The difference between the total revenue receipts and total revenue expenditure is the revenue surplus (if the revenue receipts are more than the revenue expenditure) or revenue deficit (if the revenue expenditure is more than revenue receipts). The state government had revenue surplus throughout the period from 2006-07 to 2015-16. The highest revenue surplus was during 2014-15 with Rs 888.53 crore and the lowest was during 2007-08 with Rs 423.75 crore. The average revenue surplus over the same period is Rs 617.62 crore. Revenue surplus as percentage of GSDP ranges between 3.11 percent to 8.78 percent during the period 2006-07 to 2015-16 as shown by table 4.2 and figure 4.1.

Fiscal deficit:

Fiscal deficit refers to the difference between total expenditure and total revenue receipts and capital receipts; but capital receipts exclude borrowings and other liabilities. In other words, fiscal deficit is the sum of budget deficit plus borrowings and other liabilities. The state has witnessed a huge fiscal deficit during 2006-16, the fiscal deficit grows from Rs. 670.28 crore in 2006-07 to Rs. 3139.42 crores during 2015-16. The lowest fiscal deficit was Rs 466.69 crore during 2010-11. The highest fiscal deficit was recorded during 2015-16 with Rs 3139.42 crore. The average fiscal deficit during 2006-16 was Rs 1564.34 crore. From table 4.2 and figure 4.1 it is seen that Fiscal deficit/surplus as percentage of GSDP varies from 5.04 percent to 26.51 percent during the same period.

Primary deficit:

Primary deficit is the difference between fiscal deficit and interest payment. Primary deficit increased from Rs. 390.59 crore in 2006-07 to Rs. 2552.97 crores during 2015-16. However, there was a wide fluctuation in the year wise deficit ranging from Rs. 72.63 crore to 2319.04 crore. The average annual primary deficit was Rs. 1151.88 crore during 2006-16. Primary deficit as a percentage of GSDP fluctuates between .78% to 22.29% during 2006-16.

CHAPTER 5

STATE'S DEBT SCENARIO

It is important to examine the level of Debt- GSDP ratio and the use of debt (i.e. whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, Central government debt (including those from bilateral/multilateral lending agencies routed through the Central government), liabilities in public account (small savings, provident funds etc) and borrowings from agencies such as NABARD, LIC etc.

Trend of Public Debt and Other Obligations

The trend of debt to GSDP ratio is of great significance in determining the financial health of an economy, in the same way, it is important to look at the sources of financing of public debt of the state. Identification of sources of finance is indispensable to frame the developmental plan of the state because the state cannot make developmental plans without certainty about availability of fund. This had become even more pertinent following the recommendations of the Twelfth Finance Commission, which restricts the Planning Commission to provide loans to the state governments. After this recommendation, the Centre's intermediation in state debt has been discontinued and the states have been asked to raise subscriptions of their loans from the market itself (Srivastava, 2009). This development has significant implications for a poor state like Nagaland with low credibility in the loan market. The second important relevant factor in public debt is the issue of interest payments. The interest rates are different for different sources of financing which ultimately determine the total interest obligations of the state.

The trends of cumulative Total Public Debt (internal debt and loans & advances from Central government), Public Account (Small savings, Provident Funds, reserve funds and deposits of both interest bearing & non-interest bearing), Total Liabilities and percentage shares to GSDP from 2006-07 to 2015-16 is indicated as follows.

The Public Debt (cumulative balance at the end of the year) has increased from Rs. 2922 crore to Rs. 6736 crores, indicating a percentage increase of 13.05% per annum during 2006-07 to 2015-16. The Public Account has also increased from Rs.635 crore to Rs.2195 crore, with an annual rise of 24.57 per cent during the same period. Accordingly, the state's total liabilities have increased from Rs. 3557 crores to Rs. 8931 crores, showing an annual increase of 15.11 per cent during the same period.

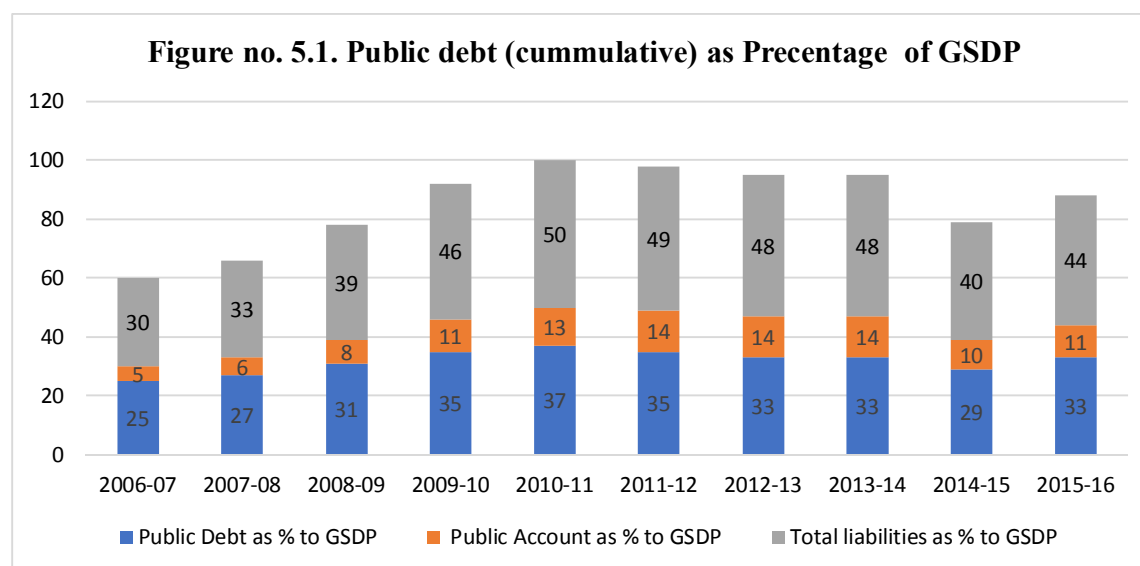
Table no. 5. 1: Details of the public debt and total liabilities of the state government are as under (Rs in crore):

Years	Public Debt (cumulated)*	% to GSDP	Public Account*	% to GSDP	Total Liabilities*	% to GSDP
2006-07	2922.01	25	635	5	3557	30
2007-08	3161.16	27	724	6	3885	33
2008-09	3707.32	31	1000	8	4607	39
2009-10	4137.96	35	1323	11	5461	46
2010-11	4340.16	37	1524	13	5864	50
2011-12	4860.44	35	1898	14	6758	49
2012-13	5247.37	33	2205	14	7452	48
2013-14	5786.86	33	2570	14	8357	48
2014-15	5895.65	29	2058	10	7954	40
2015-16	6736.24	33	2195	11	8931	44

Source: Accounts at a Glance, Government of Nagaland, 2010-11, 2012-13 and 2015-16.

*Figures are progressive (cumulative) balance at the end of the year.

The Public Debt, Public Account and Total Liabilities as percentage of GSDP are indicated in the figure below:



The burden of public debt as measured by the percentage of Public Debt, Public Account and Total Liabilities to GSDP have increased during 2006-07 to 2010-12, thereafter, gradually declined. The public debt has increased from 25 per cent in 2006-07 to 37 per cent in 2010-11, subsequently declined to 33 per cent in 2015-16, which is higher than the 25% limit as set by the 13th Finance commission. The percentage share of public account has increased from 5 per cent in 2006-07 to 14 per cent in 2011-12 but reduced to 11 per cent during 2015-16. Similarly, the percentage of total liabilities has increased from 30 per cent to 50 per cent, thereafter reduced to 44 per cent.

The data indicated that total public debt, public account and total liabilities of the state government as percentages of GSDP and in absolute terms have increased during the period under consideration, that the state could not reduce the debt burden as recommended but rather increased during the observed period.

Addition to Public debt and other Liabilities:

The yearly addition to Public Debt and Outstanding liabilities are presented in Table 6.2 here below:

Table 5.2: Level of Public Debt and Outstanding Liabilities (in Rupees Crore) and as percentage of GSDP (addition during the year)

Year	Total Public Debt (addition during the year)	Other Obligations (addition during the year)	Total public Debt & other Obligations incurred at the end of the Year	GSDP (in crores)	Total Public debt as a % of GSDP	Total Public Debt & other Obligations as a % of GSDP
2006-07	722.2	228.41	950.61	6937.85	10.41	13.70
2007-08	868.19	379.46	1247.65	7445.37	11.66	16.76
2008-09	836.12	553.42	1389.54	7916.87	10.56	17.55
2009-10	1256.45	966.59	2223.04	8462.58	14.85	26.27
2010-11	463.35	778.56	1241.91	9253.99	5.01	13.42
2011-12	1318.85	952.58	2271.43	10023.85	13.16	22.66
2012-13	2730.20	1208.18	3938.38	10671.06	25.59	36.91
2013-14	1976.41	1276.04	3252.45	11367.06	17.39	28.61
2014-15	2414.87	543.01	2957.88	12139.65	19.89	24.37
2015-16	3546.13	1159.43	4705.56	14851.11	23.88	31.68
CAGR in %	17.25	17.64	17.34	7.91	8.66	8.74

Source: CSO (2018), Ministry of Statistics and Programme Implementation, GoI

Note: GSDP – (Based year 2004-05 for 2006-07 to 2014-15 and 2011 for 2015-16)

The yearly addition to public debt of Nagaland (internal debt of state government and loans and advances from Central government) in absolute term has fluctuated during the period under consideration (2006-07 to 2015-16). It was increased from Rs. 722.2 crore in 2006-07 to Rs. 1256.45 crore in 2009-10, then declined sharply to Rs. 463.35 crore in 2010-11. Subsequently, increased to Rs. 3546.13 crores in 2015-16. During the period, addition to total public debt was increased at Compounded Annual Growth Rate (CAGR) of 17.25 per cent. The total public debt and other obligations (total public debt plus small savings, provident fund, reserved funds, deposits etc.) of the state has gone up from Rs.950.61 crores in 2006-07 to Rs. 2223.04 crores in 2009-10, then fallen to Rs.1241.91 in 2010-11 and continued to fluctuate and eventually reached Rs.4705.56 in 2015-16, with CAGR of 17.34 per cent.

The burden of public debt, which is measured as a percentage of total income of the state (GSDP), is depicted in the table 6.1 and figure 6.1.

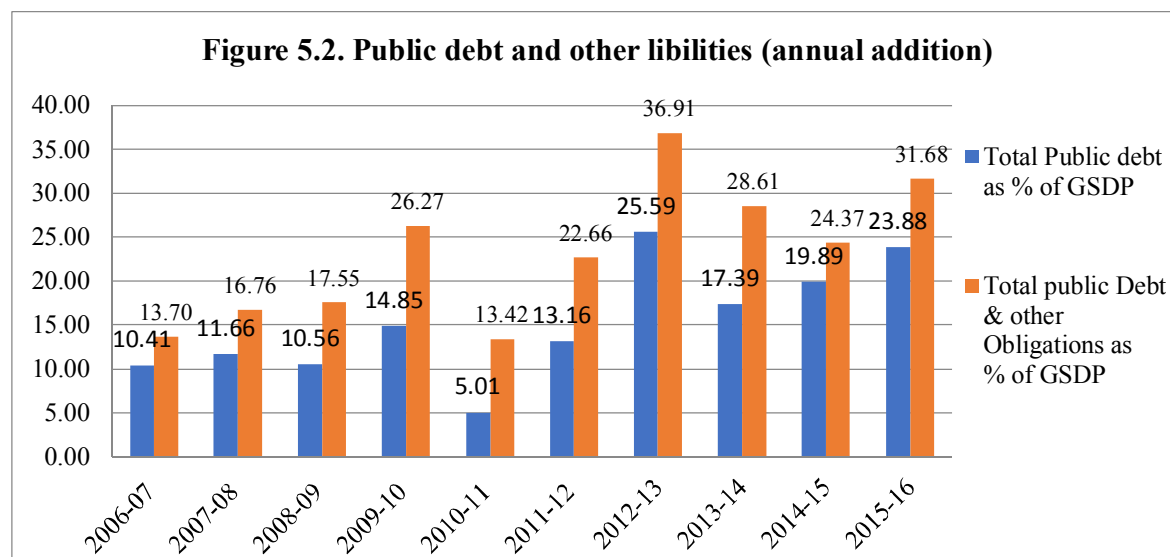


Figure 5.2 reveals that yearly addition of Total Public Debt as percentage of GSDP has fluctuated, which was increased from 10.41 per cent in 2006-07 to 14.85 per cent in 2009-10 but fallen abruptly to 5 per cent in 2010-11, then increased to 25.59 per cent in 2012-13, however it was dropped to 20.64 per cent in 2015-16.

The annual addition to Total Liabilities (public debt other obligations added together) as percentage of GSDP has taken a similar trend, however, somewhat higher. It was 13.7 per cent in 2006-07, then peaked at 36.91 per cent in 2012-13 and moved down to 24 per cent in 2015 but increased to 31.68 percent in 2015-16. The total yearly addition to public debt as well as total Public Debt & other Obligations as percentage of GSDP were fallen significantly to 5 per cent and 13 per cent respectively in 2010-11 as a result of fall in public debt and other obligations added together. The CAGRs were estimated to be 8.66 and 8.74 per cent respectively during the observed period.

The annual addition to total public debt as percentage of GSDP has been consistently lower than 20 per cent throughout the period, except for the year 2012-13 and 2015-16. Since 2014-15, the proportions of yearly addition to total public debt and other obligations as percentage of GSDP are little below the 25% target set by the 13th Finance Commission for all the States in aggregate.

5.2 Composition of Debt

Article 293 of the Constitution of India empowers the State government to borrow on the security of the consolidated fund of the state within such limits, if any, as maybe from time to time fixed by the state legislature. Table no. 5.3 and figure 5.3 indicate the structure of public debt and other liabilities in Nagaland for the period 2006-07 to 2015-16. Following the recommendation of twelfth finance commission, the central government disintermediated state governments borrowings from 2005-06 onwards, resulting in sharp decline in the inflows of loans from the centre in the subsequent years. The share of internal debt [which includes market loans, ways and means advances (WMA) from the RBI, Bonds, loans from financial institutions, special securities issued to National Small Saving Funds and other Loans] as a percentage of Total Public Debt and Other Liabilities (PDOL) was declined from 75.84 per cent in 2006-07 to 37.31 per cent in 2010-11, thereafter it increased to 75.36 per cent in 2015-16. *This implies that the state government is increasingly relying on the internal debt to raise funds for functioning of the government.* The share of Central government loans (which includes Non-plan loans, Loans for state plan schemes, loans for central plan schemes, loans for centrally sponsored plan schemes and so.) in total PDOL has been either insignificant or nil during the period as indicated in the table no. 5.3 and figure 5.2 here below. Further, it is observed that the percentage share of Small Savings and Provident Funds (SSPF) has fluctuated, which dipped from 10.02 per cent in

2006-07 to its lowest 5.94 per cent in 2015-16, and Other Obligations in total PDOL has also fluctuated, which rose from 14.01 per cent in 2006-07 to 47.27 per cent in 2010-11 and gradually declined to 18.7 per cent in 2015-16.

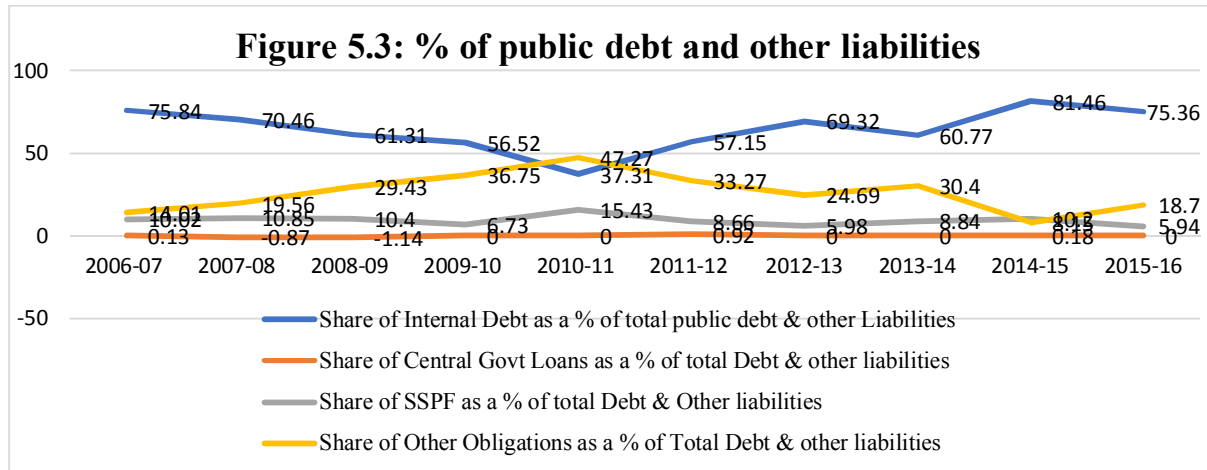


Table 5.3: Composition of Debt and Other Liabilities in Nagaland from 2006-07 to 2015-16

Year	Internal Debt of State Govt.	Loans & Advances from Central Govt.	SSPF	Other Obligations	Total Public Debt & Other Liabilities at the end of the Year	Share of Internal Debt as a % of total public debt & other Liabilities	Share of Central Govt Loans as a % of total Debt & other liabilities	Share of SSPF as a % of total Debt & Other liabilities	Share of Other Obligations as a % of Total Debt & other liabilities
	Rupees in Crore (net addition during the year)					% of total public debt & other Liabilities			
2006-07	720.99	1.21	95.22	133.19	950.61	75.84	0.13	10.02	14.01
2007-08	879.09	-10.9	135.42	244.04	1247.65	70.46	-0.87	10.85	19.56
2008-09	851.99	-15.87	144.53	408.89	1389.54	61.31	-1.14	10.40	29.43
2009-10	1256.45	0	149.54	817.05	2223.04	56.52	0.00	6.73	36.75
2010-11	463.35	0	191.57	586.99	1241.91	37.31	0.00	15.43	47.27
2011-12	1297.88	20.97	196.57	755.61	2271.03	57.15	0.92	8.66	33.27
2012-13	2730.12	0	235.63	972.55	3938.38	69.32	0.00	5.98	24.69
2013-14	1976.41	0	287.37	988.67	3252.45	60.77	0.00	8.84	30.40
2014-15	2409.57	5.3	301.8	241.21	2957.88	81.46	0.18	10.20	8.15
2015-16	3546.13	0.0	279.68	879.75	4705.56	75.36	0.0	5.94	18.70

SSPF =Small Savings & Provident Funds

Source:-- RBI

The detail sources of public debt of the State are shown in Table no 5.4.

Table 5.4: Nature of Borrowing by Government of Nagaland from 2006-07 to 2015-16 (Rupees in crore)

A - PUBLIC DEBT	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Internal Debt	720.99	879.09	851.99	1256.45	463.35	1297.88	2730.2	1976.41	2409.57	3546.13
i) Market Loans	293.51	369.05	466.96	577.41	355.36	504.99	655	535	600	950.19
ii) Loans - LIC	30.4	8.95								
iii) Loans - NABARD	31.43	20	65.09	56.11	33.31	48.78	48.74	54.58	31.73	22.83
iv) Loans - NCDC	1.41	0.3	1.43	7.65	1.07	8.59	5.39	4.35	0	0.0
v) WMA from RBI	266.71	367.17	184.58	451.23		646.63	1965.47	1357.25	1689.87	2477.54
vi) Special Securities issued to NSSF	15.66	1.45		5.67	21.25	7.53	3.13	3.14	16.98	34.31
vii) Others of which: Land Compensation and other Bonds	81.87	112.17	133.93	158.38	52.36	81.36	52.47	22.09	70.99	61.26
Loans and Advances from the Central Govt.	1.21	-10.9	-15.87	-	-	20.97	-	-	5.3	0.0
i) Non-Plan Loans	-0.2					20.97			5.3	4.5
ii) Loans for State Plan Schemes	-3.03	-15.36	-15.87							
iii) Loans for Central Plan Schemes	4.44									
iv) Loans for Centrally Sponsored Plan Schemes		4.46								
Total Public Debt	722.2	868.19	836.12	1256.45	463.35	1318.85	2730.2	1976.41	2414.87	3546.13
B-OTHER LIABILITIES (Public Accounts)										
i) Small savings, Provident Funds etc. (SSPF).	95.22	135.42	144.53	149.54	191.57	196.97	235.63	287.37	301.8	279.68
ii) Reserve funds	5.64	35.02	39.49	30.65	41.27	37.5	45.01	54.22	69.35	210.67
iii) Deposits	127.55	209.02	369.4	786.4	545.72	718.11	927.54	934.45	171.86	669.08
Total Other Liabilities	228.41	379.46	553.42	966.59	778.56	952.58	1208.18	1276.04	543.01	1159.43
Total Public Debt and Other Liabilities	950.61	1247.65	1389.54	2223.04	1241.91	2271.43	3938.38	3252.45	2957.88	4705.56

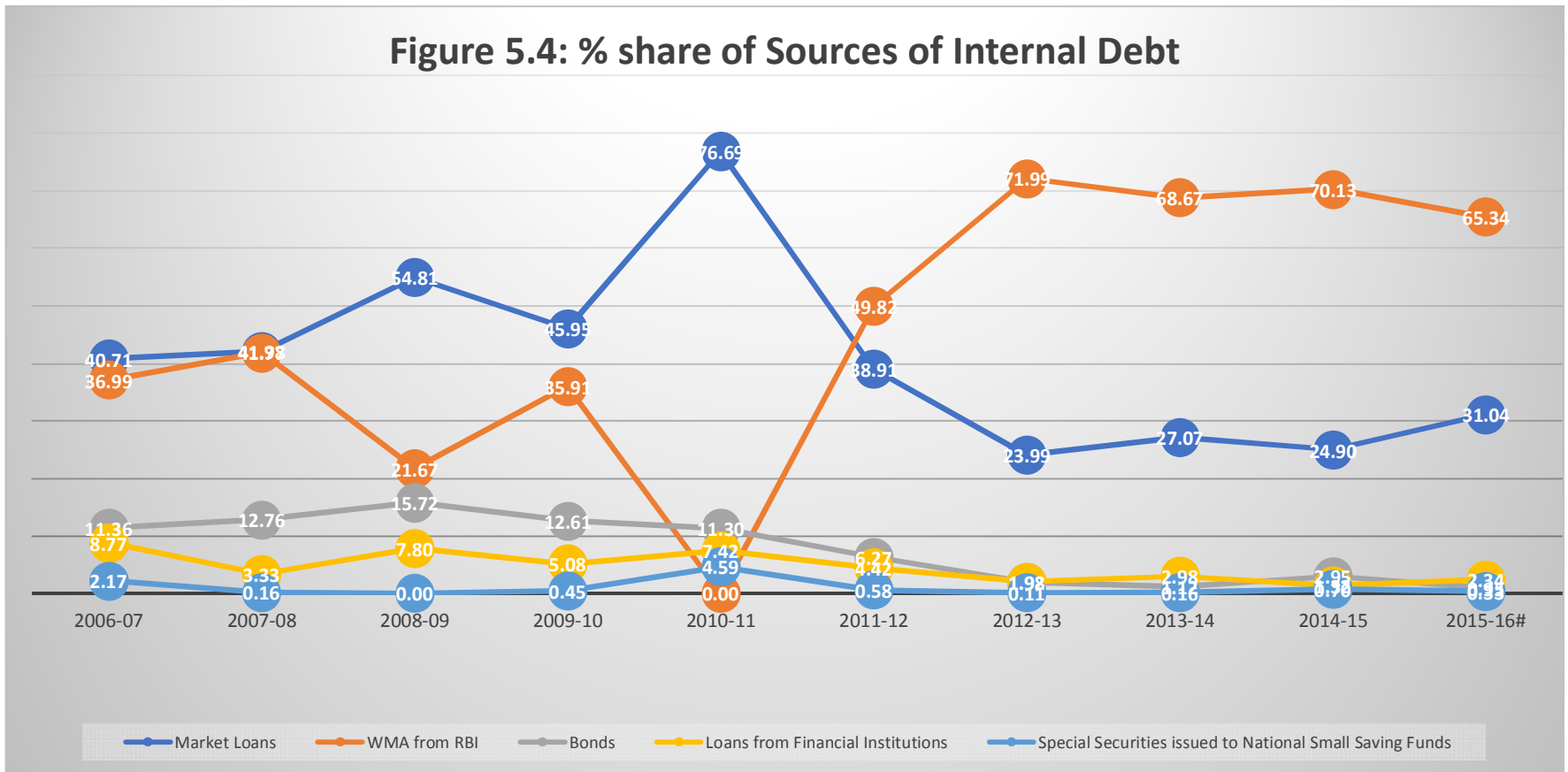
Source: RBI

Table 5.5: Composition of Public Debt from 2006-07 to 2015-16 in Nagaland

Year	% share in total public debt (addition during the year)			% of sources of internal debt in total internal debt				
	Internal Debt	Loans and Advances from Central Govt	Total	Market Loans	WMA from RBI	Bonds	Loans from Financial Institutions	Special Securities issued to National Small Saving Funds
2006-07	99.83	0.17	100.00	40.71	36.99	11.36	8.77	2.17
2007-08	101.26	-1.26	100.00	41.98	41.77	12.76	3.33	0.16
2008-09	101.91	-1.90	100.00	54.81	21.67	15.72	7.80	0.00
2009-10	100.00	0.00	100.00	45.95	35.91	12.61	5.08	0.45
2010-11	100.00	0.00	100.00	76.69	0.00	11.30	7.42	4.59
2011-12	98.41	1.59	100.00	38.91	49.82	6.27	4.42	0.58
2012-13	100.00	0.00	100.00	23.99	71.99	1.92	1.98	0.11
2013-14	100.00	0.00	100.00	27.07	68.67	1.12	2.98	0.16
2014-15	99.78	0.22	100.00	24.90	70.13	2.95	1.32	0.70
2015-16#	99.85	0.15	100.00	31.04	65.34	0.95	2.34	0.33

Source: Own estimation from data in table no. 5.4

Figure 5.4: % share of Sources of Internal Debt



Source: Table no 5.5

In Nagaland, total public debt has been mainly constituted by internal debt, while the share of loans and advances from the central government has been either nil or negligible (during 2006-07, 2011-12, 2014-15 and 2015-16 it was negligible; in 2007-08 and 2008-09, it was negative, while in the remaining years it was nil).

Among the sources of internal debts, Market loans was the major constituent of total internal debt until 2010-11 with 76.69%. However, its share was declined during the subsequent years, which reduced to 31% in 2015-16. On the other hand, the share of Ways and Means Advances (WMA) from Reserve Bank of India became the most important component, which began to rise from 0.00 per cent in 2010-11 to 71.99 per cent in 2012-13, thereafter, it was declined to 65.34 per cent in 2015-16, but remains the major share in total internal debt.

The shares of bonds, loans from financial institutions and Special Securities issued to National Small Saving Funds were all declined and continued insignificant during the observed period. It is also observed from table 5.4 that amongst the Financial Institutions, NABARD is consistently the most important source, whereas loans from National Co-operative Development Corporation has been marginal.

5.3 Use of Debt:

Table 5.6 Borrowing, Capital Outlay and Cash Surplus of Government of Nagaland

Year	Total public debt and other liabilities (addition during the year) Rs in crore)	Capital outlay (Rs crore)	Total expenditure (Rs crore)	Capital expenditure as % of total expenditure	Capital expenditure as % of Total public debt	Cash Balance investment account (Rs crore)	Cash Balance investment account + investment of earmarked funds (Rs crore)	% Change in total investment of cash balance
2006-07	950.61	710.48	7857.52	9.04	74.74	-	-	-
2007-08	1247.65	821.48	8853.97	9.28	65.84	-	-	-
2008-09	1389.54	853.09	11999.88	7.11	61.39	164.57	232.01	-
2009-10	2223.04	989.53	13,739.71	7.20	44.51	311.05	400.82	72.76
2010-11	1241.91	1122.94	16317.93	6.88	90.42	273.82	396.22	-1.15
2011-12	2271.03	1249.39	14736.54	8.48	55.01	0	151.4	-61.79
2012-13	3938.38	1255.18	16113.78	7.79	31.87	0	175.53	15.94
2013-14	3252.45	1207.07	16721.75	7.22	37.11	0	187.53	6.84
2014-15	2957.88	1023.17	17711.74	5.78	34.59	141.48	370.01	97.31
2015-16	4705.56	1059.23	12054.33	8.79	22.51	0	429.2	16.00

Source: Capital expenditure: 2007 to 2011-12 from CAG report 2012
Capital expenditure 2011-12 onwards economic survey report

Table no. 5.6 shows addition during the year on borrowing and liabilities, capital outlay, capital expenditure and total expenditure from 2006-07 to 2015-16 in Nagaland. It is observed that the annual borrowing and other liabilities has increased significantly from Rs.950.61 crores in 2006-07 to Rs. 4705.56, an increase of 39.5% per annum. The capital outlay as a percentage of total expenditure has fluctuated around 6 per cent to 9 per cent during the period. The capital expenditure as a percentage of total debt has declined from 74.74 percent to 44.51 per cent during 2006-07 to 2009-10, there after increased to 90 per cent in 2010-11, but steadily decline to 22.51 per cent in 2015-16. This reveals that in recent years the capital outlay has increased relatively but its proportion in total expenditure remain very low and far from satisfactory. Moreover, the capital expenditure as percentage of public debt has declined, it appears that the fresh borrowings are used for meeting the revenue expenditure and debt repayments rather than capital asset formation. It infers that repayment of these borrowings will not be met out of the fund generated from assets in future.

The proportion of repayment as percentage to debt and other liabilities is indicated in the table below.

Table no 5.7: Repayment as % of total Public Debt and Other Liabilities (Rs. In Crore)

Years	Total Public and Other Liabilities (Cumulative)	Total Public and Other Liabilities (Addition during the Year)	Repayment During the Year	Repayment as a % of Total Public Debt and Other Liabilities (Addition during the Year)	Repayment as a % of Total Public Debt and Other Liabilities (Cumulative)
2009-10	5461	2223.04	852.28	38.34	15.64
2010-11	5864.56	1241.91	816.49	65.74	13.92
2011-12	6758.44	2271.03	135.86	5.98	2.01
2012-13	7452.54	3938.38	3217.34	81.69	43.17
2013-14	8356.92	3252.45	892.66	27.45	10.68
2014-15	7953.73	2957.88	3343.51	113.04	42.04
2015-16	8931.65	4705.56	3727.45	79.21	41.73

Source: RBI

From table no 5.6, it appears that cash surplus (includes Cash Balance Investment Account and investment of earmarked funds) has increased from Rs. 232.01 crore in 2008-09 to Rs. 429.2 crores in 2015-16. As on 31st March, 2015, Rs. 141.48 crore was lying under the cash balance account of the State government, as invested by the RBI. There was nil balance investment

account as on March, 2016. While maintaining the optimum cash balance (minimum of Rs. 1.28 crore) with the RBI, the State may with proper planning generate cash surpluses, which should be invested to augment the weak productive capacity of the State.

5.4 Measures adopted for debt reduction:

The reduction in outstanding debt could not be achieved in Nagaland although several measures have been adopted, like write off of central loan, creation of sinking fund etc, which were the measures adopted for appropriation for reduction or avoidance of debt. The State's total liabilities have cumulated from Rs.3557 crore in 2006-07 to Rs. 8931 Crore in 2015-16, which shows an increase of 15 per cent per annum. During the corresponding period, the total public debt had increased from Rs. 2922 crore to Rs.6736 crore, which is an increase of 13 per cent per annum.

The Debt Consolidation and Relief Facilities (DCRF) recommended by Finance Commission XII, have two component of debt relief, viz., debt consolidation and debt write off. The debt consolidation provided for consolidation of all central loans contracted by the state until March 31st, 2004 and outstanding as on March 31, 2005 into fresh loans for 20 years to be paid in 20 instalments with a lower interest rate of 7.5 per cent, subject to the condition that the state government concerned enacted its FRBM Act. Repayments due from state during the period 2005-06 to 2009-10 on the loans towards central plan and centrally sponsored schemes were eligible for write-off. According to State Finance Accounts (2015-16) reports that for the year ended 31 March 2012, in case of Nagaland, the excess payment was amounting to Rs. 7.07 crore, of which, the Ministry of Finance has so far adjusted 0.40 crore in 2012. So, the balanced amount pending for adjustment was Rs.6.67 crore (principal of Rs.1.95 crore and interest of Rs 4.72 crore), of which pending principal of Rs.1.95 crore has resulted in adverse balance (net debit) against the loans of the Ministries other than the Ministry of Finance in the books of the state government.

The 10th finance commission had recommended that state should set up (a) Sinking funds for amortization of all loans including loans from banks, liabilities on account of National Small Saving Funds etc., which should not be used for any other purpose, except for redemption of loans and (b) Guarantee Redemption Funds for discharge of the state obligations on guarantees.

The total accumulated balance at the end of 31st March 2015 in these funds was Rs. 426.38 crore, of which Rs. 228.53 crore (54%) has been invested as required under the guidelines of the fund.

The State government had created consolidated sinking fund in 2006-07 for amortization of liabilities, with an initial corpus of Rs.12.17 crore. Though the State Govt. has not framed any rules, regarding annual contributions to the fund in terms of guidelines of the RBI which is responsible of the fund, the State government was required to contribute a minimum of 0.5% of the outstanding as at the end of the previous year. Against Rs.41.78 crore (0.5%) of the outstanding liabilities of Rs.8356.92 crore as on 31st March, 2014 due from the state government in 2014-15, the state government contributed Rs.40 crore, a short fall of 1.78 crore. The entire fund of corpus fund of Rs. 205.75 crore as on 2015 was invested in Govt. of India securities. Which transfer was increased during 2015-16, that Rs.199.67 crore was transferred to the fund from Reserve Account, 4.19% of total outstanding (open market loan) of Rs. 4764.66 crore as on 31st March, 2015 and to 2.51% of total outstanding liabilities of Rs. 7953.73 crore (internal debt and public account liabilities) as on 31 March, 2015.

CHAPTER 6

NAGALAND FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT BILL- 2005.

The Nagaland fiscal responsibility and budget management bill 2005 was passed on 11 August 2005. The objective of the bill was to provide for the responsibility of the State Government to ensure prudence in fiscal management and fiscal stability by achieving revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or incidental thereto.

Under section 9 of this act the state had set the following targets:

(1) The State Government may prescribe such targets as may be deemed necessary for giving effect to the fiscal management objectives.

(2) In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall –

i) strive to remain revenue surplus by making a balance in revenue receipts and expenditure and build up further surplus;

ii) strive to bring down fiscal deficit to 3% of projected Gross State Domestic Product (GSDP) by the year ending 31st March 2009. However, the subsequent amendment on the fiscal responsibility and budget management act 2009 brings down the fiscal deficit to 3.5% of the GSDP.

iii) ensure within a period of 5 years, beginning from the initial financial year on the 1st day of April 2005, and ending on the 31st day of March 2010, that the total debt stock do not exceed 40 per cent of the estimated GSDP for that year;

iv) limit the amount of annual incremental risk weighted guarantees to 1% of the Total Revenue Receipt (TRR) or 1% of the estimated GSDP in the year preceding the current year, whichever is lower;

v) follow a recruitment and wage policy, in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 61% in any financial year.

6.1: Implementation of FRBM and analysis of MTFP:

In line with the FRBM act 2005, the state government undertook concerted effort to reduce revenue deficit, fiscal deficit and reduce our outstanding debts. The implementation of FRBM is shown by table 6.1

- i) The revenue surplus as a percentage to GSDP remained positive for the whole period (2007-16) as targeted in the FRBM act 2005. The revenue surplus was 5.69% of the GSDP in 2007-08 which rose to 8.78% of GSDP during 2010-11. However, it decreased to 3.11% during 2015-16.
- ii) The fiscal deficit was negative during the entire period indicating deficit. The fiscal deficit was above 10% of the GSDP during the entire period except during 2010-11 and 2011-12, where the percentage to GSDP was -5.04% and -8.92% respectively. Thus, the state could not maintain the fiscal deficit below 3.5% of GSDP as targeted during any of its mid-term fiscal plan(MTFP).
- iii) Like Fiscal deficit, the primary deficit as a percentage to GSDP was above 10% for all the years except for 2000-09, 2010-11, 2011-12, and 2013-14.
- iv) Total salary and wages as a percentage to total revenue net of pension and interest payment remained below 61% of the target for most of the mid-term fiscal plan except for 2013-15 where the expenditure exceeds 61% of the total revenue (69.09% and 62.55% respectively).
- v) As targeted in the FRBM 2005, the total debt stock of the state didnot increase beyond 40% during the whole period.

CHAPTER 7

FISCAL DECENTRALISATION IN NAGALAND

INTRODUCTION:

For an economy it is important to decentralized the governance system so as to improve the quality of service to their citizens and to achieve higher and rapid economic growth. Decentralization minimizes the diversion and misutilization of funds and also provide a degree of equity and empowerment in the community.

In this section of the report, it requires to analyse the transfer of finances and powers to urban and rural local bodies and the major decentralisation imitative undertaken by the State/Centre and reforms adopted therein.

RURAL LOCAL BODIES IN NAGALAND

Decentralized Local Governance in Nagaland

Nagaland state is exempted from the purview 73rd Constitutional Amendment Act, 1992 because the traditional institutions like Village Council and Village Development Boards already existed. The Village Council was given legal status in 1968. Subsequently, the institutionalizing of traditional modes of local governance in Nagaland has been well founded through Village and Area Council Act 1978. The Village council and its subsidiary Village Development Board (VDB) are established modes of decentralized governing institution in every village of the State.

According to Nagaland Economic Survey, 2015-16, the State has 74 rural development blocks covering 1175 villages with 229684 rural households and 71.14 per cent of its population resides in rural area. Every recognized village in Nagaland has a Village Council and its development machinery is the Village Development Board. There is specific distribution of duties and power between the Village Council and the VDB. The Council has administrative and judicial duties, whereas the VDB has financial and development functions.

In Nagaland, the execution of various administrative and developmental projects in rural area are carried out through three institutional and organizational delivery mechanisms, viz., Village Council, Village Development Board (VDB) and through Communitisation scheme. These institutions have evolved from traditional administrative practices of the Naga tribes and

later regularized through legislation, facilitating their easy accommodation with existing village system.

The Village Council

The Village Council under the head of the Chairman assisted by the Gaonburas and the Councillors play the most prominent role in running the administration of the village. The members of the Village Councils are elected democratically for a period of five years. The Village Council is the overall authority in the village. Gaonburas are the Ex-officio members in the Council and can exercise franchise in the council election. They are the agent to the Government.

Under the Nagaland Village and Area Council Act, 1978, every recognized village in the State shall have a Village Council. The Village Council acts as an auxiliary to the administration and has the full power to deal with internal administration of the village. It is the duty of the Village Council to frame rules and regulations regarding civil, criminal, and tradition related cases, they also ensure that offenders are duly punished based on their framed existing laws and regulations. However, some cases may also be appealed to the higher Courts. The Village Council also constitutes the Village Development Board (VDB) and ensures that various development projects are implemented efficiently in the Village. The council also has full powers to deal with the internal administration of the village, maintenance of law and order, enforce orders passed by competent authority, etc. This is why Village Councils have been the core of grassroots administration in Nagaland.

Village Development Board (VDB)

The VDB is a statutory body, functioning under the primary village authority known as Village Council. The institution of the VDBs, which are synonymous with the concept of decentralized grass root level planning in Nagaland, was first set up in 1976 in Ketsapomi village in Phek District on an experimental basis. Nevertheless, on seeing its success, a mass campaign was launched since 1980 to expand the coverage of this unique institution throughout the State. VDBs were thereafter gradually constituted in the remaining parts of the State and the concept institutionalized with the enactment of VDB Model Rules, 1980 (Karmakar K.G. et.al.). The Village Development Board is a mechanism for decentralization of planning and development at

the grass root level at its best. It includes all the permanent residents of the village as its members functioning under a management committee with a Secretary who is elected democratically for a period of three years. Besides women are to constitute 25% of the total of the management committee. This is a novel scheme of development as the locals understand their needs better and can effectively articulate and implement developmental activities better. The Department of Rural Development has been involved in the developmental activities of the rural areas of Nagaland through the implementation of various programmes and schemes with the objectives of improving the economic and social living standard of the rural poor through employment generation and infrastructural development programmes. All the activities of the Department are implemented through the grass root level organization “The Village Development Boards (VDBs)” which has been active since its inception in 1980.

The VDB included all the permanent residents of the village as its members functioning under the management committee with a Secretary who is elected democratically for three years. Besides women constitute 25% of the committee and also the youth are represented.

Duties of VDBs:

VDB being formed based on decentralised concept of achieving rural development through active participation of the village community, it performs vital roles in ensuring overall economic development, including infrastructural development, social capital growth etc. in every village. The duties of the VDB are as follows:

1. Identify and select priority-based schemes through general consensus in the village
2. Ensure ground implementation of programmes through community participation
3. Ensure transparency and proper utilization of funds
4. Maintain Accounts, records etc.

VDBs are the grassroots level Development Institutions in the State, which is responsible for implementation of all developmental programmes under Rural Development Department. Some of the activities implemented under the VDB in Nagaland are listed as:

1. Swarnjayanti Gram Swarozgar Yojana (SGSY)
2. Indira Awaas Yojana (IAY)
3. Grant in Aid to VDBs (Household allocation)

4. VDB welfare fund
5. Fixed Deposit (FD) and Matching Cash Grants (MCG)
6. Mahatma Gandhi National rural Employment Guarantee Schemes (MGNREGS)
7. Backward Region grant Fund (BRGF)
8. Micro Finance (MF)

Nagaland Communitisation of Public Institution and Services Act, 2002:

In order to harness its rich social capital to revitalize and improve public services delivery system, the government of Nagaland has introduced the concept of Communitisation in 2002 under the “**Nagaland Communitisation of Public Institution and Services Act, 2002**”. After the enactment, in the same year, the government in phases handed over the ownership and management of education, health care, water supply, electricity, tourism and bio-diversity conservation to the communities.

Communitisation is a unique partnership between the government and the community involving transfer of ownership of public resources and assets, control over service delivery empowerment of community through the delegation of power of management and supervision of the daily functioning of the employees, decentralisation of fund and building capacity, all with an aim of improving the delivery of public utilities. All these are responsibility of the committees under the aegis of the village Council as prescribed by the Act. That Communitisation is based on “triple T” approach viz: (i) Trust the user Committee, (ii) Train them to discharge their responsibilities and (iii) Transfer governmental powers and resources in respect of management.

Nagaland was conferred the United Nation Public Service Awards in 2008 for Communitisation programme in recognition of its innovative use of rich social capital. The salient features of the programme are summarised as follows:

1. Committees are constituted under the aegis of Village Council to own and manage the communitised institutions.
2. The members of the committees are from the users 'community, thus they represent the community.
3. Management of employees, maintenance of buildings and asset etc. are the responsibility of the committees

4. The government is responsible for deployment of workers, provision of funds, grants and technical support
5. Government needs to be assistive, monitoring and regulatory role.

Every village has committees for all the functions under communitisation, viz.; village Education Committee, Electricity committee, Village health committee, water and sanitation committee and managing board committee etc. Such committees are in placed in the urban towns also, where the respective ward/colony has its Committees that manages and monitor electricity, Educational institutions etc. The outcome of this policy is evident in improvement in delivery of basic services such as electricity, school management system, health services etc. in recent years.

URBAN LOCAL BODIES:

Urban Local Bodies (ULBs) are the principal catalysts for guiding urbanization in the country. Thus, fiscal empowerment of ULBs is not only a matter of choice but a necessity for providing social services and poverty reduction in all the states/union territories. The 74th Amendment is an important step for improving municipal governments. Further, insertion of 3(c) into Article 280 recognizes that ULBs are not just the responsibility of state governments. The Central government has an important stake in financing their activities and ULBs have a claim in the divisible pool of the Central government resources with many of their functions enumerated in schedule 12 having been drawn from concurrent list of the constitution. Successive Finance Commissions have made recommendations for improving the finances and functions of the ULBs. The grant-in-aid is to bridge the vertical fiscal gap of the municipalities need to deliver services and what they are able to generate after accounting for the share of revenue.

At present there are 32 statutory towns comprising of 3 Municipal Councils (Dimapur, Kohima and Mokokchung) and 29 Town Councils and also 5 Urban Stations in the state (GON, 2017)¹. The Town Planning Department that looked after the affairs of urban development was bifurcated from Planning & Coordination Department in 2008, with a nomenclature of the Department of Urban Development Department. Later, with the expansion of its functionalities and activities requiring a full-fledged directorate, the Municipal Affairs Cell was created with the

¹Annual Report 2016-17, Municipal Affairs Department, Government of Nagaland.

responsibility to look after the affairs of Urban Local Bodies, which was upgraded to a full-fledged Directorate in 2015.

The developmental activities like infrastructure building, supply of basic services and other facilities are being created under State schemes and Centrally Sponsored programmes. The department has been assuming multi-role functions such as planning of urban development, besides implementing government's flagship programmes like Jawaharlal Nehru Urban Renewable Mission (JNNURM), Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Swachh Bharat Mission (SBM), Smart City etc. Moreover, some other programmes implemented by the department are Pradhan Mantri Awaz Yojana-housing for all (urban) mission programme is catering to 23 statutory towns with a total demand assessment of 35875 beneficiaries in 2016-17.

Under the State schemes, the department is facilitating the Urban Local Bodies through Grant-In-Aid for various works as prioritized by the Urban Local Bodies which covers construction of protected walls, drainages, sewages, sanitation works etc. as required in the wards of the respective urban areas.

Table 7.1: Grant-in-Aid for municipalities recommended by the successive Finance commissions for North Eastern States of India (Rs. in Crore)

Sl. No.	States	11 th FC	12 th FC	13 th FC	*14 th FC (basic grants for 2016-20)
1	Arunachal Pradesh	0.137 (0.03)	0.60 (0.06)	6.32 (0.14)	195.22 (0.28)
2	Assam	4.308 (1.08)	11.00 (1.10)	50.72 (1.10)	776.43 (1.11)
3	Manipur	0.879(0.22)	1.80 (0.18)	16.34 (0.35)	138.16 (0.20)
4	Meghalaya	0.539 (0.14)	1.60 (0.16)	16.06(0.35)	25.22 (0.04)
5	Mizoram	0.768 (0.19)	2.00 (0.12)	18.86 (0.41)	96.17 (0.14)
6	Nagaland	0.357 (0.09)	1.20 (0.10)	15.30 (0.33)	101.98 (0.15)
7	Tripura	0.803 (0.20)	1.60 (0.16)	11.14(0.24)	39.92 (0.06)
8	Sikkim	0.042 (0.01)	0.20(0.02)	0.54 (0.01)	178.48 (0.26)

Source: (i) Ministry of urban development & national institute of urban affairs, New Delhi, 2013, and (ii) * 14th Finance Commission (panjayat.gov.in)

Note: Figures in the parentheses represent % share of the states in All India total

As per the recommendation of 14th FC the total grant to local governments in India for 2015-2020 has been fixed at Rs 2,87,436 crore, of which Rs 2,00,292 crore is recommended to panchayats and Rs 87,144 crore to municipalities. Grants to local governments should be in two

parts- a basic grant and a performance grant. For gram panchayats, 90% of the share will be basic grants, and 10% will be performance grants. For municipalities, basic grants and performance grants will constitute 80% and 20% of the total grants, respectively. Performance grants are proposed to be introduced with a view to: (i) encourage the maintenance of the states' receipts and expenditure accounts, and (ii) bring about an increase in the state's own revenues.

The 14th FC recommended grant for ULBs in Nagaland during 2016-2020 is Rs.101.98 crore of basic grant and Rs.25.04 crores of performance grant (a grand total of Rs.127.02 crores). The successive FC recommended grant for municipalities has been increasing for all the states in the north east region. For Nagaland, the percentage share in all India total was increased from 0.09% in 11th FC to 0.33% in 13th FC, thereafter, in 14th FC it declined to 0.15%.

TRANSFER OF RESOURCES TO LOCAL BODIES:

There has been considerable progress in the empowerment of panchayat raj institution and municipalities (ULBs) since the Tenth Finance commission first made provision for explicitly supporting the local bodies through grants. Subsequent Finance Commissions made a number of recommendations to strengthen the functioning of local bodies and ensure effective decentralisation.

Table 7.2: Transfer of funds (Grant-in-Aid)to Local bodies in Nagaland (Rs in crore)

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Urban local bodies	1.15	1.2	0	2.98	0	5.98	6.34	1.62
Panchayat Raj	16.01	8	0	0	16.62	8.67	6.19	0
PSU (statutory Corporation)	0	0	0	14.69	13.64	14.83	15.58	0
Autonomous bodies	0	0	15.9	21.14	8.4	19.18	1	1.5
NGO	4.78	5.75	4	3.9	9.6	5.06	0	0
Others	51.88	54.39	82.99	122.02	135.66	136.17	205.4	108.59
Total	73.82	69.34	102.89	164.73	183.92	189.89	234.51	111.71

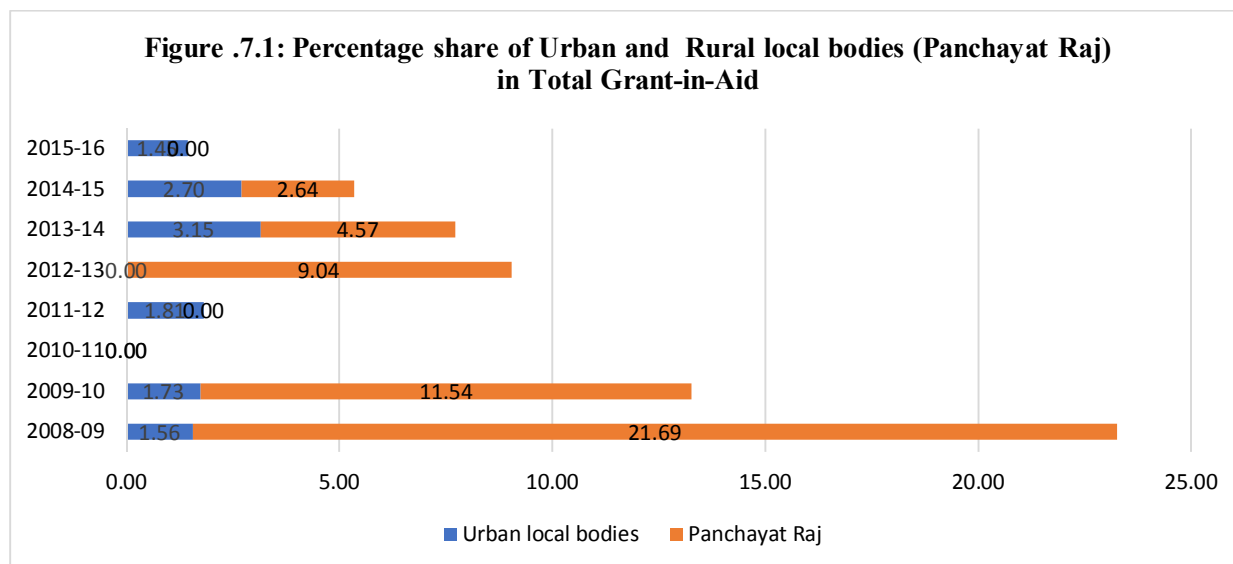
Source: Finance Accounts, 2008-9 to 2015-16, Government of Nagaland

Funds have been directly transferred to State implementing agencies (state machineries) for the implementation of various schemes such as MGNREGP, SSA, NRHM, National Rural Drinking Water Programme, Integrated watershed Management Programme, Rural Housing (IAY), RMSA, Capacity Building programme, AIDs control, National Bamboo Mission etc.

Table 7.2.a: % share of Grant-in-Aids to Local Bodies

Year	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Urban local bodies	1.56	1.73	0.00	1.81	0.00	3.15	2.70	1.45
Panchayat Raj	21.69	11.54	0.00	0.00	9.04	4.57	2.64	0.00
PSU (statutory Corporation)	0.00	0.00	0.00	8.92	7.42	7.81	6.64	0.00
Autonomous bodies	0.00	0.00	15.45	12.83	4.57	10.10	0.43	1.34
NGO	6.48	8.29	3.89	2.37	5.22	2.66	0.00	0.00
Others	70.28	78.44	80.66	74.07	73.76	71.71	87.59	97.21
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Own Calculation from Table 7.2



Of the total funds transferred in the form of Grant-in-Aid, the share of urban bodies has been quite marginal, which in absolute terms was increased from Rs.1.15 crores in 2008 to Rs. 6.34 crores in 2015, thereafter declined to Rs.1.62 crores in 2016. The percentage share has been equally low that ranges from 1.56 % in 2008 to 3.15 % in 2014, then it started to decline as shown in the figure no 7.1. The share of panchayat in total Grant-in-Aid has declined in recent years, which has declined from 21.69% in 2008-09 to 2.64% in 2015, thereafter it become zero in 2016. According to 14th FC, no grant (performance grant and basic grant) has been recommended for Rural Local Bodies for Nagaland, Mizoram and Meghalaya.

Table 7.3: Annual expenditure through local bodies under some major heads during 2014-15 and 2015-16(Rs in Crore)

Year	2014-15	2015-16	% change
Urban Development			
Smart city mission	00	200	(+)100
Atal Mission for Rejuvenation of Urban Transformation (AMRUT)	00	2866.65	(+)100
SadarPatal urban housing Scheme	00	94.50	(+)100
National urban livelihood mission	532.25	00	(-) 100
Rajiv Awas yojana (RAY)-capacity	15	00	(-) 100
Rajiv Awas yojana (including JNNURM)	2761.02	00	(-) 100
Swatch Bharat mission	1052.00	320.30	(-) 69.55
Jawaharlal Nehru National Urban renewable mission (JNNURM)	1137.19	00	(-) 100
Lumpsum Provision for NER & Sikkim	2174.51	0.00	(-) 100
Urban total	7671.97	3481.45	(-)54.62
% to total receipts in revenue account	1.00	0.43	
Rural Development			
Swatch Bharat Abhiyan	2087.22	1083.20	(-) 48.10
National Rural livelihood mission	537.92	749.12	(+) 39.26
National Rural Employment Guarantee Act	11305.27	26665.95	(+) 135.87
National rural drinking water programme	10143.93	3852.28	(-) 62.02
Integrated watershed management programme	9680.46	2903.90	(-) 70
Indira Awas Yojana (IAY)	4575.01	1068.22	(-) 76.65
National Social Assistance programme	0.00	41.38	(+) 100
Rural total	38329.81	36364.05	(-) 5.12
% to total receipts in revenue account	5.00	4.52	

Source: Finance Accounts, 2015-16, Government of Nagaland

The annual expenditure made by respective local bodies for development of urban and rural areas for 2014-15 and 2015-16 are presented in the table 7.3. The total expenditure under centrally sponsored urban development schemes have declined by more than 54%. Moreover, its percentage share in total receipt in revenue account was reduces from 1% to 0.43%.

The total expenditure under centrally sponsored rural development schemes have also declined by more than 5% and its percentage share in total receipt in revenue account was reduces from 5% to 4.5%.

Many flagship programmes are taken up by the local bodies in both urban and rural areas in the state. National urban livelihood mission is one of such programmes actively implemented by State Urban Development Agency. Under this programme various activities are targeted towards

poverty alleviation through generation gainful employment opportunities through skill training & placement, capacity building, social mobilization & institution development etc. Swachh Bharat Mission covers 19 urban local bodies in 2016 which focuses on individual household toilets up-gradation, community toilets, public toilets and solid waste management for all the ULBs. AMRUT was launched in 2015, which focus on improvement of physical infrastructure of water supply, sewerage, septage, drainage etc. North Eastern region urban development programme which is assisted by ADB for improvement of basic amenities.

In rural area, the VDBs through state government are implementing the programmes mentioned in the table above. Besides these programmes, like National Rurban Mission (NRuM), SAGY, GIA, Matching Grand Fixed Deposits, Micro Finance Activities etc. are some of the programmes which is being implemented.

Conclusion: In Nagaland, VDB is the grass root institution for rural development since its inception in 1980. All recognised villages have VDB that mobilise resources and implement developmental programmes. At the state level the Rural Development Department looks after the district level and block level administration. In urban area ULB is the institution at grass root.

The VDBs in the rural area under Village Council are assuming an increasing role in the recent past years, implementing a number of centrally sponsored schemes, for which substantial tied funds are transferred to fulfilled these functions. In addition, the Village Council are managing the supply of basic services like electricity, water, health and education, environmental conservation, natural resources etc. under Nagaland Communitization of Public Institution and Services Act 2002, which has empowered the Village Council.

For more effective functioning significantly increasing volume of fund be transferred to the rural and Urban Local Bodies, followed by accountability of local bodies to the population, encourage NGO participation. Intensive awareness programmes about the various programmes implemented to the citizens is also required.

Explore potentials to broaden the tax base for resource mobilization and suitable user charges for various services provided. Grant to local bodies especially the need to provide basic services like providing drinking water, sanitation, sewerage, solid waste management, street lighting, fire services and to enhance the infrastructure in both rural and urban areas.

Proper monitoring of the budget allocation and consolidation of accounts of the Local Bodies at the state level, district and block levels. Proper implementation of accounting framework suggested in the National Municipal Account Manual be followed.

Further, strengthen the local body framework through capacity building measures for grass root level workers, and staffing for maintaining accounts and data base.

CHAPTER 8

FINANCIAL HEALTH OF STATE PUBLIC SECTOR UNDERTAKINGS IN NAGALAND

8.1. Introduction

Government interference in the state economic system for inclusiveness on socio, political and economic reasons is now clearly accepted in the process of strengthen the state development through creating new skills and competence, employment potentials, meeting social obligations, developing backward regions and promoting deprived communities, securing economic self-sufficiency etc. and have gone far beyond the indicative planning and other controls in state enterprises. Public enterprise or government company can be defined according to the section 2(45) of the Companies Act, 2013 as a company in which “not less than fifty-one per cent of the paid-up share capital is held by Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments”, and includes a company which is a subsidiary of a Government Company. The State PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. As on 31st March, 2016 in Nagaland, there were five State PSUs (all Government companies) of which, one Government company was non-working. The five working PSUs occupy insignificant place in state economy.

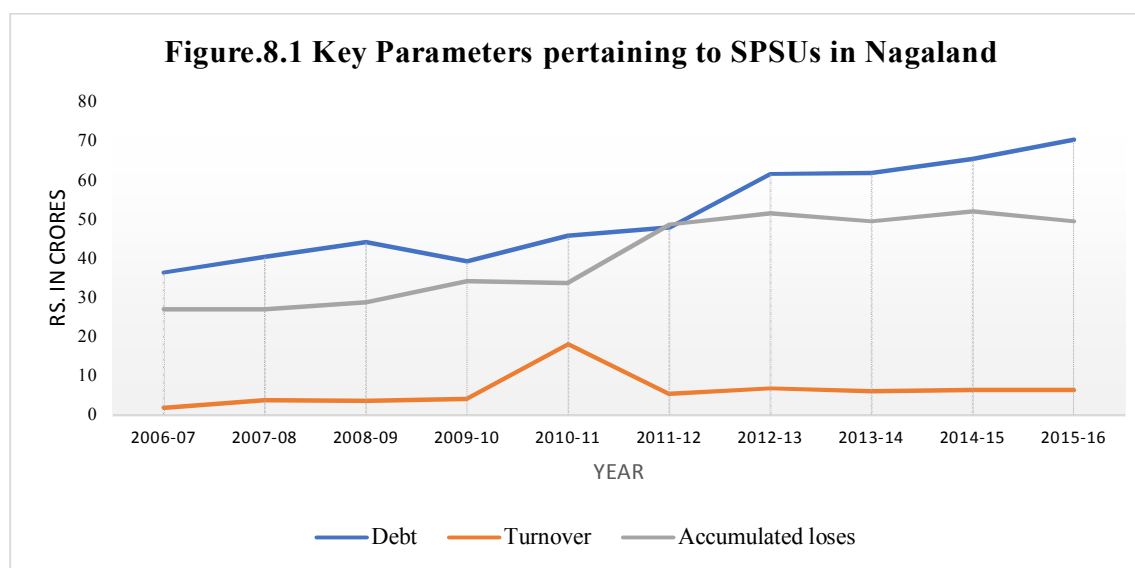
8.1 Performance of SPSUs in Nagaland:

A ratio of PSUs turnover to State GDP shows the extent of PSUs activities in the State economy. As on 31 March 2016, there were 6 (Six) SPSUs in Nagaland. Out these, one PSU i.e. Nagaland Sugar Mills Company Limited with an investment of 5.89crore was not working for the last 16 years. The 5(five) working PSUs comprising of Nagaland Industrial development Corporation (NIDC), Nagaland Handloom and Handicraft Development Corporation (NHHDC), Nagaland Industrial Raw Material and Supply (NIRM&S), Nagaland Hotels Limited (NHL) and Nagaland State Minerals Development Corporation (NSMDC). Of these, no Company was listed on the stock exchange. The below table shows that the details of working PSUs turnover and State GDP for the period from 2006-07 to 2015-16.

Table:8.1 Financial Position and Financial Results of State PSUs In Nagaland

Year	Turnover	State GDP	Percentage of turnover to State GDP
2006-07	1.89	6957.97	0.03
2007-08	3.7	8075.27	0.5
2008-09	3.51	9436.07	0.04
2009-10	4.06	10272.88	0.04
2010-11	18.06	11121.00	0.16
2011-12	5.36	12064.53	0.04
2012-13	6.75	15676.00	0.04
2013-14	5.98	17749.00	0.03
2014-15	6.26	20099.00	0.03
2015-16	6.23	20524.00	0.03
CGR	12.67	11.42	

Source: CAG Audit Reports Various Issues (Commercial)



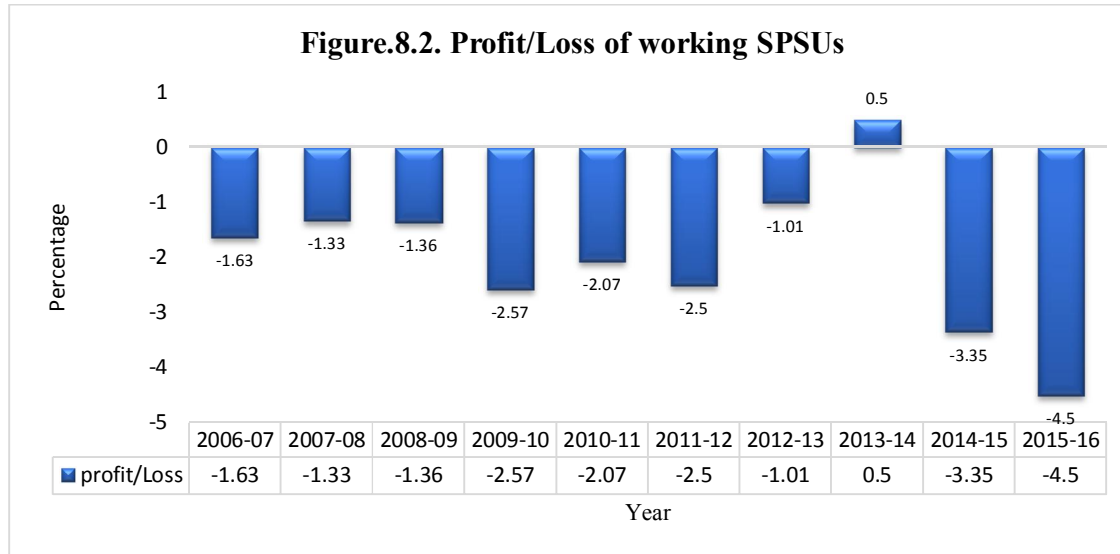
The data indicates that turnover from five working PSUs has increased from Rs.1.89 crores in 2016-07 to Rs.6.23 crores in 2015-16. the compound annual growth rate during the period is 12.67 per cent which is higher than the growth rate attained in State Gross Domestic product. However, the percentage share of 5 working PSUs turnover in GDP is almost constant over the period. Interestingly last few years, neither any new PSU was established nor was any

existing PSUs closed down. The working SPSUs incurred aggregate loss of Rs.49.28 crores as per their latest finalised accounts. They had employed 576 employees at the end of March 2016. Remaining PSUs did not furnish the details.

Table 8.2 Key Parameters pertaining to SPSUs in Nagaland (Rs. in Crores)

Year	Returns on Capital employed (%)	Debt	Turnover	debt/turnover ratio	Accumulated loses
2006-07	4.50	36.35	1.89	19.23:1	26.96
2007-08	3.65	40.21	3.7	10.89:1	26.95
2008-09	*	44.11	3.51	12.57:1	28.63
2009-10	*	39.09	4.06	9.63:1	34.02
2010-11	*	45.64	18.06	2.53:1	33.62
2011-12	*	47.69	5.36	8.90:1	48.53
2012-13	0.63	61.46	6.75	9.11:1	51.38
2013-14	5.02	61.66	5.98	10.31:1	49.35
2014-15	*	65.26	6.26	10.42:1	51.84
2015-16	*	70.12	6.23	11.26:1	49.28
		6.79	12.67		6.22

Key parameters of pertaining SPSUs in Nagaland depicted in table 8.2. the data indicates that the debt-turnover ratio of SPSUs had increased consistently due to increase in the long-term borrowings of SPSUs. The debt position on working State Public Sector undertaking over the period was increased from Rs.35.35 crore in 2006-07 to Rs. 70.12 crore during 2015-16 and registered 6.79 per cent of compound annual growth rate. While, the turnover in SPSUs was increased from Rs.1.89 crore to Rs.6.23 crore during the same period registered about 12.67 per cent of compound annual growth rate. Interesting observation made in table that it is clearly indicated that the accumulated losses were also increased over the period from Rs.26.96 crores to Rs. 49.28 crores registered at 6.22 per cent of CGR.



Similarly, it could be seen from the Figure.2 above that overall losses incurred by the working SPSUs had increased from 1.63 per cent to 4.50 per cent in 2015-16 except during 2013-14 when there was a slight increase in profits with the working SPSUs had getting about Rs.5.02 crore return on capital employed. The losses of PSUs are generally attributable to deficiencies in management, planning, running their operations and monitoring. Thus, steps are needed to be taken for better management, operation and monitoring of the activities of the working State PSUs to arrest the gradual deterioration of their financial results (CAG report,2016).

8.3. Investment in State SPSUs

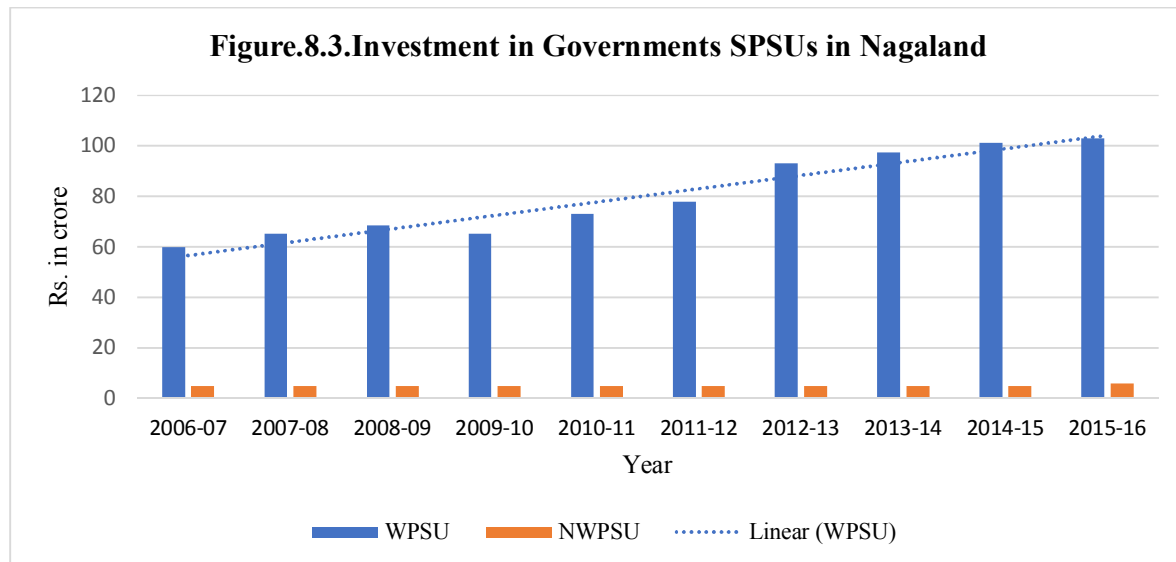
As on 31 March 2016, the State has 6 Government companies (5 working and 1 Non-working) and nine departmentally government manages commercial undertakings. The total investment during 2006-07 was Rs. 64.7 crore (both capital and long-term loans) in 6 (Six)SPSUs and it has increased to Rs.111.96 crore in 2015-16 as given in table 8.3. Out of the total investment of Rs.111.96 crore in 6 SPSUs in 2015-16, about 91.89 per cent (Rs.102.88 crore) was in working SPSUs and the remaining 8.11 per cent (Rs.9.08crore) in non-working SPSUs. This total investment consisted of 37.37 per cent towards capital and 62.63 per cent in long-term loans. The investment has grown by about 89.93 per cent over the period from Rs.64.7 crore in 2006-07 to111.96 crore in 2015-16 as shown in the graph below. However, in Non-

working the paid-up capital was 4.96 crore in many years and it has increased to 9.08 crore in 2015-16 which consist of 5.89 crore of paid up capital and 3.19 crore in long term loan.

Table 8.3. Investment in Governments SPSUs in Nagaland (Rs. in Crore)

	working PSU			Non-working PSU			Total Investment		
	Capital	LTL	Total	Capital	LTL	Total	Capital	LTL	Total
2006-07	23.39	36.35	59.74	4.96	0	4.96	28.35	36.35	64.7
2007-08	24.9	40.29	65.19	4.96	0	4.96	29.86	40.29	70.15
2008-09	24.29	44.11	68.4	4.96	0	4.96	29.25	44.11	73.36
2009-10	23.72	41.33	65.05	4.96	0	4.96	28.68	41.33	70.01
2010-11	28.84	44.21	73.05	4.96	0	4.96	33.8	44.21	78.01
2011-12	30.02	47.69	77.71	4.96	0	4.96	34.98	47.69	82.67
2012-13	35.09	57.99	93.08	4.96	0	4.96	40.05	57.99	98.04
2013-14	35.87	61.66	97.53	4.96	0	4.96	40.83	61.66	102.49
2014-15	35.95	65.26	101.21	4.96	0	4.96	40.91	65.26	106.17
2015-16	35.95	66.93	102.88	5.89	3.19	9.08	41.84	70.12	111.96
CGR	4.39	6.29	5.58	1.73	--	6.23	3.97	6.79	5.64

Source: CAG reports, Govt of Nagaland (Various Issues)



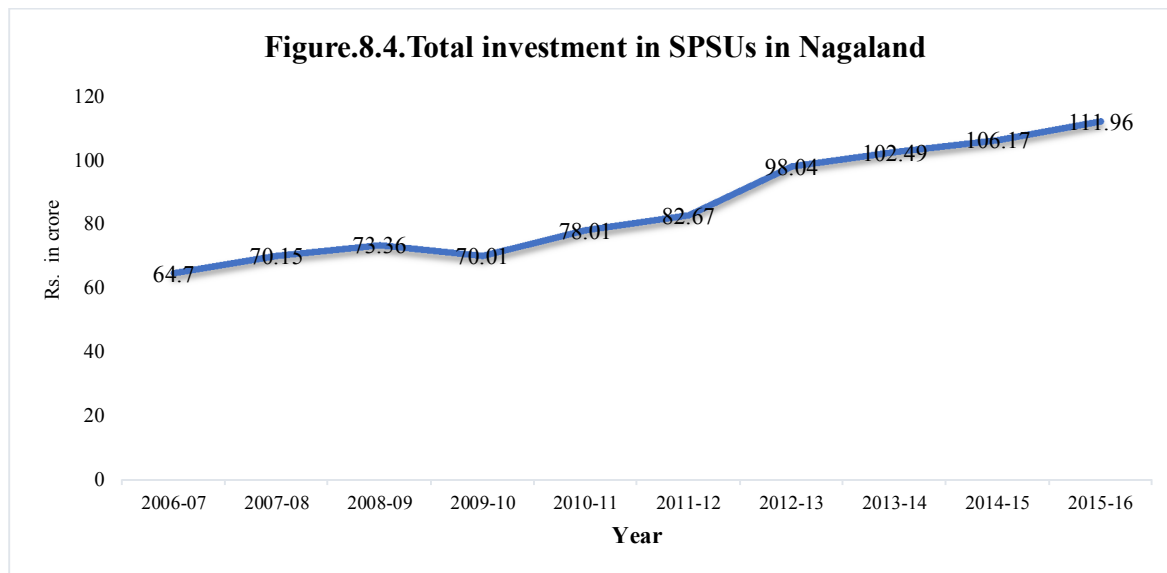


Table.8.4. Sector wise Investment in SPSUs in Nagaland (Rs. in Crore)

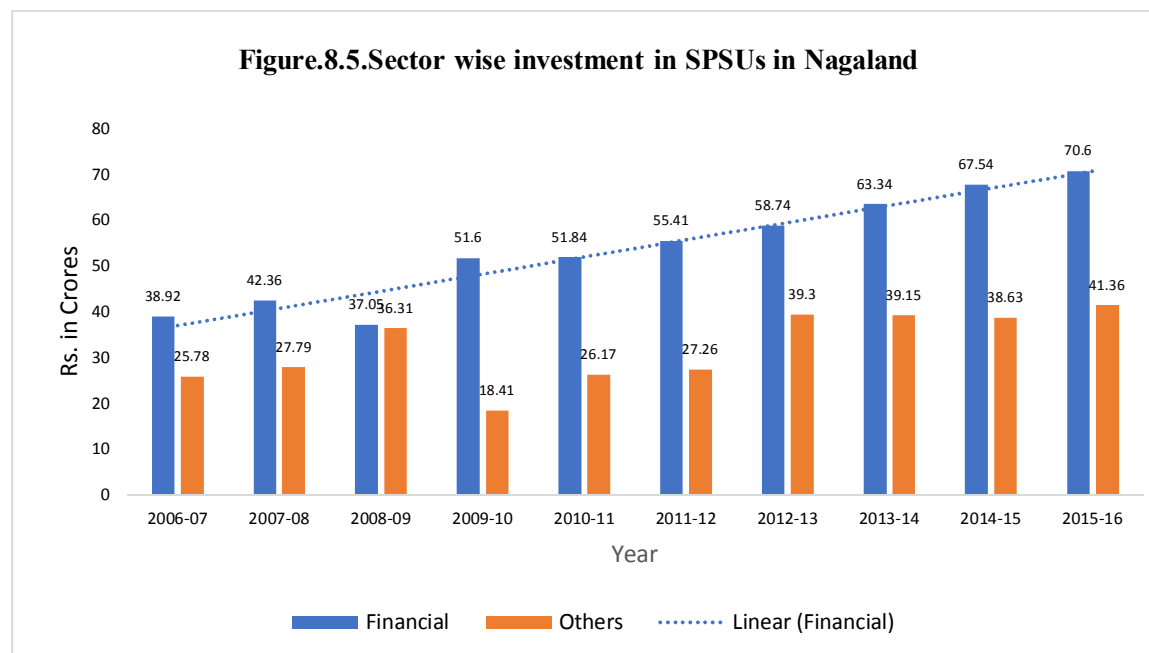
Year	Financial Investment	Others*	Total Investment
2006-07	38.92	25.78	64.70
2007-08	42.36	27.79	70.15
2008-09	37.05	36.31	73.36
2009-10	51.60	18.41	70.01
2010-11	51.84	26.17	78.01
2011-12	55.41	27.26	82.67
2012-13	58.74	39.3	98.04
2013-14	63.34	39.15	102.49
2014-15	67.54	38.63	106.17
2015-16	70.60	41.36	111.96
CGR	7.91	4.84	5.64

Source: CAG reports (Various Issues)

Note: Other Investment includes manufacturing, services and miscellaneous

Similarly, the sector wise investments in the State PSUs over the period is given in table.8.4 and figure.8.5. The investment in two significant sectors and percentage thereof at the end of 31 March 2007 to 31 March 2016 is indicated in both the table and figure. It may be noticed that investment of the State Government in finance sector was highest in all selected years registered 7.91 per cent of annual growth rate from Rs. 32.98 crore in 2006-07 to Rs.70.60 crores in 2015-16. Whereas the investment in other (manufacturing and services and miscellaneous) sector remained consistently low when compared to investment in finance over the period of time. However, the investment in others sector in spite of being consistently low in initial years, during last four years recorded a noticeable increase from 2012-13 to 2015-16 as compared with the previous year. It is

interesting to note that the per centage distribution between the sector over the period of time indicate in 2006-07 the proportion of investment in finance was about 60 percent and it has increased to 73 per cent in 2009-10 and declined steadily declining trend over the period of time. Whereas, the investment in other sectors registered an increasing trend from 26.29 per cent in 2009-10 to 36.94 per cent in 2015-16.

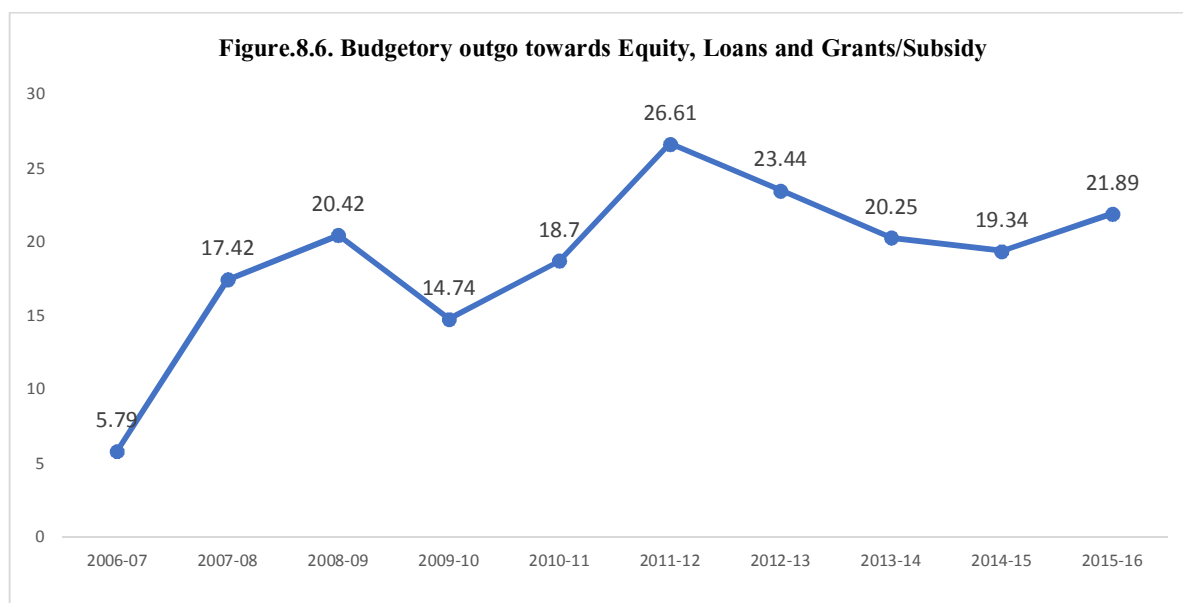


8.4. Budgetary outgo, grants/subsidies, guarantees and loans

The summarized details of budgetary outgo towards equity, loans, grants/ subsidies, loans written-off and interest waived in respect of SPSUs are given below for ten years ended 2015-16. The chart above indicated that the year-wise budgetary outgo of the State Government towards equity, loans and grants increased from Rs.5.79 crore in 2006-07 to Rs. 2126.61 crore in 2011-12. However, the budgetary outgo decreased during 2012-13 from Rs.23.44 crore to 21.89 crore in 2014-15. In 2015-16 the budgetary support provided to SPSUs had marginally increased by Rs. 2.55 crore to Rs. 21.89 crore. The details regarding budgetary outgo towards equity, loans and grants/subsidies for past ten years are given in table 8.4. as well as in a graph 8.6.

Table.8.4. Details of budgetary outgo towards equity, loans, grants/subsidies, loans written-off and interest waived in respect of SPSUs

	Equity Capital outgo from budget	Loans given from budget	Grants/Subsidy from budget	Total Outgo (1+2+3)	Waiver of loans and interest	Guarantees issued	Guarantee Commitment
2006-07	0.45	--	5.34	5.79	0.54	0.54	5.28
2007-08	0.47	7.15	9.80	17.42	--	--	7.27
2008-09	4.11	7.40	8.91	20.42	--	--	39.40
2009-10	1.75	--	12.99	14.74	--	--	--
2010-11	1.45	--	17.25	18.70	--	--	46.24
2011-12	1.60	7.81	17.20	26.61	--	--	7.81
2012-13	2.40	6.59	14.25	23.44	--	--	11.59
2013-14	4.25	--	16.00	20.25	--	--	6.55
2014-15	--	8.68	10.66	19.34	4.48	4.48	8.68
2015-16	--	5.64	16.25	21.89	2.57	5.64	15.00
CGR			11.77	14.22			



Interestingly in Nagaland the figures in respect of equity, loans and guarantees² outstanding as per the records of SPSUs should agree with the corresponding figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned SPSUs and the Finance Department of the State Government should carry out reconciliation of the differences. Considering the significant differences in the investment figures, efforts are needed

²In order to enable SPSUs to obtain financial assistance from Banks and Financial Institutions, State Government gives guarantee. However, the State Government had not framed any rules regarding extending guarantee for the same.

on part of the Finance Department and the concerned SPSUs to ensure early reconciliation of difference between the figures of the Finance Accounts and that as per the record of SPSUs.

8.5. Arrears in Finalisation of Accounts:

The accounts of the companies for every financial year are required to be finalized within six months from the close of the relevant financial year under section 166, 210, 240, 619 and 19-B of Companies Act, 1956. The average number of accounts in arrears per working PSU increased from 88 in 2006-07 to 92 in 2008-09 and gradually declined to 17 in 2014-15, however, the arrears increased to 20 in 2015-16 as compared with the previous year. Delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. The two PSUs namely Nagaland Industrial Development Corporation Limited (NIDC) and Nagaland State Mineral Development Corporation Limited (NSMDC) which finalised their accounts during the year showed an increasing trend in the net losses by the two SPSUs only i.e. NIDC and NSMDC. Whereas, the other three PSUs namely, Nagaland Hotels Limited (NHL), Nagaland Industrial Raw Material and Supply corporation Limited (NIRMSC) and Nagaland Handloom and Handicrafts Development Corporation Limited (NHHDC) had not been updated as no accounts were finalized during the year study years. However, none of the SPSUs, had updated their accounts as on 30 September, 2016.

In addition to above, the accounts of one non-working SPSU pertaining to the years 1977-78 to 1980-81 was finalised during the year. However, the non-working SPSU had arrears of accounts for 34 years. The administrative departments have the responsibility to oversee the activities of these entities and ensure that the accounts are finalised and adopted by these SPSUs within the prescribed period. In view of above state of affairs, it is recommended that the Government should monitor and ensure timely finalisation of accounts in conformity with the provisions of the Companies Act, 1956 and orders of the Ministry of Corporate Affairs from time to time. To overcome the long run pending (backlog) on arrears of accounts all the SPSUs need to take effective measures for early clearance of the backlog and make their accounts up-to-date. SPSUs should ensure finalisation of at least one-year accounts by 30 September each year so as to restrict further accumulation of accounts backlog.

Table:8.5. Distribution of Arrears in Finalisation of Accounts

Year	Number of Working PSUs/other companies	Number of accounts finalised during the year	Number of accounts in arrears	Number of Working PSUs with arrears in accounts	Extent of arrears (numbers in years)
2006-07	5	2	88	5	9 to 26
2007-08	5	3	90	5	9 to 26
2008-09	5	3	92	5	9 to 26
2009-10	5	12	85	5	6 to 26
2010-11	5	15	75	5	5 to 21
2011-12	5	34	46	5	1 to 13
2012-13	5	21	30	5	1 to 9
2013-14	5	17	18	5	1 to 5
2014-15	5	6	17	5	1 to 5
2015-16	5	2	20	5	1 to 6

Source: CAG Reports, Government of Nagaland (Various Issues)

Recommendations:

- ✓ The Government need to take an effective measure for early clearance of backlog account arears and make the accounts up to date.
- ✓ The accounts of non-working PSU in the State should be withdrawn and Government needs to expedite closing down these companies to reduce the burden of maintenance.
- ✓ The administrative department prerequisite the accountability to direct the activities for strengthen the working PSUs in the State.
- ✓ The Government should come forward to set up a monitoring/ regulatory cell to the clearance of arrears and set the targets for individual companies.
- ✓ The Government need to take an action plan for outsourcing the work relating to preparation wherever the staff is inadequate or lacks expertise.

Recapitulation:

The state PSUs had been established with the basic objective of promoting economic growth and enhancing social welfare. The rationale for state intervention is to carry out activities of commercial nature keeping in view the welfare of people and occupy an important place in the State economy. The study was noticed that the investment of the State Government in finance sector was highest in all selected years compared to the investment in manufacturing and services and miscellaneous. However, the investment in others sector in spite of being consistently low in initial years, during last four years recorded a noticeable increase from 2012-13 to 2015-16 as compared with the previous years.

CHAPTER-9

POWER SECTOR REFORMS AND STATE'S FISCAL HEALTH

9.1. Introduction

The Department of Power in State was established in 1964 to provide power supply to public, industry and agriculture sectors in the State. It is the sole Agency responsible for Generation, Transmission & Distribution of Power throughout the State. Like many other states, Nagaland has also been facing the problems of energy shortages, inadequate power systems, unreliable and poor supply of electricity, growing revenue deficit, inadequate revenue collection and the resultant negative impact on the State finances.

The State is power-starved despite having substantial Hydro potential and thus, depends on the power allocation from the Central Public Sector Units (CPSUs) which barely meets the demand during the lean season. The energy shortages in peak seasons is due to poor supply, poor infrastructural capacity, ineffective hierarchical organizational structure. The state per capita energy consumption is very low when compared to other states as well as national average, in which the state per capita consumption is around 311 units against the national average is 1010 units during the year 2014-15. Poor operational and financial performance in the state has been reflecting in the rating of the State's progress in power sector and the owned 31st rank with approximately 0.05% of total installed capacity in the country.

As part of the reform process the Government of Nagaland have initiated the Communitization³ programme in the power sector during 2002-2003 implementing the Single Point Metering (SPM) system for billing and collection of revenue, under the Nagaland Communitization Act of Public Institutions and Services Act, 2002. The main objective of the programme is to improve the delivery of public utility systems by decentralization & delegation of responsibilities, community empowerment, augmenting synergistic relationship between government and the community for fast-tracking the institutions in their service delivery.

³Communitization is a unique way of decentralization of electricity management through community empowerment. It consists of a unique partnership between the government and the community involving transfer of ownership and sharing responsibility of management of the government institutions with the community; all with the aim of improving the delivery of public utility systems.

The state Government initiated restructuring process of power sector in Nagaland have also started with the signing of Memorandum of Understanding (MOU) with the Central Government in order to realize the dream for its citizens to provide 24x7 power supply and propel the State to launch the scheme of ‘**24x7 power for all**’ in 2016. The main objective of this scheme is to connect the unconnected in phased manner by 2018-19 and provide quality, reliable and affordable power for all the citizens of state on 24x7x365 basis by strengthening smart power purchase mechanism and revamping of transmission and distribution network, encouraging renewable energy, demand side management & energy efficiency measures, undertaking customer centric initiatives, reduction of AT & C losses, bridging the gap between ACS & ARR etc.(GoN report on 24x7 power for all,2016).

Table 9.1. Facts about Nagaland Electrification:

S.No	Particulars	2001	2011	2014-15
1	Total House Holds	332050	399965	436217
	Rural	265334	284911	293140
	Urban	66716	115054	143077
2	Total electrified Households	21194	326405	295168
	Rural	150929	214319	176657
	Urban	60265	112086	118511
3	Total un-electrifies Households	120856	73560	141049
	Rural	114405	70592	116483
	Urban	6451	2968	24566

Source: Department of Power, GoN.

As per Census 2011 data, there were about 4.00 lakhs households in the state, out of which 2.85 lakhs were in rural areas and balance 1.15lakhs were in urban areas. Out of 2.85 lakhs rural households, 2.14lakhs (75.09%) were electrified and balance 0.71 lakhs (24.91 %) were un-electrified. In urban areas, out of total of 1.15 lakhs households, 1.12 lakhs (97.40 %) were electrified and balance 0.03 lakhs (2.60 %) were un-electrified. On contrary to that in 2014-15 electrified villages were declined to 1.76 lakhs (60.26%) in rural sector and 1.18lakhs (82.83%) in urban households. The data also indicate that as on March 31 in 2015 there are around 141049 un-electrified households in both Rural (116483) and Urban (24566) which are assumed to be electrified at the rate of 44%, 42% & 14% per year for 2016-17, 2017-18 and 2018-19 for rural consumers and at the rate of 41% per year each for 2016-17, 2017-18 and 18%

for 2018-19 for urban Consumers. As on October. 2015, daily electricity for about 08 hours on an average is being provided in the rural areas and 18 hours on an average is being provided in the state capital of Kohima and commercial centre of Dimapur town. However, the hours of power supply depend on availability only and there is no stipulation in this regard in the State Power Policy.

One of the interesting facets in Nagaland is the total number of electrified households is more than the number of consumers (see Tables 9.1 and 9.3) due to three main reasons. Firstly, the electricity consumers as mentioned here are billed consumers. There are many unbilled consumers who are not reflected in the above statistics. Secondly, majority of households have single point supplies in which one consumer having single meter provides supply to several other consumers. Colony communitization has occurred at higher level in Mokokchung & Dimapur districts wherein, the outgoing feeder from Distribution Transformer has a single meter but it supplies multiple consumers. With a view to overcome power shortage problems and to fully meet the demand of power by 2018-19, the Government of Nagaland (GoN) and Government of India (GOI) jointly initiated the scheme on 24x7 power for all by ringing the activities of generation, transmission, distribution and retail supply of electricity in the State. To meet the demand for un-electrified households, the annual additional energy requirement is estimated as 193.39MU by the end of 2018-19.

9.2. Power Supply Scenario:

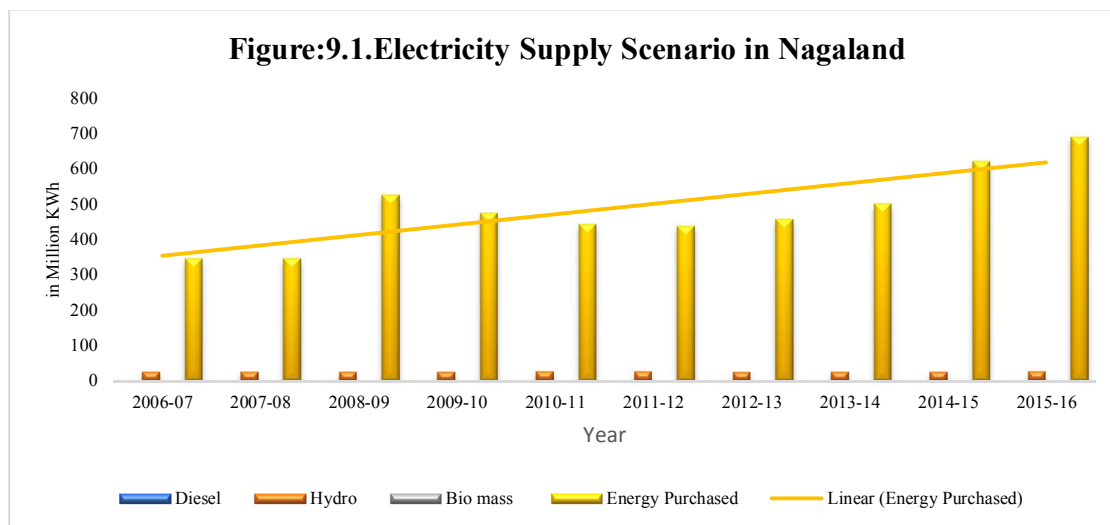
The data information regarding power supply in the State, the Department of Power, Nagaland (DOPN) is serving about 2.55 Lakhs consumers including 2.38 lakhs domestic consumers in the state. As per the recent survey report by the state, still there are about 1.16 lakhs in rural and about 0.25 lakhs in urban households are un-electrified in the state which are proposed to be electrified during next two years.

Table9.2. Installed Capacity of own power generation In Nagaland

Year	Diesel	Hydro	Bio mass	Energy Purchased	total	% Change
2006-07	1.8	26.54	0.16	345.82	374.32	--
2007-08	1.8	26.54	0.16	345.82	374.32	0.00
2008-09	1	26.54	0.16	526.13	553.83	47.96
2009-10	1	26.54	0.16	475.5	503.2	-9.14
2010-11	0.1	27.59	0.16	443.03	470.88	-6.42
2011-12	0.1	27.59	0.16	437.21	465.06	-1.24
2012-13	0.5	25.34	--	457.47	483.31	3.92
2013-14	0.5	26.34	--	500.37	527.21	9.08
2014-15	0.5	26.34	--	621.69	648.53	23.01
2015-16	0.5	27.5	--	689.96	717.96	10.71
CGR	-12.02	0.36	--	7.15	6.73	

Source: Hand Book of Statistics, GoN. Various years.

Note:



The State's electricity supply from the central grid tends to vary in different seasons like from peak to slack seasons. The data in table 9.2 and figure 9.1 shows that the State has a very small electricity generation capacity with the total installed capacity of generation being 27.5 MW which is just 3.83 per centage out of total availability of about 717.96 MW as on 2016. On the other hand, the major requirement is being met by purchasing power from the Central PSUs such as North Eastern Electric Power Corporation Ltd. (NEEPCO), National Hydroelectric

Power Corporation Ltd. (NHPC) and Power Grid Corporation of India Ltd. (PGCIL).⁴The Data indicate that the power purchase from CPSUs has been increasing enormously being 345.82 MU in 2006-07 to 717.96 MU in 2015-16 at compound annual growth rate of 6.73 per cent.

9.3. Energy Consumption and Demand:

For the purpose of estimation, power consumers have been broadly classified into the domestic consumers commercial, industrial, agriculture, public light etc. the Table 9.4. indicates that about 90 per cent of total consumers are from domestic house hold consumer followed by commercial and industrial purposes. However, the demand has been growing significantly with the number of consumers reaching at highest level of over 2.64 lakhs (2013-14). Since the number of consumers increasing, the per capita consumption is much lower in Nagaland than other states as well as national average. In addition to the power shortage in both rural and urban centres, the consumers are facing poor quality and unreliable supply of power during the peak seasons. The compound annual growth rate for the number of consumers during the study period is about 5.54 per cent.

Table.9.3. Distribution of electricity consumers under different category (in Nos.)

	Domestic	Industrial	Bulk	Pub light	pub water works	commercial	others	Total	% change over PY
2006-07	136041	1292	226	829	22	13947	0	152357	--
2007-08	152176	1853	335	652	21	17320	0	172357	13.13
2008-09	165680	2000	170	750	28	17250	3	185881	7.85
2009-10	170000	2020	185	750	28	17500	3	190486	2.48
2010-11	163178	2147	555	573	23	15731	3	182210	-4.34
2011-12	166165	2194	667	291	26	15493	903	185739	1.94
2012-13	107224	2400	700	600	30	18800	72779	202533	9.04
2013-14	136958	1956	718	164	22	15368	109051	264237	30.47
2014-15	209019	2604	775	600	30	19181	2	232211	-12.12
2015-16	139410	2974	1087	600	39	20962	96283	261355	12.55
CGR	0.24	8.69	17.01	-3.18	5.89	4.16		5.54	

Source: Department of Power, Govt. of Nagaland

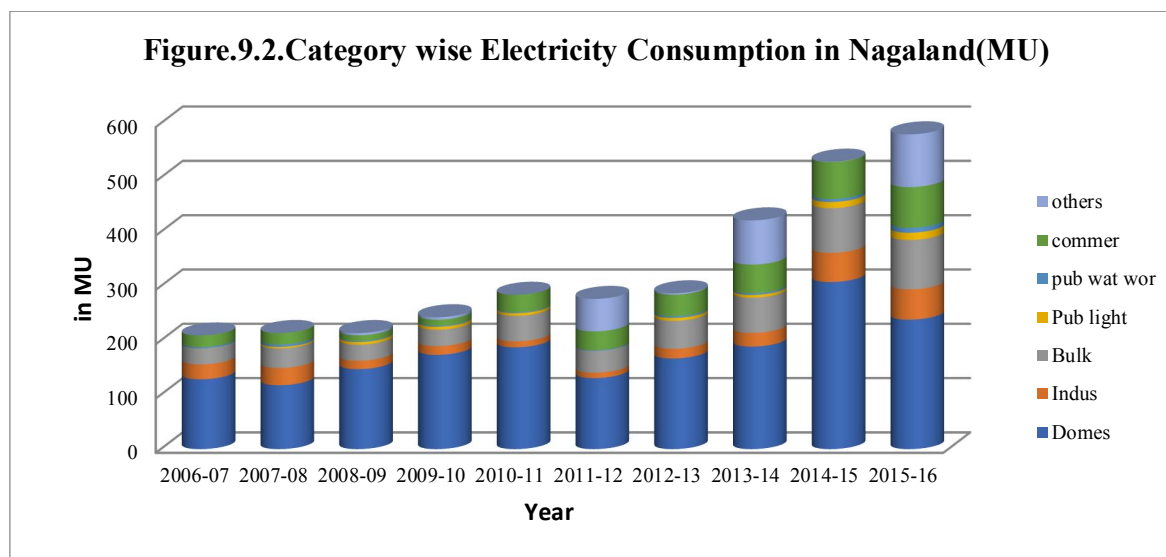
⁴Only 3.83 per cent of the total power produced from the State and about 96 percent purchasing from Central public Sector Units (CPSUs).

Table.9.4. Category wise Electricity Consumption in Nagaland (in MU)

	Domestic	Industrial	Bulk	Pub light	pub water works	commercial	others	Total	% change (on Total)
2006-07	128.71	27.44	28.4	0.44	3.01	21.31	0.03	209.34	--
2007-08	117.68	31.85	35.9	2.9	4.29	21.22	--	213.84	2.15
2008-09	147.34	15.66	29.4	4.95	1.85	10.55	3.97	213.72	-0.06
2009-10	173.65	16.13	30.28	5.35	2.02	11.08	4.37	242.88	13.64
2010-11	187.62	11.02	46.89	4.8	1.7	32.26	0.1	284.39	17.09
2011-12	130.9	10	40.07	--	1.25	34.75	59.65	276.62	-2.73
2012-13	167.03	17.82	51.48	5.27	3.07	39.87	2.4	286.94	3.73
2013-14	188.9	25.15	64.9	4.9	3.1	52.99	81.33	421.27	46.81
2014-15	307.79	53.78	82.34	11.26	5.22	68.43	0.52	529.34	25.65
2015-16	238.51	55.75	91.02	13.3	8.95	75.05	97.14	579.72	9.52
CGR	6.36	7.35	12.35	40.62	11.51	13.42	--	10.72	

Source: Department of Power, Govt. of Nagaland

Similarly, the consumption of power among the consumers, domestic consumers accounted for a major share of 58.03 percent in the total energy billed during the 2014-15 followed by bulk and commercial consumption had 15.5 percent and 13 percent respectively in total energy billed during the reference year. It may further be observed the compound annual growth rate of energy consumption among the consumers category, has quite high over the period from 2006-07 to 2015-16(Figure.8.2) while the consumption of energy for domestic sector has grown at 6.36 per cent, the energy consumption for commercial, bulk and industrial consumers has registered high growth rate of 13.42, 12.35 and 7.35 per cent respectively during the same period.



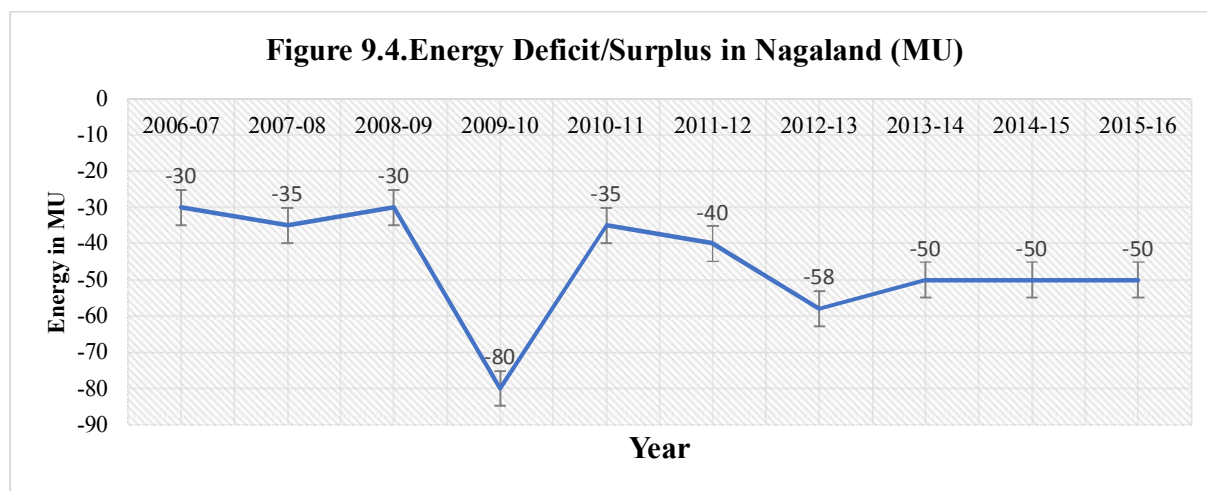
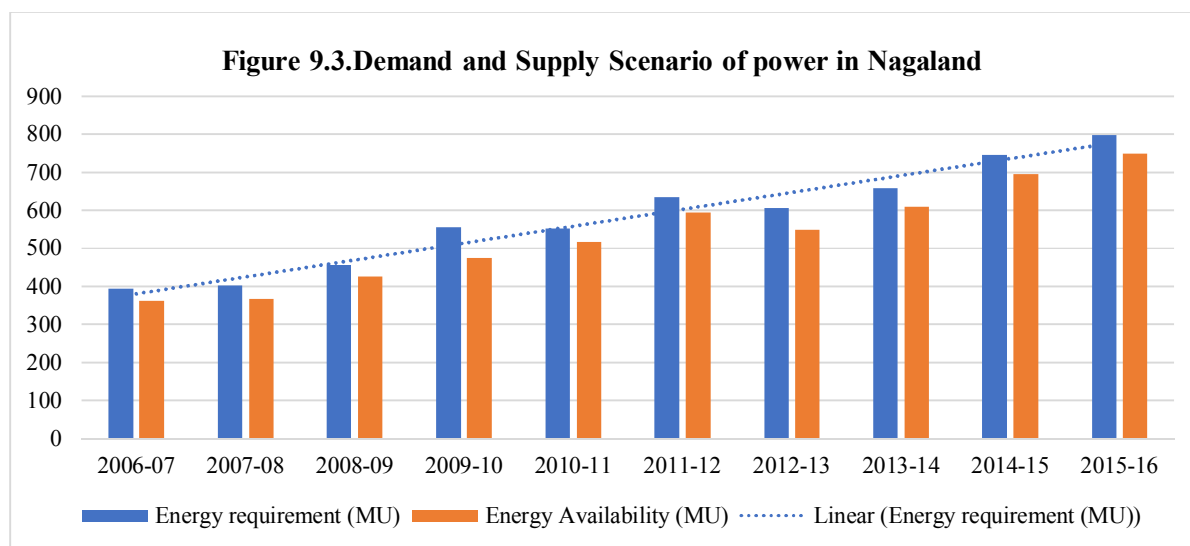
Though the number of unit's consumption w.r.t to public lights, water works registered less units, the compound growth rate over the period time accounted at higher rate largely due to urbanisation, improved economic conditions of the people, changes in lifestyle patterns and establishment physical, socio, economic and institutional infrastructure in the state demands additional power/electricity. It is an interesting observation from the table 9.2 and figure.9.2 reveals that the energy consumption and energy demand in Nagaland in coming years would increase significantly due to various factors i.e. increase in demand of existing consumers due to increased uses of various appliances, commercial activities and industrialization etc. in the State. Considering all the above factors into account and with an objective to provide 24x7 power supply to all, the expected power demand of Nagaland by 2018-19 would be in the order of 265.00 MW with annual energy consumption of 1169.72 MU and to meet this growing demand, a robust and reliable transmission network strengthened.

Table9.5. Demand and Supply scenario of Power in Nagaland

	Energy requirement (MU)	Energy Availability (MU)	Energy Deficit/Surplus (MU)	Energy Deficit/Surplus (%)
2006-07	393.25	363.25	-30	-0.08
2007-08	402.14	367.14	-35	-0.09
2008-09	456.64	426.64	-30	-0.07
2009-10	556.49	476.49	-80	-0.1
2010-11	552.41	517.41	-35	-0.06
2011-12	635.16	595.16	-40	-0.06
2012-13	607.2	549.2	-58	-0.10

2013-14	659.95	609.95	-50	-0.08
2014-15	745.48	695.48	-50	-0.07
2015-16	799.09	749.09	-50	-0.06
CGR	7.35	7.51	5.24	-2.84

Source: Department of Power, GoN.



9.4. Transmission and Distribution losses:

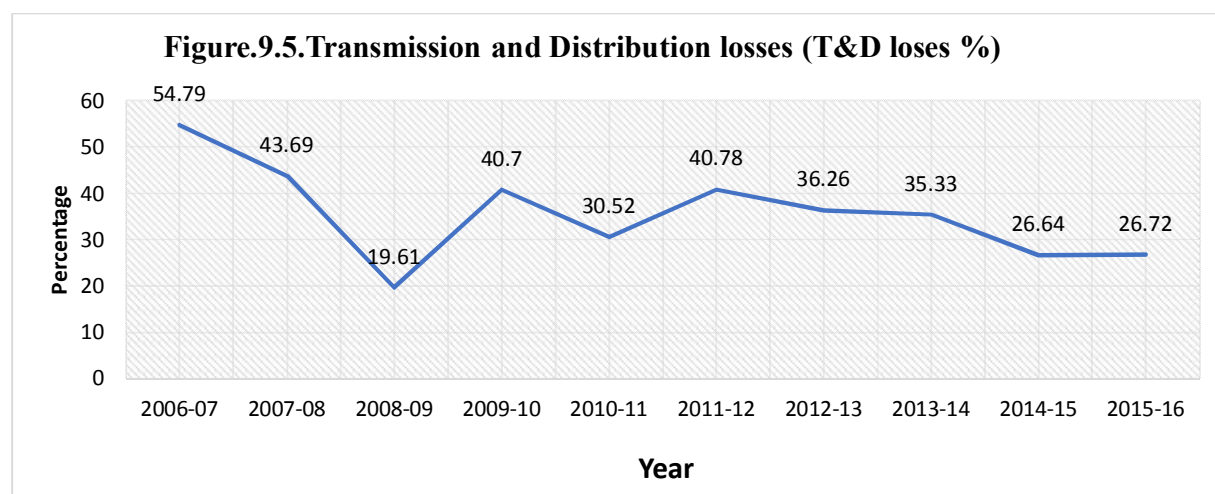
Transmission and distribution system of Nagaland is being served by The Department of Power Nagaland (DOPN). As on 2015, the Department is serving about 2.55 lakhs of electricity consumers including about 0.12 lakhs under commercial category during for the year 2014-15. For distribution of power in Nagaland There are 105 Nos. of Power Sub-Stations consisting of

66/11kV & 33/11kV), 3937 Nos. of Distribution Transformers, 3,391.10 ctkms of low-tension lines, 3,808.10 ctkms of 11 kV lines and 1,497.20 ctkms of 33 kV lines in the State. There are many initiation taken up by government of India to improve the transmission and distribution system in Nagaland like, Restructured Accelerated Power Development and Reform programme (RAPDRP) in 11th plan Rajiv Gandhi Gram Vidudhikaraka Yojana (RGGVY) during 10th plan period for providing access to electricity to all rural households and North Eastern Region Power System Improvement Project (NERPSIP), Deendayal Upadhyay Gram Jyoti Yojana (DDUGJY) on 3rd December, 2014 for Strengthening and augmentation of sub-transmission & distribution infrastructure in rural areas, including metering of distribution transformers/ feeders/ consumers and Rural electrification for completion of the targets laid down under RGGVY for 12th and 13th Plans by carrying forward the approved outlay for RGGVY to DDUGJY. The following table and figure give an indication of the T&D losses in the state of Nagaland from 2006-07 to 2015-16.

Table:9.6 Trends on Transmission and Distribution losses in Nagaland

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
T&D Loss in Million Units	346.16	160.41	158.2	193.95	157.9	242.71	199.16	215.5	185.28	200.18
T&D Loss in %	54.79	43.69	19.61	40.7	30.52	40.78	36.26	35.33	26.64	26.72

Source: Department of Power, Nagaland.



Though there are many programmes initiated and implemented in the state, the State remains as power deficit in both peak power and energy availability. The transmission and distribution losses are more or less static in state during the study period. In order to mitigate the

above situation, Government of Nagaland would have to effectively plan through comprehensive power procurement initiatives on short term, medium term & long-term basis and look for procurement of power either through competitive bidding or through other sources such as enhanced allocation from Central Generating Stations (CGS). Further, the peak demand and energy requirement of the State can also be effectively reduced through proper implementation of DST.

Table 9.7 Expenditure and Revenue Receipts in Power Sector in Nagaland (Rs. in lakh)

	Expenditure			Revenue			Margin
	Plan	Non-plan	Total	Sales	Misce. Receipts	Total	
2006-07	4645.06	11962.96	16608.02	3515.14	612	4127.14	-12480.9
2007-08	4618.84	12446.9	17065.74	3924.62	2904	6828.62	-10237.1
2008-09	10998.2	15548.25	26546.45	4234.83	6865	11099.83	-15446.6
2009-10	102210.1	16786.45	118996.6	4475.89	2984	7459.89	-111537
2010-11	5866.46	22137.05	28003.51	5202.2	2694	7896.2	-20107.3
2011-12	7717.7	29137.32	36855.02	6458	1807	8265	-28590
2012-13	12270	29266.84	41536.84	6772.47	1064	7836.47	-33700.4
2013-14	5798.46	28642.32	34440.78	8383.88	649	9032.88	-25407.9
2014-15	2553.62	34112.06	36665.68	9189.95	745	4934.95	-31730.7
2015-16	3913.05	36321.09	40234.14	10455.63	818	11273.63	-28960.5
2016-17	3047.16	42915.96	45963.12	9803.03	1839.24	11642.27	-34320.9

Source: Handbook statistics, Government of Nagaland, Various Issues.

The State is highly dependent on purchase of energy from Central Generating Stations on account of limited own generation capacity. The Department did not have sufficient financial resources of its own for implementation of power projects. Therefore, the short-term plans prepared by the Department for development of power infrastructure in the State were based solely on the anticipated availability of project funds under Centrally Sponsored Schemes and the grants/loans from North Eastern Council/Financial Institutions. The above table indicates that over the period, the expenditure on power is higher than the revenue receipts. Whereas, the revenue from the electricity sales to the consumers is 84.2 per cent followed by miscellaneous receipts due to inefficient billing and collection of revenue, ineffective audit maintenance and poor fund mobilisation and misutilisation of financial assistant from Government of India. Instances of incurring avoidable capital expenditure were also noticed on account of execution of work components beyond actual requirement is the main impairment for mounting expenditure than revenue. Similarly, Inconsistencies in maintenance of basic data on own generation and

energy purchase, lack of transparency and nonexistence of a proper arrangement on Energy Audit, and also failed to maintain effective discipline in withdrawal of energy as per the approved schedule resulting in avoidable payment of unscheduled interchange charges fetches rampant gap between expenditure and revenue in department of power, Government of Nagaland.

Recommendations

For strengthening and accumulation of power in the state (a)the Department of power, government of Nagaland (DOPN) should make efforts to increase its own generation capacities by effectively utilizing the budget allocations to reduce dependency on outside purchase of power,

(b)the execution of the projects should be planned only after conducting detailed feasibility study and duly considering the state specific requirements through comprehensive surveys,

(c),ensure adequate capacity, addition planning & tie ups for power from various sources at affordable price to meet the projected increase in power demand for future,

(d) strengthen the Transmission and Distribution network to cater to the expected growth in demand of existing as well as monitoring the timely commissioning of various generating plants forthcoming consumers,

(e) put in place a strategy to ensure reduction of AT&C losses as per the agreed loss reduction trajectory and methodology & steps required to be taken at every level of distribution in this regard,

(f) overall Power Supply Improvement to be achieved by undertaking measures such as energy mix optimization, reduction in power operational in-efficiency of state generation plant(s) and optimal fuel procurement policy and

(g) introduce modern technologies to monitor reliable supply like sub-station automation, providing adequate communication infrastructure, GIS, Reliability, Centralized Network Analysis and Planning tools, SAP driven ERP systems, DMS (Distribution Management Systems), OMS (Outage Management System), etc.

Similarly, for strengthening Financial viability in the State,

- i) the project works should be awarded after conducting market survey to avoid extra financial payments,
- ii) the Department should devise effective systems to ensure efficient billing and collection of revenue,
- iii) a proper system should be introduced for conduct of periodic Energy Audit in the Department,
- (iv) Financial measures including investment rollout plans and analysis to assess the financial impact from implementation of 24x7-PFA,
- (v) the state should initiate towards institutionalizing and strengthening the Power Purchase Planning and Procurement Cell on the procurement of power on cost effective basis,
- (vi) financial tie up with financial institutions regarding fresh proposals for transmission infrastructure should be looked into for effective implementation. State needs to make adequate budgetary provision towards building transmission infrastructure and eliminating bottlenecks,
- (vii) an affirmative action plan is needed to reduce the peak demand and energy demand by effective implementation through demand side management (DSM) and by adopting energy efficiency measures,
- (viii) efficient plan design to procure cheaper power under case-I route from the market to meet the demand and proper negotiation with Ministry of power, Government of India for more allocation from Central Sector Projects to Nagaland for meeting the power demand of the State. Take initiatives on fund mobilisation and financial assistance from GOI for execution of hydro projects to be developed by the state so that no viable identified resources within the state remain untapped,
- (ix) to achieve the target, expansion and augmentation of Transmission facility need to be done with sustainability. Due thrust may be given for proper implementation of ESPPF (Environmental & Social policy and Procedures Framework), which has been designed to identify, address and mitigate any adverse environmental & social issues during project implementation,
- (x) the ongoing scheme needs to be implemented as per proposed plan for ensuring 24x7 power supply in State. Financial tie up for approved infrastructure shall be undertaken timely with the funding agencies,

(xi) the proposed transmission system up to FY 2018-19 needs to be implemented as per schedule for ensuring 24x7 power supply in the State,

(xii) the State government shall expedite all necessary help (i.e. Right of Way clearance, Forest clearance if any, land acquisition etc) to STU for installation of new substation and associated transmission lines to provide 24x7 power to all in Nagaland and

(xiii) power being a critical infrastructural input plays an important role in the development of a region.

The idea behind the introduction of reforms in this sector is to reduce the debt burden which the state governments had to face when the state electricity boards were running into losses. Thus, power sector reforms require a holistic treatment wherein the needs of the present as well as future are kept in mind, and where the other sectors too need a fillip so that the power sector flourishes in physical as well as in financial terms.

Recapitulation

Power being a critical infrastructural input plays an important role in the development of a region. The idea behind the introduction of communitization in this sector was to reduce the debt burden which the state governments had to face when the state electricity boards were running into losses. The demand and supply position in the state shows that there has been wide gap between the availability and requirement and huge transmission and distribution losses during the study period and it require reforms and needs holistic treatment in which the present as well as future generation should keep in mind, and where the other sectors too need a fillip so that the power sector flourishes in physical as well as in financial viability.

CHAPTER-10

STATUS OF GUARANTEES, FISCAL AND CONTINGENT LIABILITIES IN NAGALAND

10.1 INTRODUCTION

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund -i.e. Capital Account. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time be fixed by an Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident fund and other deposits. In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred.

The fiscal liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital expenditure, loans and advances given by the State Government and cash balances. Whereas, the term 'Total liabilities' as per Nagaland Fiscal Responsibility and Budget Management Act, (NFRBMA 2005) defined 'the liabilities under the Consolidated Fund of the State and the Public Accounts of the State'. Other liabilities, which are a part of the Public Accounts, include deposits under Small Savings scheme, Provident Fund and Other deposits.

10.2. Fiscal Liabilities: Fiscal liabilities of the State comprise Consolidated Fund liabilities and Public Account liabilities. The overall fiscal liabilities of the State have increased from Rs.2922 crore in 2006-07 to Rs.8931 crore in 2015-16. The compound annual growth rate was registered 6.93 per cent over the period of time. The fiscal liabilities of the State at the close of 2015-16 comprised (a) internal debt of the State Government at Rs.6529.46 crore which included market loan, loans from Insurance Companies/Other Institutions, ways and means advance from RBI, Special Securities issued to National Small Savings Fund of the Central Government which has increased by 7.25 per cent from Rs.1855.75crore in 2006-07 to 6529.26 crore in 2015-16 and (b)

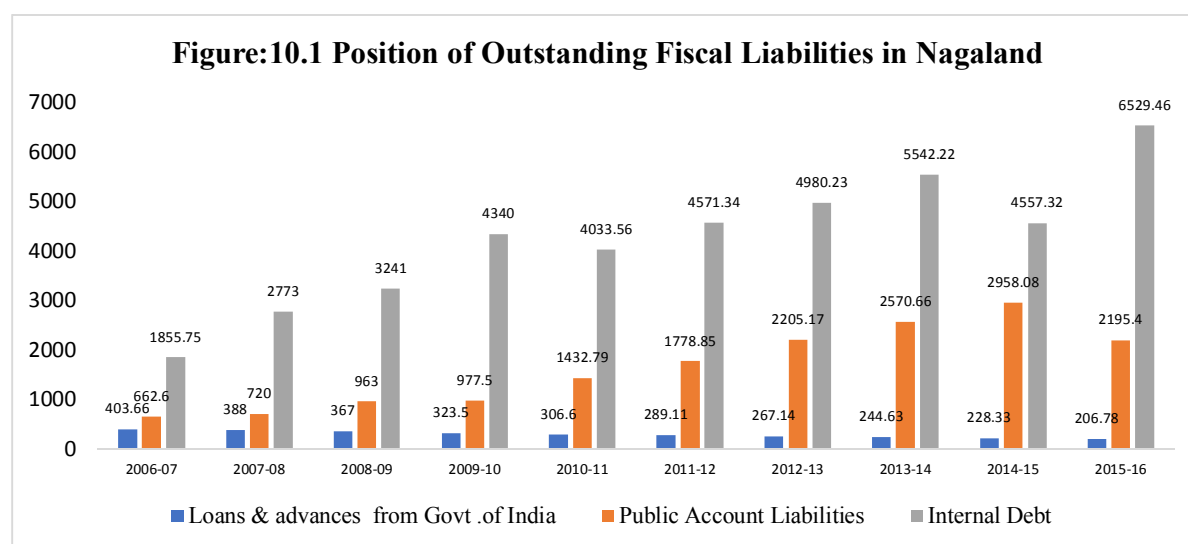
Loans and advances from the Central Government comprising Rs.403.66 crore in 2006-07 which included non-plan loans, loans for State Plan Schemes, loans for Central Plan Schemes, loans for Centrally Planned Schemes, loans for Special Schemes and Pre 1984-85 Loans, which have decreased by 5.57 per cent from Rs.403.66 crore in 2006-07 to 206.78 crore in 2015-16.

Table 10.1 Composition of Outstanding Fiscal Liabilities (Rs. in Crores)

As on March 31

	Loans & advances from Govt. of India	Public Account Liabilities	Internal Debt	Total	% change over Previous year
2006-07	403.66	662.60	1855.75	2922.01	--
2007-08	388.00	720	2773.00	3881	32.82
2008-09	367.00	963	3241.00	4571	17.78
2009-10	323.50	977.50	4340.00	5461	19.47
2010-11	306.60	1432.79	4033.56	5851.16	07.14
2011-12	289.11	1778.85	4571.34	6636.30	13.42
2012-13	267.14	2205.17	4980.23	7452.54	12.30
2013-14	244.63	2570.66	5542.22	8357.51	12.14
2014-15	228.33	2958.08	4557.32	7783.73	-06.87
2015-16	206.78	2195.4	6529.46	8931.64	14.75
	-5.57	8.59	7.25	6.93	

Source: CAG reports Various Issues (Government of Nagaland)



Similarly, the fiscal liabilities of the State comprise consolidated fund liabilities and public account liabilities. The table 10.2 indicates that the growth rate of fiscal liability was 12.29 per cent during 2015-16 over the previous year. The buoyancy of Fiscal liabilities with

reference to Revenue Receipt during the year was 2.40. The Consolidated Fund liability (Rs.6736.24 crore) comprised market loan (Rs.5362.38 crore), loans from Government of India (Rs.206.78 crore) and other loans (Rs.1167.08 crore). The Public Account liabilities (Rs.2195.41 crore) comprise Small Savings, Provident Funds (Rs.862.08 crore), interest bearing obligations (Rs.79.66 crore) and non-interest-bearing obligations like deposits and other earmarked funds (Rs.1253.67 crore). The ratio of Fiscal liabilities to GSDP had increased from 43.19 per cent in 2014-15 to 43.52 per cent in 2015-16. These Fiscal liabilities stood at nearly 1.11 times the Revenue Receipts and 20.86 times of the State's Own Tax Revenue at the end of 2015-16. The Fiscal liabilities to GSDP (43.52 per cent) was 8.45 *per cent* more than the assessment made by the State Government in its Medium-Term Fiscal Policy Statement MTFPS.

Table. 10.2. Trend of Fiscal liabilities during 2006-07 to 2015-16

(Rs.in crore)

YEAR	Fiscal liabilities	Revenue Receipts	Rate of growth of Fiscal liabilities (%)	Rate of growth of Revenue Receipts (%)	Fiscal liabilities/ Revenue Receipts (%)	Buoyancy of FL with RR(ratio)
2006-07	2922.01	2772.51	10.63	22.29	105.39	0.47
2007-08	3881.00	2995.04	32.82	8.06	129.58	4.07
2008-09	4571.00	3399.79	17.78	13.51	134.45	1.31
2009-10	5402.00	3718.48	18.18	9.37	145.27	1.94
2010-11	5773.00	4998.46	06.87	34.42	115.49	0.20
2011-12	6759.87	5584.62	15.27	11.73	121.04	1.30
2012-13	7452.54	6202.33	10.25	11.06	120.16	0.93
2013-14	8356.91	6495.67	12.14	4.7	128.65	2.58
2014-15	7953.73	7648.67	-4.82	17.75	103.99	-0.27
2015-16	8931.64	8040.79	12.29	5.13	111.08	2.40

Source: Finance Accounts of respective years

10.3. Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantees had been extended. As per NFRBM Act 2005, the State Government set up a guarantee redemption fund in 2006-07 and decided to charge guarantee fee at the rate of 1 per cent of GSDP to cover the risk in the guarantees. During the year 2008-09 there was a balance of rupees two crore in the guarantee redemption fund investment account. Guarantee for Rs.7.24 crore has been given to four Government Companies up to 31 March 2009 but no information has been received from the Government regarding outstanding

amount of guarantees. Hence, it could not be ascertained in audit whether the criteria regarding guarantees has been followed by Government of Nagaland. Similarly, in the year 2011-12, the State had given guarantee of Rs.10 crore but no guarantee fee was received.

Table 10.3. Guarantees given by the Government of Nagaland (Rupees in crore)

Year	Guarantees			
	Total amount of guarantees given up to	Outstanding amount of guarantees at the end of the year	Percentage of maximum amount guaranteed to total revenue receipts	Outstanding amount of guarantee as percentage of GSDP
2006-07	7.24	N.A	0.26	1.00
2007-08	7.24	N.A	0.24	1.00
2008-09	7.24	33.22	0.21	1.00
2009-10	53.72	53.72	1.44	0.50
2010-11	55.22	55.22	1.10	0.47
2011-12	65.22	65.22	1.17	0.55
2012-13	70.22	70.22	1.13	0.52
2013-14	70.22	70.22	1.08	0.42
2014-15	70.22	70.22	0.92	0.38
2015-16	70.22	70.22	0.87	0.34

Source: Finance Accounts of respective years, GoN.

The outstanding guarantees remained the same since last four years. The outstanding guarantees of Rs.70.22 crore mainly pertained to Nagaland Industrial Development Corporation about 48.29 per cent (Rs.33.91 crore) for repayment of principal and payment of interest on loan obtained. The outstanding guarantees were 0.87 per cent of the Revenue Receipts of the Government and the amount of guarantee as percentage of GSDP was 0.34 during the year 2015-16.

Recapitulation:

Fiscal liabilities of the State comprise Consolidated Fund liabilities and Public Account liabilities and contingent liabilities or guarantees refer to liabilities that are conditional upon predefined events or circumstances. These mainly include the state government guarantees in respect of bond issued and other borrowings by the State Level Public Sector Undertakings or other bodies. It can be inferred from the above discussion that the analysis of fiscal as well as contingent liabilities of the state of Nagaland is of immense importance as it may drag down the status of state finances. There has been significant increase in fiscal liabilities during the period

of study as major portion of the fiscal liabilities of the state government are provided to internal debt of the state government and market loans and advances from the central government. On the other hand, the contingent liabilities or guarantees has been decreasing from 2006-07 and it was almost same since last four years which was mainly pertained in NIDC during the period of study.

CHAPTER 11

ANALYSIS OF SUBSIDY

Subsidy is an incentive that comes in the form of financial assistance from the government with an aim to promote economic and social policy. Usually it is used to help out industries, or encourage business activities or to offer a safety net to the vulnerable in the societies. However, subsidy has been a subject of intense debate, mainly from the view of environmental, economic and political issues. In India, the government has subsidized many commodities to help the manufactures, producers, consumers and farmers. Major form of subsidy in India includes fertilizer, food, petroleum, LPG, other fuels, education subsidy, electricity subsidy etc.

For Nagaland, separate data on the budget allocation or expenditure for the above mention subsidized services or commodities are not available. However, the CAG report for the study period shows the following:

Table.11.1. Distribution of Subsidies in Nagaland (Rs. in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Police, special police, Nagaland Armed Police battalion, ration subsidy			13.03		20.55					
Crop husbandry horticulture and vegetable crops, other horticulture and olericulture subsidy			0.05							
			13.08		20.55					

Source: CAG report on State Finance, 2012 & 2016

The data shows that only in 2008-09 and 2010-11 fund was allotted for subsidy. In 2008-09, the subsidy of Rs. 13.08 crores were allotted for state police rations and horticultural crop production, which constituted about 0.38% of revenue receipt during the year. The subsidy in 2010-11 was Rs.20.55 crores allotted only for police ration subsidy that constituted for 0.41% of revenue receipt for the year.

The effort should not be on illimitation of subsidy but to use it according to the needs of the economy to bring in desired transformation.

CHAPTER 12

OUTCOME OF THE STATE FINANCES IN THE CONTEXT OF RECOMMENDATION OF THE 14TH FINANCE COMMISSION

The 14th finance commission report 2015 has highlighted some of the recommendation for the states to be followed. It recommends for increasing the state share in the net proceeds of union tax to 42%, distribution of grants to states for local bodies based on 2011 population data (90% weight) and area (10% weight), grant in aid for 11 states and revenue compensation under GST for five years. Moreover, it also recommends that the fiscal deficit should be 3% of GDP from the year 2016-17.

1. Sharing of Union Taxes.

The share of union taxes for the state was seen to be increasing from Rs. 316.93 crores during 2006-07 to Rs. 1249.18 crores during 2015-16 (table 2.1). Its share in the total state revenue also increases from 11.43% to 15.53% during the same period. The compound annual growth rate during the same period was 14.70% (table 2.2). Thus, we can see that there is an increase in the flow of funds to the state from the shared taxes as per the recommendation of the 14th finance commission.

2. Local Government.

The total transfer of funds for local bodies (villages and municipalities) was Rs. 73.82 crores in 2008-09 which increased to Rs. 111.71 crores in 2015-16 (table 7.2). Its compounded annual growth rate was 4.71% during the same period. The trend shows increasing flow of funds to the local bodies.

3. Grant-in-Aid.

The commission also recommended a total revenue deficit grant of Rs. 1, 94, 821 crores for the 11 states for five years (2015-20) of which Nagaland is one of them. The total amount recommended for the state of Nagaland was Rs. 18, 475 crores during the same period. It recommends that Nagaland state will get the grants as shown in the table.

Table 12.1: Recommendation for five years (in Rs. Crores)

2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
3203	3451	3700	3945	4177	18475

However, the actual and budget estimates of the grants received are shown in table no 12.2

Table 12.2: Actual and Budget estimate of Grant in aid (in Rs. Crores)

2015-16 (Actual)	2016-17 (Actual)	2017-18 (Revised Estimates)	2018-19 (Budget Estimates)	2019-20	2015-20
5929.04	5553.38	6374.49	7820.85	-----	25677.78

It can be seen from the above table that, the grants received by the state is more than the recommendation made by the commission. In 2015-16, it was more than the recommendation by 85.1%, while it was 60.92%, 72.28% and 98.25% for the following years. The actual grants estimated for the four years is more than the total recommendation of the commission for five years by 38.98%.

4. GST.

The compensation for GST as recommended by the commission was 100% for the first year, 75% for the second year and 50% for the third year. It was found that during 2017-18 the revenue collected under GST was Rs.942. 37 crores for the state.

5. Fiscal Deficit.

To eliminate the fiscal deficit, the commission has recommended that fiscal deficit in the state should not be more than 3% of the GSDP. However, it was found that the state fiscal health is not so impressive. The state fiscal deficit (table 4.1 and 4.2) rose from -9.66% during 2006-07 to -21.14% during 2015-16 while the primary deficit rose from -5.63% to -17.19% during the same period. Thus, the state is yet to catch up with the recommendation of the finance commission.

6. Power sector.

The power sector in Nagaland shows that there is a deficit for the whole 10 years. The deficit was Rs. 124.81 crores during 2006-07 which rose to Rs. 343.21 crores during 2016-17. This is because proper metering is not done according to the recommendation of the finance commission.

CHAPTER13

SUSTAINABLE DEBT

13.1 Introduction

The sustainability of the current stock of debt is the main determinant of the overall fiscal sustainability of a government (Hamilton and Flavin, 1986). Debt sustainability is defined as the ability to maintain the constant debt-GSDP ratio over a period of time (Rajaraman et al., 2005). In simple terms, public debt is considered to be sustainable as long as the growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. A zero primary deficit is required for stabilization of debt as percent of GSDP, if the nominal rate of growth of GSDP is equal to the interest rate on inherited debt. Given the rate spread (GSDP growth rate - interest rate) and quantum spread, debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if the primary deficit along with quantum spread is negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling (Rath, 2005; Domar, 1944). If there is a primary deficit, it is likely that the debt-GSDP ratio will be higher at the close of the fiscal year, unless the growth rate of GSDP during the year is higher than the nominal rate of interest on the inherited debt stock. Additionally, the quantum spread and debt stabilization index are computed to know the impact of the primary deficit and public debt on debt-GSDP ratio of the state. The quantum spread is calculated by multiplying the rate spread with outstanding stock of debt.

Table. 13.1. Debt sustainability in terms of Quantum Spread and primary deficit (in crore)

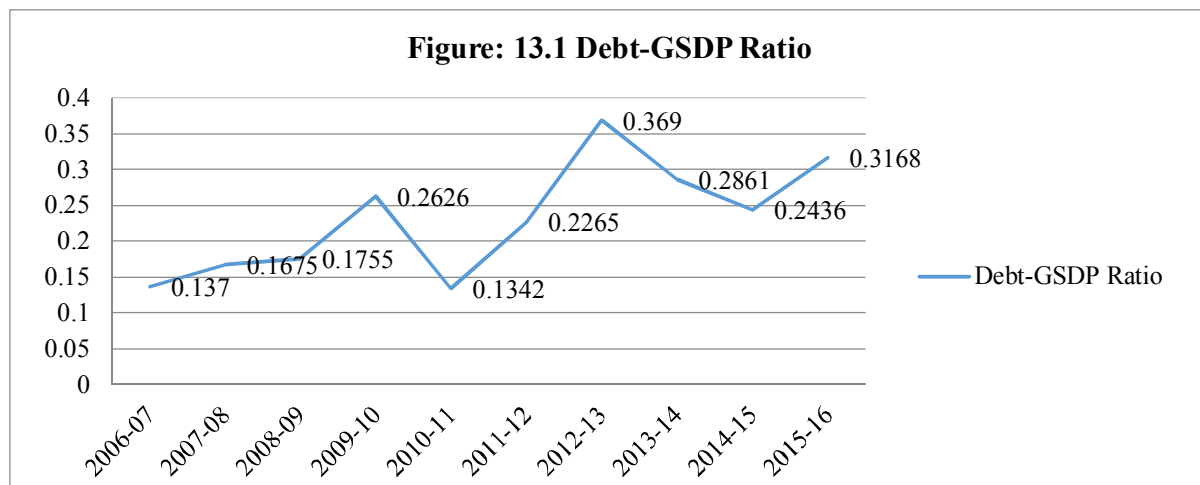
year	GSDP growth rate	EIR	RS	QS (Dt* RS)	PD	DSI (QS+PD)	Debt-GSDP ratio
2006-07	7.80				-390.59		0.1370
2007-08	7.32	7.86	-0.54	-675.05	-774.13	-1449.18	0.1675
2008-09	6.33	7.43	-1.10	-1528.43	-504.29	-2032.72	0.1755
2009-10	6.89	7.27	-0.38	-844.37	-1080.03	-1924.40	0.2626
2010-11	9.35	7.06	2.29	2847.25	-72.36	2774.89	0.1342
2011-12	8.32	6.93	1.39	3167.15	-476.66	2690.49	0.2265
2012-13	6.46	6.78	-0.32	-1251.38	-2378.49	-3629.87	0.3690
2013-14	6.52	6.25	0.27	886.198	-1071.75	-185.55	0.2861

2014-15	6.80	6.81	-0.01	-28.226	-2217.49	-2245.72	0.2436
2015-16	22.34	6.95	15.39	72436.21	-2552.97	69883.24	0.3168

EIR-Effective Interest Rate; RS-Rate Spread; QS-Quantum Spread; PD- Primary Deficit; DSI- Debt Stabilisation Index

13.2 Debt-GSDP ratio

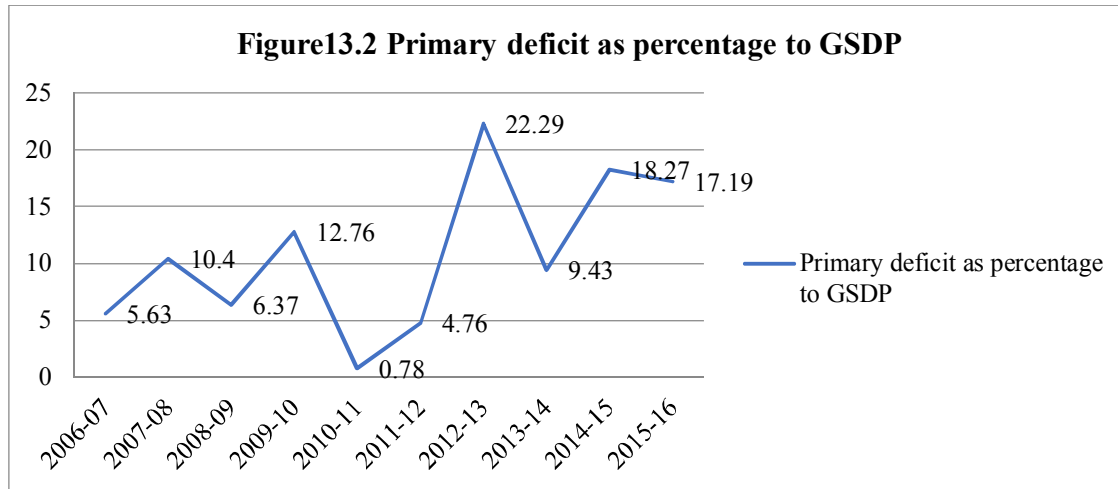
The Debt-GSDP ratio indicates that the ratio has increased over the years. From 0.1370 during 2006-07 the ratio increased to 0.3168 during 2015-16. One factor for the increase in the Debt-GSDP ratio is the increase in debt over the years. The state no doubt witnessed an increase in GSDP from 6937.85 crore during 2006-07 to 14851.1 crore during 2015-16 but the increase in debt was much higher during the same period. Debt increased from 950.61 crore to Rs 4075.56 crore. The compound annual growth rate of GSDP during 2006-07 to 2015-16 was 7.91 percent while the compound annual growth of debt was 17.34 percent. The rate spread has also not helped much in reducing the Debt-GSDP ratio over the years. Although the average growth of GSDP over the period was 8.92 percent and the effective interest rate 7.04 percent, but the year wise data indicates that the growth rate of GSDP was lower than effective interest rate for most of the years.



Primary Deficit as percentage to GSDP

The state witnessed an increasing trend in primary deficit over the period. From Rs 390.59 crore during 2006-07 it increased to Rs 2552.97 crore during 2015-16 and the compound

annual growth rate was 20.65 crore. The increasing trend in primary deficit has resulted in an increase in the Debt stabilisation index. The debt stabilisation index shows that for most of the years it is negative which indicates that it has worsened the debt-GSDP ratio.



The reduction in outstanding debt could not be achieved in Nagaland although several measures have been adopted, like write off of central loan, creation of sinking fund etc, which were the measures adopted for appropriation for reduction or avoidance of debt. The State's total liabilities have cumulated from Rs.3557 crore in 2006-07 to Rs. 8931 Crore in 2015-16, which shows an increase of 15 per cent per annum. During the corresponding period, the total public debt had increased from Rs. 2922 crore to Rs.6736 crore, which is an increase of 13 per cent per annum.

The Debt Consolidation and Relief Facilities (DCRF) recommended by Finance Commission XII, have two component of debt relief, viz., debt consolidation and debt write off. The debt consolidation provided for consolidation of all central loans contracted by the state until March 31st, 2004 and outstanding as on March 31, 2005 into fresh loans for 20 years to be paid in 20 instalments with a lower interest rate of 7.5 per cent, subject to the condition that the state government concerned enacted its FRBM Act. Repayments due from state during the period 2005-06 to 2009-10 on the loans towards central plan and centrally sponsored schemes were eligible for write-off. According to State Finance Accounts (2015-16) reports that for the year ended 31 March 2012, in case of Nagaland, the excess payment was amounting to Rs. 7.07 crore, of which, the Ministry of Finance has so far adjusted 0.40 crore in 2012. So, the balanced

amount pending for adjustment was Rs.6.67 crore (principal of Rs.1.95 crore and interest of Rs 4.72 crore), of which pending principal of Rs.1.95 crore has resulted in adverse balance (net debit) against the loans of the Ministries other than the Ministry of Finance in the books of the state government.

The 10th finance commission had recommended that state should set up (a) Sinking funds for amortization of all loans including loans from banks, liabilities on account of National Small Saving Funds etc., which should not be used for any other purpose, except for redemption of loans and (b) Guarantee Redemption Funds for discharge of the state obligations on guarantees. The total accumulated balance at the end of 31st March 2015 in these funds was Rs. 426.38 crore, of which Rs. 228.53 crore (54%) has been invested as required under the guidelines of the fund.

The State government had created consolidated sinking fund in 2006-07 for amortization of liabilities, with an initial corpus of Rs.12.17 crore. Though the State Govt. has not framed any rules, regarding annual contributions to the fund in terms of guidelines of the RBI which is responsible of the fund, the State government was required to contribute a minimum of 0.5% of the outstanding as at the end of the previous year. Against Rs.41.78 crore (0.5%) of the outstanding liabilities of Rs.8356.92 crore as on 31st March, 2014 due from the state government in 2014-15, the state government contributed Rs.40 crore, a short fall of 1.78 crore. The entire fund of corpus fund of Rs. 205.75 crore as on 2015 was invested in Govt. of India securities. Which transfer was increased during 2015-16, that Rs.199.67 crore was transferred to the fund from Reserve Account, 4.19% of total outstanding (open market loan) of Rs. 4764.66 crore as on 31st March, 2015 and to 2.51% of total outstanding liabilities of Rs. 7953.73 crore (internal debt and public account liabilities) as on 31 March, 2015.

*The road map for debt sustainability is presented in the conclusion section of the report.

CONCLUSION

Summary and Suggestions

Introduction

Historically Nagaland was constrained by bad governance with poor connectivity and infrastructure, aggravated by political instability and law & order problems. The government responded by policies with unjustifiable recruitment, untenable subsidies, and establishment of unviable PSEs. Which lead the State towards financial indebtedness, with untenable subsidies, establishment of unviable PSEs, struggling with liabilities and escalating interest obligations on the massive amounts of public debt incurred. These made the situation difficult for the State.

In recent years, the focus has shifted to fiscal consolidation and the attainment of fiscal sustainability. The signing of MOUs between the centre and the states and the enactment of FRBM Acts provided direction to the fiscal reform process. The study is being undertaken for the time period 2006-07 to 2015-16. The conclusions and recommendations are summarised below.

Revenue Side

Total revenue receipts of the State increase from Rs. 2772.52 crore in 2006-07 to Rs. 8043.57 crore in 2015-16 showing an annual compound growth rate of 11.24%. It is observed that own revenue has increased, in which, the growth of own tax revenue (13.63%) was higher than that of own non-tax revenue (10.90%). The growth rates were higher during 2008-09 to 2011-12 for both own tax and non-tax revenue but showing sign of deceleration for non-tax revenue that assumed negative growth during 2015-16. Similarly, in Central Transfers, the *Grants-in- Aid* has been increasing by 10.53% and the *Share in Central Tax* by 14.70%, the highest growth among the components of total revenue of the state.

However, the changing trends in revenue receipts has had no effect on the dependency ratio for the state. The *State's Own Revenue* in the *Total Revenue Receipt* remained relatively unchanged at about 8%. This implies that total Central Transfers (about 92%) dominates the *Total Revenue Receipt in 2015-16*. The share of *grants* from centre has declined from 81% to

76% and the *shared tax* has increased from 11% to about 16 % during the period. In fact, Nagaland has a very adverse *dependency ratio*.

Revenue buoyancy with respect to GSDP is positive and more than proportionate to the growth of GSDP, where own revenues are more responsive than total revenue of the state that remain above unity.

Nagaland's adverse *own revenue to total revenue receipt* ratio and the *own revenue to GSDP* ratio stems from the fact that its economy is essentially dominated by the agricultural sector. Besides, the absence of effective tax collection mechanism has been another factor for low resource mobilization.

Sales Tax traditionally has been the largest contributor that ranges between 71 to 76 percent in total own revenue. Other sources of tax are vehicle tax (11%), professional tax (6.94%), land revenue tax (1%), stamp and registration, goods and passengers and electricity (each fluctuated about 1 to 2 %). The own tax revenue has shown an annual compound growth of 13.63%. In the GSDP ratio, *shared tax* fared better than total own revenue. Among the own tax revenue, sales tax/VAT performed better than any other sources of revenue. However, its GSDP ratio has been lower than 3% and all other taxes have GSDP ratio lower than 1%.

Non-tax revenue are interest receipts, revenue from economic services and general services. Economic services have been the largest contributor (64%) to Non-tax revenue, followed the service sectors, while the interest payment receipt remains the lowest. The non or low realization of *non-tax revenues* are mostly due to poor economic base and partly administrative shortcomings, and unintended lapses in some cases.

Suggestion for improving Revenue

A larger proportion of its receipts are central transfer which is evidence of much lower Own Tax Revenue-GSDP ratio, that indicates the poorer tax performance. The state in order to raise own tax revenue should (i) rationalize rate on sales and excise taxes, (ii) Proper accounting and transparency on revenue from electricity, vehicles, stamps and registration, professional tax and lands etc, be maintained so that reduce misappropriation on the revenue earned. This will require staff with integrity and training. (iii) Leakages and irregularities in the sales tax/VAT dispensation has resulted in serious loss for the state exchequer, which is due to weakness in

institutional and operational. A well-defined and transparent procedure should be put in place. Strict implementation of GST is a necessity to correct the weaknesses under the past tax system. This may minimise the cascading of tax. (iv) Despite its potential State Excise receipt has remain insignificant in total tax receipt during the study period. To increase its share in state revenue, the selling and bar serving IMFL may be relaxed with stringent regulations and with consultation of the NGOs. Other instances like non-payment of licence fee, short realisation of establishment charges, etc., problems need to be address.

Given Nagaland's weak economic base, it is imperative that it adopts a sustainable growth model that is powered by the tertiary sector. Again, given its tremendous natural capital, development of tourism sector promises a great return to the state revenue.

Expenditure Side:

Proper allocation and prioritisation of expenditure of the state governments is important. The State's total expenditure has increased from Rs. 2932.88 crores to Rs. 8641.15 crores during 2006-07 to 2015-16, with an annual average growth rate of 11.41%. In total expenditure, the share of *revenue expenditure* has been the highest, which rose from 76% to 87.74%, while the share of *capital expenditure* declined from 24% to 12% during the corresponding period. The expenditure on *loan* has been negligible. The growth of revenue expenditure (with 13.06%) was higher than that of total expenditure. The capital outlay was increased by 4.07% but loans and advances declined by -16.40%.

The total expenditure as a proportion to GSDP increased from 42.27% to 58.19% during 2006-07 to 2015-16. The same for revenue expenditure shows an increasing trend from 32.03% to 51.05%, while total capital outlay revolves around 7per cent to 12 per cent, whereas loans and advances lies below 1% for the entire period.

Out of total expenditure, plan expenditure shares a smaller proportion (25.25%) than non-plan expenditure (74.75%) in 2015-16 and its share declined while that of non-plan expenditure increased during 2006-07 to 2015-16. The growth rate of non-plan expenditure is higher (13.69%) than that of total expenditure (11.41%) and plan expenditure (6.68%). The percentage of non-plan expenditure to GSDP rose from 25.81% to 43.49% during the period and the same for plan expenditure decline from 16.47% to 14.69%. The percentage of non-plan revenue expenditure to GSDP is higher than the plan revenue expenditure.

Out of total *revenue expenditure*, the share of non-plan expenditure rose from 79.88% to 85.20% during the study period. While the share of plan revenue expenditure decreased from 20.12% to 14.80%. Out of total *capital expenditure*, plan expenditure has the major share which rose from 97.86% to 100% during the corresponding period. It appears the entire capital expenditure is made under plan expenditure. Obviously, the percentage of plan capital expenditure to GSDP is higher than the non-plan capital expenditure, which share was increased from 10.02% to 12.46% during period, while that of non-plan capital expenditure remain negligible during the same period.

Functional composition of total expenditure shows the *general services expenditure* (including interest payment), also considered as non-developmental expenditure, has increased from 37.08% to 43.15% during the study period. The relative share of *social services* decreased from 28.29% to 27.56%, while the share of *economic services* also decreased more than the social services from 34.62% to 29.29%. Decline in relative shares of economic and social services may consider not a healthy development, yet these two-sectors accounted for 56.85% of the total expenditure in 2015-16.

The share of *total committed expenditure* to total revenue expenditure increased from 65.06% to 68.07% during the period, with a growth rate of 13%.

- i) *the expenditure on salaries and wages has increased from Rs. 1143.25 crore in 2006-07 to Rs. 3546.21 crore in 2015-16. Its share in revenue expenditure has increased from 44.45% to 46.77% and it accounted for about 68% of the total committed expenditure.*
- ii) *the expenditure on interest repayment has increased from Rs. 270.46 crore in 2006-07 to Rs. 586.45 crore in 2015-16. Its share in revenue expenditure decline from 10.51% to 7.73% and its share in total committed expenditure decline from 16 to 11 per cent. The decreasing share in revenue expenditure is important because it specifies the extent of dependence for the state finances.*
- iii) *The expenditure on pensions and retirement has increased from Rs. 259.73 crore Rs. 108.8 crore in 2006-07 to 2015-16. Its share in total revenue increased from 10% to nearly 14% during the period, exhibiting a growth rate of 16%. Moreover, its share increased from 15 to about 20 percent of the total committed expenditure.*

Although economic and service sectors accounted for more than half of the total expenditure, these services exhibited low recovery rates. The year-wise **recovery** rate during 2006-07 to 2015-16, in *education sector* shows a low and fluctuating rate with 0.49% during 2006-07, which increased to 9.73% during 2014-15 but falls to 3.15% in the following year. In *health sector* it was below 1 per cent for the entire period. In *water supply* it decline from 8.31% to 1.21%. This low recovery rate has ultimately resulted in the massive increase in the quantity of implicit subsidies. The same in industries decline drastically from 36.78% to 1.25%, in *road sector* also greatly decline from 10.56% to 2.59% during the corresponding period. Thus, the low and declining recovery rates must certainly be affecting the state's revenue. The recovery rate increased only in *power sector* that rose from 10.56% to 24.97% which is quite remarkable.

Revenue expenditure constituted the major part of the total expenditure of the state government, which has grown modestly, and the share of plan expenditure is smaller than non-plan expenditure in 2015-16. The proportion of former has declined while the latter increased during the study period. Thus, the growth rate of non-plan expenditure is higher than the overall expenditure, and also higher than that of plan expenditure during 2006-16. Among the functional categories of expenditure, the *general services expenditure*, has accounted for 43.15% during 2015-16. The relative share of developmental expenditure (*social services* and *economic services*) although decline, they accounted for more than half of the total expenditure.

To have a proper idea about efficiency of public expenditure, it requires to examine the committed expenditure. The higher proportion of committed expenditure to revenue expenditure reduces the expenditure on maintenance activities which in turn may deteriorate the existing infrastructure of a state. The share of *total committed expenditure* to total revenue expenditure increased (with 68.07% in 2015-16), which is indeed alarming. Most of which payments are for salaries and wages and pension payments (88% in total committed expenditure).

Deficit

The extent of overall fiscal position in the finances of state government can be indicated by three key parameters- revenue, fiscal and primary deficit. The trends of different parameters of fiscal imbalance in respect of state finances from 2006-07 to 2015-16 is examined. The state government had revenue surplus throughout the period of study, with an average surplus of Rs

617.62 crore. Revenue surplus as percentage of GSDP ranges between 3.11 percent to 8.78 percent during the period.

The state witnessed a huge fiscal deficit during 2006-16, which grows from Rs. 670.28 crore to Rs. 3139.42 crores, with an average of Rs 1564.34 crore. Fiscal deficit as a percentage of GSDP varies from 5.04 percent to 26.51 percent during the same period. Primary deficit increased from Rs. 390.59 crore to Rs. 2552.97 crores during the period, with an average annual primary deficit of Rs. 1151.88 crore. Primary deficit as a percentage of GSDP fluctuates between 0.78% to 22.29% during 2006-16.

Fiscal Responsibility and Budget Management Act, 2005

The Nagaland Fiscal Responsibility and Budget Management Act, 2005 was passed on 11 August 2005, with an objective to provide responsibility to the State Government to ensure prudence in fiscal management and fiscal stability by achieving revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith. The implementation of FRBM has shown that;

- i) The revenue surplus as a percentage to GSDP remained positive for the whole period (2007-16) as targeted in the FRBM act 2005. The revenue surplus was 5.69% of the GSDP in 2007-08 which rose to 8.78% of GSDP during 2010-11. However, it is declined to 3.11% during 2015-16.
- ii) The fiscal deficit was above 10% of the GSDP during the entire period except during 20010-11 and 2011-12, where the percentage to GSDP was -5.04% and -8.92% respectively. Thus, the state could not maintain the fiscal deficit below 3% of GSDP as targeted during any of its mid-term fiscal plan (MTFP).
- iii) Like Fiscal deficit, the primary deficit as a percentage to GSDP was above 10% for all the years except for 2000-09, 2010-11, 2011-12, and 2013-14.
- iv) Total salary and wages as a percentage to total revenue (net of pension and interest payment) remained below 61% of the target for most of the mid-term fiscal plan except for 20013-15 where the expenditure exceeds 61% of the total revenue (69.09% and 62.55% respectively).
- v) As targeted in the FRBM 2005, the total debt stock of the state did not increase beyond 40% during the whole period.

Public Debt

The stock of Public Debt (cumulative/compounded balance at the end of the year) has increased from Rs. 2922 crore to Rs. 6736 crores, indicating a percentage increase of 13.05% per annum during 2006-07 to 2015-16. The Public Account has also increased from Rs.635 crore to Rs.2195 crore, with an annual rise of 24.57 per cent. Accordingly, the state's total liabilities have increased from Rs. 3557 crores to Rs. 8931 crores, showing an annual increase of 15.11 per cent during the same period.

Total value of public debt, public account and total liabilities of the state government and as percentages of GSDP have increased during the period under consideration, that the state could not reduce the debt burden as recommended but rather increased during the observed period. The public debt as percentage of GSDP has increased from 25 per cent to 37 per cent in 2010-11, subsequently declined to 33 percent in 2015-16, which is higher than the 25% limit as set by the 13th Finance commission. The percentage share of public account has increased from 5 percent in 2006-07 to 14 percent in 2011-12 but decline to 11 percent during 2015-16. Similarly, the percentage of total liabilities has moved up from 30 per cent to 50 per cent thereafter decline to 44 per cent.

The *annual accumulation* to public debt in Nagaland in absolute term has fluctuated during the period (2006-07 to 2015-16), which was increased from Rs. 722.2 crore to Rs. 3065.19 crores with a compounded annual growth rate 17.25%. The total public debt and other obligations of the state has gone up from Rs.950.61 crores to Rs.3608.71, with an increase of 17.34% per annum. Public Debt as percentage of GSDP was increased from 10.41 per cent to 20.64 per cent in 2015-16. Total Liabilities as percentage of GSDP has increase from 13.7 per cent in 2006-07 to 31.68 percent in 2015-16. Since 2014-15, the proportions of yearly accumulation to total public debt as percentage of GSDP are little below the 25% target set by the 13th and 14th Finance Commission for all the States in aggregate.

Following the recommendation of twelfth finance commission, the central government disintermediated state governments borrowings from 2005-06 onwards, resulting in sharp decline in the inflows of loans from the centre in the subsequent years. The share of internal debt as a percentage of total Liabilities was declined from 75.84 per cent in 2006-07 to 75.36 per cent in 2015-16. *This implies that the state government is increasingly relying on the internal debt to*

raise funds for functioning of the government. The share of Central government loans in total PDOL has been insignificant. Further, it is observed that the percentage share of Small Savings and Provident Funds (SSPF) has decline from 10.02 per cent in 2006-07 to 5.94 per cent in 2015-16, and Other Obligations in total PDOL has also fluctuated, which rose from 14.01 per cent in 2006-07 to 18.7 per cent in 2015-16.

Among the sources of internal debts, Market loans was the major constituent of total internal debt until 2010-11 with 76.69% but was declined to 31% in 2015-16. On the other hand, the share of Ways and Means Advances (WMA) from Reserve Bank of India became the most important component, which began to rise from 0.00 per cent in 2010-11 to 65.34 per cent in 2015-16. The shares of bonds, loans from financial institutions and Special Securities issued to National Small Saving Funds were all declined and continued insignificant. Amongst the Financial Institutions, NABARD is consistently the most important source.

Use of Debt:

The capital expenditure as percentage of public debt has declined, it appears that the fresh borrowings are used for meeting the revenue expenditure and debt repayments rather than capital asset formation. It infers that repayment of these borrowings will not be able to meet out of the fund generated from assets in future.

Stabilisation of Debt

The Debt-GSDP ratio has increased over the years due to increase in debt. The state no doubt witnessed an increase in GSDP from Rs. 6937.85 crore to Rs.14851.1 crore, but the increase in debt was higher during the same period. The compound annual growth rate of GSDP during 2006-07 to 2015-16 was 7.91 per cent while the compound annual growth of debt was 17.34 per cent. The rate of spread between GSDP and effective interest rate has also not helped much in reducing the Debt-GSDP ratio over the years.

Primary Deficit as percentage to GSDP

The state witnessed an increasing trend in primary deficit over the period from Rs 390.59 crore to Rs 2552.97 crore during study period and the compound annual growth rate was 20.65 %. The debt stabilisation index for most of the years is negative which indicates that it has worsened the debt-GSDP ratio.

Fiscal Liabilities

The reduction in outstanding debt could not be achieved in Nagaland although several measures have been adopted, like write off of central loan, creation of sinking fund etc. Fiscal liabilities of the State comprise of Consolidated Fund liabilities and Public Account liabilities. The overall fiscal liabilities of the State have increased from Rs.2922 crore in 2006-07 to Rs.8931 crore in 2015-16. The compound annual growth rate was registered 6.93 per cent. The buoyancy of Fiscal liabilities with reference to Revenue Receipt during the year was 2.40. The ratio of Fiscal liabilities to GSDP had increased from 43.19 per cent in 2014-15 to 43.52 per cent in 2015-16. These Fiscal liabilities stood at nearly 1.11 times the Revenue Receipts and 20.86 times of the State's Own Tax Revenue at the end of 2015-16. The Fiscal liabilities to GSDP (43.52 per cent) was 8.45 *per cent* more than the assessment made by the State Government in its Medium-Term Fiscal Policy Statement MTFPS.

Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantees had been extended. As per NFRBM Act 2005, the State Government set up a guarantee redemption fund in 2006-07 and decided to charge guarantee fee at the rate of 1 per cent of GSDP to cover the risk in the guarantees. During the year 2008-09 there was a balance of *rupees two crore* in the guarantee redemption fund investment account. Guarantee for Rs.7.24 crore has been given to four Government Companies up to 31 March 2009 but no information has been received from the Government regarding outstanding number of guarantees. Similarly, in the year 2011-12, the State had given guarantee of Rs.10 crore but no guarantee fee was received. The outstanding guarantees remained the same since last four years. The outstanding guarantees of Rs.70.22 crore mainly pertained to Nagaland Industrial Development Corporation about 48.29 per cent (Rs.33.91 crore) for repayment of principal and payment of interest on loan obtained. The outstanding guarantees were 0.87 per cent of the Revenue Receipts of the Government and the amount of guarantee as percentage of GSDP was 0.34 during the year 2015-16.

Fiscal Decentralization

In Nagaland, VDB is the grass root institution for rural development since its inception in 1980. The VDBs are under Village Council assuming an increasing role in the recent past years, implementing a number of centrally sponsored schemes, for which substantial tied funds are

transferred to fulfilled these functions. In addition, the Village Council are managing the supply of basic services like electricity, water, health and education, environmental conservation, natural resources etc. under **Nagaland Communitisation of Public Institution and Services Act 2002**, which has empowered the community. Urban Local Bodies (3 Municipal Councils viz. Dimapur, Kohima and Mokokchung and 29 Town Councils.

Transfer of fund to local bodies:

The 14th FC recommended grant for ULBs in Nagaland during 2016-2020 is Rs.101.98 crore of basic grant and Rs.25.04 crores of performance grant (a grand total of Rs.127.02 crores). For Nagaland, the percentage share in all India total was increased from 0.09% in 11th FC to 0.33% in 13th FC, thereafter, in 14th FC it declined to 0.15%.

Of the total funds transferred in the form of Grant-in Aid, the share of **ULBs** has been quite marginal, which in absolute terms was increased from Rs.1.15 in 2008 to Rs. 6.34 crores in 2015 thereafter declined to Rs.1.62 crore in 2016. The percentage share has been equally low that ranges from 1.56 % in 2008 to 3.15 % in 2014, then started to decline. The share of **panchayat raj** in total Grant-in -Aid has declined in recent years from 21.69% in 2008-09 to 2.64% in 2015, thereafter it become zero in 2016. According to 14th FC, no grant (performance grant and basic grant) has been recommended for Rural Local Bodies for Nagaland, Mizoram and Meghalaya.

Moreover, the total expenditure under centrally sponsored **urban development schemes** have declined by more than 54%. Furthermore, its percentage share in total receipt in revenue account was reduces from 1% to 0.43%. The total expenditure under centrally sponsored **rural development schemes** have also declined by more than 5% and its percentage share in total receipt in revenue account was reduces from 5% to 4.5%.

Suggestion to Strengthen local bodies:

- (i) For more effective functioning of VDBs and ULBs, significantly increasing volume of fund be transferred to the Rural and Urban Local Bodies, followed by transparency and accountability of local bodies to the population, encourage NGO participation etc. Proper dissemination of information to the public about the details of the benefits of schemes.
- (ii) Explore potentials to broaden the tax base and non-tax revenue generation activities for resource mobilization and suitable user charges for various services provided.

- (iii) Proper monitoring of implementation of schemes and consolidation of accounts of the Local Bodies at the state level, district and block levels ed given importance. For that matter, accounting framework suggested in the National Municipal Account Manual be followed.
- (iv) Further, strengthen the local body framework through capacity building measures for grass root level workers, and staffing for maintaining accounts and data base.

Power Sector

The Government of Nagaland have initiated the Communitisation programme in the power sector during 2002-2003 implementing the Single Point Metering (SPM) system for billing and collection of revenue, under the Nagaland Communitisation Act of Public Institutions and Services Act, 2002. The main objective of the programme is to improve the delivery of public utility systems by decentralization & delegation of responsibilities, community empowerment. The revenue collection has been improving during the recent past years.

The State is power-starved despite having substantial Hydro Potential and depends on the Central public sector units (CPSUs). As per Census 2011 data, there were about 4.00 lakhs households in the state, 75.09% in rural and 97.40 % in urban area were electrified. The State has a very small electricity generation capacity with the total installed capacity of generation being 27.5 MW which is just 3.83 percentage of total consumption of about 717.96 MW as on 2016. Thus, nearly 97% being met by purchasing from the Central PSUs. The Data indicate that the power purchase from CPSUs has been increasing enormously being 345.82 MU in 2006-07 to 717.96 MU in 2015-16 at compound annual growth rate of 6.73 per cent.

The per capita consumption is lower in Nagaland than other states as well as national average. The compound annual growth rate for the number of consumers during the study period is about 5.54 per cent. The consumption of power among the category, domestic consumers accounted for a major share (58.03 percent) in the total energy billed during the 2014-15 followed by bulk and commercial consumption (15.5 percent and 13 percent) respectively in total energy billed. The consumption of energy for domestic sector has grown at 6.36 per cent, for commercial, bulk and industrial consumers has registered high growth rate of 13.42, 12.35 and 7.35 per cent respectively during the same period.

Transmission and distribution system of Nagaland is being served by The Department of Power Nagaland (DOPN). As on 2015, the Department is serving about 2.55 lakhs of electricity consumers. For distribution of power in Nagaland there are 105 Nos. of Power Sub-Stations consisting of 66/11kV & 33/11kV), 3937 Nos. of Distribution Transformers, 3,391.10 ctkms of low-tension lines, 3,808.10 ctkms of 11 kV lines and 1,497.20 ctkms of 33 kV lines in the State. There are many initiations taken up by government of India to improve the transmission and distribution system in Nagaland. Transmission and distribution loss are reduced during the observed period from 54.79% to 26.72 2006-07 to 2015-06. The expected power demand of Nagaland by 2018-19 would be in the order of 265.00 MW with annual energy consumption of 1169.72 MU and to meet this growing demand, a robust and reliable transmission network needs to be strengthened.

Problems and challenges for developing this sector is enormous. (i) The short-term plans prepared by the Department for development of power infrastructure in the State were based solely on the anticipated availability of project funds under Centrally Sponsored Schemes and the grants/loans from North Eastern Council/Financial Institutions. (ii) Moreover, inconsistencies in maintenance of basic data on own generation and energy purchase, lack of transparency and nonexistence of a proper arrangement on Energy Audit, (iii) and also failure to maintain effective discipline in draws of energy as per the approved schedule resulting in avoidable payment of unscheduled interchange charges fetches rampant gap between expenditure and revenue in department of power.

For *strengthening Financial viability of the sector* in the State, (i) The project works should be awarded after conducting market survey to avoid extra financial payments. ii) The Department should devise effective mechanism to ensure efficient billing , collection of revenue, and accounting for conduct of periodic Energy Audit (iii) Financial measures including investment rollout plans and analysis to assess the financial impact from implementation of 24x7-PFA, (iv) The state should take initiate towards institutionalizing and strengthening the Power Purchase Planning and Procurement Cell on the procurement of power on cost effective basis, (v) Financial tie up with financial institutions regarding fresh proposals for transmission infrastructure should be looked into for effective implementation. (vi)An affirmative action plan is needed to reduce the peak demand and energy demand by effective implementation through

demand side management (DSM) (vii, Efficient plan design to procure cheaper power under case-I route from the market to meet the demand and proper negotiation with Ministry of power, Government of India for more allocation from Central Sector Projects to Nagaland for meeting the power demand of the State. (viii) To achieve the target, expansion and augmentation of Transmission facility need to be done with sustainability. Due thrust may be given for proper implementation of ESPPF (Environmental & Social policy and Procedures Framework), which has been designed to identify, address and mitigate any adverse environmental & social issues during project implementation (ix) The ongoing scheme needs to be implemented as per proposed plan for ensuring 24x7 power supply in State. Financial tie up for approved infrastructure shall be undertaken timely with the funding agencies, (x) The proposed transmission system up to FY 2018-19 needs to be implemented as per schedule for ensuring 24x7 power supply in the State (xi) The State government shall expedite all necessary help (i.e. Right of Way clearance, Forest clearance if any, land acquisition etc) to STU for installation of new substation and associated transmission lines to provide 24x7 power to all in Nagaland .

Power being a critical infrastructural input plays an important role in the development of a region. The idea behind the introduction of reforms in this sector was to reduce the debt burden which the state governments had to face when the state electricity boards were running into losses. Thus, power sector reforms require a holistic treatment wherein the needs of the present as well as future are kept in mind, and where the other sectors too need a fillip so that the power sector flourishes in physical as well as in financial terms.

Public Sector Undertakings

The state PSUs had been established with the basic objective of promoting economic growth and enhancing social welfare. The PSUs occupy insignificant place in state economy.

As on 31st March, 2016 in Nagaland, there were six State PSUs (all Government companies). One PSU i.e. Nagaland Sugar Mills Company Limited with an investment of 5.89 crore has not been working for the last 16 years. Of these, no Company was listed on the stock exchange. The turnover from five working PSUs has increased from Rs.1.89 crores in 2006-07 to Rs.6.23 crores in 2015-16, with the compound annual growth rate of 12.67 per cent, which is higher than the growth rate attained in State Gross Domestic product. However, the percentage share of 5 working PSUs turnover in GDP is almost constant over the period. The working

SPSUs incurred aggregate loss of 49.28 crore as per their latest finalised accounts. They employed 576 employees at the end of March 2016.

The key parameters of condition of PSU are, (i) the debt-turnover ratio of SPSUs had increased due to increase in the long-term borrowings of SPSUs, (ii) the debt position on working State Public Sector undertaking over the period was increased from Rs.35.35 crore in 2006-07 to Rs. 70.12 crore during 2015-16 and registered 6.79 per cent of compound annual growth rate, (iii) the turnover in SPSUs was increased from Rs.1.89 crore to Rs.6.23 crore during the same period registered about 12.67 per cent of compound annual growth rate, (iv) it clearly indicates that the accumulated losses were also increased over the period from 26.96 crores to 49.28 registered at 6.22 per cent of CGR. That overall losses incurred by the working SPSUs had increased from 1.63 per cent to 4.50 per cent in 2015-16.

Investment in State SPSUs

The total investment during 2006-07 was Rs. 64.7 crore (both capital and long-term loans) in Six SPSUs and it has increased to Rs.111.96 crore in 2015-16. About 91.89 per cent (Rs.102.88 crore) was in working SPSUs and the remaining 8.11 per cent (Rs.9.08crore) in non-working SPSUs. This total investment consisted of 37.37 per cent towards capital and 62.63 per cent in long-term loans. The investment has grown by about 89.93 per cent over the period from Rs.64.7 crore to 111.96 crore. The year-wise budgetary outgo of the State Government towards equity, loans and grants/subsidies increased from Rs.5.79 crore in 2006-07 to Rs. 2126.61 crore in 2011-12 but in 2015-16 the budgetary support provided to SPSUs had declined to 21.89 crore.

The losses of PSUs are generally attributable to deficiencies in management, planning, running their operations and monitoring. Thus, steps are needed to be taken for better management, operation and monitoring of the activities of the working State PSUs to arrest the gradual deterioration of their financial results (CAG report,2016).

- ✓ *The Government need to take an effective measure for early clearance of backlog account arrears and make the accounts up to date.*
- ✓ *The accounts of non-working PSU in the State should be withdrawn and Government needs to expedite closing down these companies to reduce the burden of maintenance.*
- ✓ *The administrative department prerequisite the accountability to direct the activities for strengthen the working PSUs in the State.*
- ✓ *The Government should come forward to set up a monitoring/ regulatory cell to the clearance of arrears and set the targets for individual companies.*
- ✓ *The Government need to take an action plan for outsourcing the work relating to preparation wherever the staff is inadequate or lacks expertise.*

ROAD MAP FOR 2020-2025

REDUCE FISCAL DEFICIT & DEBT AND INCREASE REVENUE

The state should have suitable road maps to bring down fiscal deficit and high burden of debt position. At present the state financial position looks grim with burdens of fiscal deficit, public debt and liabilities. On the other hand, own revenue (tax and non-tax revenue) is too meager that central grants and shared tax constituted nearly 92% of total revenue leading to high dependence ratio. The expenditure is dominated by revenue expenditure with reduce capital expenditure. The PSUs incur losses, moreover the State's revenue base is weak dominated by agriculture, which still follows traditional practices. Thus, the government should focus on how to:

- (i) reduce fiscal deficit to 3% of the GSDP by 2025 and continue there as recommended by the 14th finance commission, and in adherence to FRBM Act, 2005
- (ii) reduced primary deficit to 3% of GSDP by 2025 from the current level of 17.19% in 2015-16. Because a decline in primary deficit is a positive sign as it shows reduced usage of borrowed funds to pay for existing liabilities. As at current period it does not indicate any signs for its reduction in the state, with mounding debt and obligations which will further the adverse impact on the state's fiscal health.
- (iii) increase revenue by increasing gross tax revenue and non-tax revenue as percentage of GSDP, at least to a reasonable minimum of 15 per cent by 2025, from the current 2.88% and 1.73% in 2015-16, respectively. This will require investment on economic infrastructure, services and capacity building measures to enhance economic activities.
- (iv) to increase gross tax revenue as a percentage of GSDP needs broadening tax base and placing of effective monitoring mechanism to ensure GST compliance to reach the budget goals.
- (v) In that way, reduce the debt stock as percentage of GSDP to a sustainable level by 2025, from 33% in 2015-16.
- (vi) reduce total Liabilities as percentage of GSDP and maintain at a rate lower than 25% by 2025, from 44% in 2015-16.
- (vii) interest payment as percentage to revenue receipt be kept at a reasonable lower limit.

Further, following measures are suggested

1. The analysis shows that the percentage share of own tax and own non-tax revenue revolves around 7 to 8 per cent during the whole period while the percentage share of central assistance was always above 75 percent for the whole period. Thus, it is suggested that the state give more importance in generating its own resources through mobilizing own tax revenue and own non-tax revenue.
2. There is an increasing allocation of expenditure on general services and a decreasing allocation on social and economic services. Thus, there is a need to increase allocation of expenditure on social and economic services as this will bring a long-term growth in the State's economy and higher human development.
3. To increase the non-tax revenue, strengthen the local bodies for effective recovery of the cost for providing basic services and infrastructure within their jurisdictions.
4. The recovery cost from various services needs to be rationalized as their recovery rate are below average for the entire period. The recovery rate of health, water supply, industries and roads etc. need to be given a big push since it has been continuously decreasing over the years. The same in power sector also to be encourage so as to maintain stability. The increase in recovery rate in all the public services is needed because it will lead to progressive reduction of implicit subsidies, and push the growth of the economy through increased its non-tax revenue.
5. The expenditure on committed heads like salaries and wages need to re-examine as more than 65% of the state expenditure is made on this head.
6. Further, steps should be taken to increase capital expenditure through proper planning and coordination of various State's machineries and public participation in the process. Especially basic infrastructure development is urgently required. So, these will result in further economic progress in future.
7. Broadening of the tax base and effective monitoring mechanism within the system is required to ensure GST compliance so as to reach the budget revenue goals.
8. State Government may seek assistance for development from GoI, the World Bank, ADB and others, as a part of the fund will come in grant which would help reducing the interest payment.

Nagaland, with poor financial health which deteriorates on yearly basis, the GoN heavily depends on GoI for grants and shared taxes. So, the Finance Commission may consider the following as priority in its budget recommendation for the state, so the road map set here may be achieved and ushered in economic progress and recover its fiscal health from the current crises.

1. Infrastructure development

a. Roads and Connectivity:

- i. Rural and urban roads construction and maintenances in the state.
- ii. Roads connecting neighboring states and country (Myanmar) to promote trade.

b. Extension of rail connectivity in all the feasible areas within the state.

c. Airport at Kohima (state capital city) and Mokokchung (proximity to central university)

2. Power Supply:

a) develop all the potential area of hydro electricity

b) develop sources of renewable energy – solar

3. Institutions and services for Human Development

- a) Medical college, science and technology, management, and skill development centers
- b) Upgrade medical facilities in the existing health institutions
- c) Provision for safe drinking water supply and waste management, disaster management in both rural and urban areas
- d) Capacity building measures for employees

4. Strengthen the Village Councils & VDBs and ULBs for effective management of resources and dissemination of developmental programmes

5. Youth Empowerment and Entrepreneurship development

6. Environment and forest conservation

7. Subsidies for boosting economic activities in rural area, focus on modernisation of agriculture and horticultural practices.

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