

Chapter I

Finances of the State Government

Profile of Nagaland

Nagaland is a Special Category State and is situated in the North-Eastern region of India bordering three States viz. Assam in North and West, Arunachal Pradesh in East and Manipur in the South. It has an international border with Myanmar in the East and runs parallel to the bank of Brahmaputra. With a geographical area of 16579 sq. kms i.e. about 0.51 *per cent* of country's total geographical area, Nagaland provides shelter to 0.19 *per cent* population of the Country. Nagaland has a lower density of population, higher proportion of rural population, higher literacy rate and lower infant mortality rate as compared to the All India Average figures (**Appendix 1.1 D**). The population growth of NE States in 2009-10 over 2000-01 stood at 11.79 *per cent* while Nagaland's population grew at 10.50 *per cent* during the same period. The compound annual growth rate of GSDP in respect of Nagaland for the period 2000-01 to 2008-09 at 10.68 *per cent* was marginally lower than the NE States average of 11.52 *per cent*.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix 1.1 A**). The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Financial Accounts of the Government of Nagaland are laid out in nineteen statements, the layout of which are depicted in (**Appendix 1.1 B**). The definitions of the selected terms used in assessing the trends and pattern of fiscal aggregates are shown in **Appendix 1.1 C**.

The State Government developed its Own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates of implementation during the period from 2005-06 to 2009-10 (**Appendix 1.2 A**). Keeping in view the fiscal targets laid down in the Nagaland Fiscal Responsibility and Budget Management Act, 2005 (NFRBM) and the rules made there under and the anticipated annual rate of reduction of fiscal deficit of the State worked out by the Government of India (GOI) for the Twelfth Finance Commission (TFC) award period.

This chapter provides a broad perspective of the finances of the Government of Nagaland during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. **Appendix 1.1 C** of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and **Appendix 1.3** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2005-10.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2009-10) vis-à-vis the previous year while Appendix 1.4 A provides details of receipts and disbursements as well as overall fiscal position during the same period.

Table 1.1 Summary of Current Year's Fiscal Operations

(Rupees in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-A: Revenue					Non Plan	Plan	Total
3400.89	Revenue receipts	3719.76	2889.54	Revenue expenditure	2663.89	588.55	3252.44
156.02	Tax revenue	180.51	1348.84	General services	1573.64	10.34	1583.98
180.55	Non-tax revenue	126.35	696.76	Social services	571.37	202.23	773.60
421.84	Share of Union Taxes/ Duties	434.03	843.94	Economic services	518.88	375.98	894.86
2642.48	Grants from Government of India	2978.87	...	Grants-in-aid and Contributions	0.00	0.00	0.00
Section-B: Capital							
...	Misc. Capital Receipts	0.00	853.09	Capital Outlay	12.90	976.63	989.53
2.57	Recoveries of Loans and Advances	4.20	1.46	Loans and Advances disbursed	0.19	3.36	3.55
651.54	Public Debt receipts*	805.25	205.38	Repayment of Public Debt*			274.60
...	Contingency Fund	0.00	...	Contingency Fund			0.00
1841.41	Public Account receipts	2373.46	1717.75	Public Account disbursements			2374.50
(-)134.69	Opening Cash Balance	94.50	94.50	Closing Cash Balance	...	...	102.55
5761.72	Total	6997.17	5761.72	Total			6997.17

* Excluding net transactions under ways and means advances and overdraft.

The following are the significant changes during 2009-10 over the previous year:

- Revenue receipts increased by ₹ 318.87 crore (9.38 per cent) from ₹ 3400.89 crore in 2008-09 to ₹ 3719.76 crore in 2009-10 mainly due to increase in grants from Government of India (GOI) (₹ 336.39 crore), State's Own Tax revenue (₹ 24.49 crore) and State's share of Union taxes and duties (₹ 12.19 crore). The revenue receipts at ₹ 3719.76 crore was however, higher than the assessment made by the State Government in its fiscal Correction Path (FCP) for the year 2009-10 by ₹ 517.99 crore.
- Revenue expenditure of the State, on the other hand increased by ₹ 362.90 crore (12.56 per cent) from ₹ 2889.54 crore in 2008-09 to ₹ 3252.44 crore in 2009-10, mainly under the head Administrative services (₹ 123.95 crore), Interest payment and Servicing of Debt (₹ 50.18 crore), Pension and Miscellaneous General Services (₹ 50.79 crore), Education, Sports and Art & Culture (₹ 64.94 crore) and Agriculture and Allied Activities (₹ 58.66 crore). The revenue expenditure exceeded the assessment made by the State Government in its FCP for the year 2009-10 by ₹ 579.05 crore.

- Capital Expenditure increased by ₹ 136.44 crore (15.99 per cent) from ₹ 853.09 crore in 2008-09 to ₹ 989.53 crore in 2009-10, mainly under the head Transport (₹ 152.28 crore) offset by decrease in Energy (₹ 37.53 crore).
- Recoveries of Loans and Advances increased by ₹ 1.63 crore and disbursement also increased by ₹ 2.09 crore in 2009-10 over the previous year.
- Public debt receipts¹ increased by ₹ 153.71 crore and repayment increased by ₹ 69.22 crore during 2009-10 over the previous year.
- Public Account Receipts increased by ₹ 532.05 crore and disbursement increased by ₹ 656.75 crore during 2009-10 over the previous year.

The flow of funds under various major heads mentioned above, resulted in improvement in the cash balance position of the State, as the balance increased from ₹ 94.50 crore at the beginning of 2009-10 to ₹ 102.55 crore at the close of the year.

1.2 Nagaland Fiscal Responsibility and Budget Management Act, 2005 and Twelfth Finance Commission Recommendations

With the enactment of a Fiscal Responsibility and Budget Management Act (FRBM) Act, 2005 at the centre, Twelfth Finance Commission (TFC) recommended that each State must enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminate the revenue deficit by 2008-09 and reducing fiscal deficit based on a path for reduction of borrowings and guarantees. The targets prescribed in NFRBM Act and projections made by State Government in its Medium Term Fiscal Policy Statement vis-à-vis achievements during the year 2009-10 is detailed in the table below:

Table 1.2: Trends in major Fiscal Variables vis-à-vis Projections for 2009-10

Fiscal Parameters	Targets as prescribed in NFRBM Act.	Projections made by State Government in MTFPS*	Actual
Revenue deficit	Strive to remain revenue surplus by building up further surplus	No revenue deficit	Revenue surplus - 12.56 per cent of RR
Fiscal deficit	3 per cent of GSDP	6.46 per cent of GSDP	6.15 per cent of GSDP
Consolidated debt	40 per cent of GSDP	53.87 per cent of GSDP	63.74 per cent of GSDP
Incremental risk Guarantee	1 per cent of GSDP	No projection made	0.13 per cent of GSDP-

* Medium Term Fiscal Policy Statement.

It can be seen from the table above that the State Government was able to achieve two out of the four targets set in NFRBM Act but could not achieve the Fiscal deficit target of 3 per cent of GSDP (actual being 6.15 per cent of GSDP) and Consolidated debt of 40 per cent of GSDP (actual being 63.74 per cent of GSDP). Besides, the State Government

¹ Public Debt Receipts includes market loans, special securities issued by RBI and loans and advances from GOI.

could also not achieve the projections made in the MTFPS in respect of consolidated debt of 53.87 per cent of GSDP.

1.2.1 The Twelfth Finance Commission Recommendations

The Twelfth Finance Commission has recommended growth of Tax and Non-Tax Revenue during 2005-10. The targets fixed by TFC vis-à-vis the actual are given below:

Table 1.3: TFC recommendations vis-à-vis the actual

(Rupees in crore)

Year	TFC recommendations			Actual		
	Tax revenue	Non-Tax revenue	Total	Tax revenue	Non-Tax revenue	Total
2005-06	158.06	35.78	193.84	105.53	96.82	202.35
2006-07	177.19	42.01	219.19	119.02	91.14	210.16
2007-08	198.63	49.24	247.87	131.37	119.48	250.85
2008-09	222.66	57.69	280.35	156.02	180.55	336.57
2009-10	249.60	67.61	317.22	180.51	126.35	306.86

Source: Twelfth Finance Commission Report and Finance Account

Though the State achieved the total revenue collection targets fixed by the TFC during 2005-06 to 2008-09, it could not achieve the target in 2009-10. Besides, the own tax revenue of the State fell short of the TFC recommendations in all the years from 2005-06 to 2009-10 whereas the non-tax revenue was always much higher than the TFC recommendations mainly due to substantial receipts under power sector.

The tax and non-tax revenue receipts vis-à-vis the normative assessment made by the Twelfth Finance Commission (TFC) and the assessment made by the State Government in 2009-10 were as under:

(Rupees in crore)

	Assessment by the TFC	Assessment by the State Government	Actual Receipts
Own Tax Revenue	249.60	155.89	180.51
Non-Tax Revenue	67.61	165.05	126.35

The Own Tax Revenue (OTR) of the State was more than the assessment made by the State Government but remained 27.68 per cent less than the assessment of TFC for 2009-10 whereas the Non-Tax Revenue receipts exceeded the assessment made by the TFC but was 23.45 per cent less than the assessment made by the State Government in 2009-10.

The Twelfth Finance Commission has also fixed the sector-wise target for non-plan revenue expenditure for the period 2005-10. The targets fixed by TFC vis-à-vis the actual are given below:

Table 1.4: TFC recommendation vis-à-vis actual

(Rupees in crore)

Year	TFC recommendation				Actual			
	General	Social	Economic	Total	General	Social	Economic	Total
2005-06	876.59	418.38	132.99	1427.96	931.74	391.91	314.03	1637.68
2006-07	939.13	453.17	139.87	1532.17	1009.17	419.26	340.03	1768.46
2007-08	1014.75	491.06	147.12	1652.93	1185.34	501.18	400.86	2087.38
2008-09	1086.79	532.37	154.72	1773.88	1337.94	534.41	473.54	2345.89
2009-10	1167.55	577.41	162.75	1907.71	1573.64	571.37	518.88	2663.89

Source: Twelfth Finance Commission Report and Finance Account

It can be seen from the above table that the State failed to contain its non-plan revenue expenditure to the levels recommended by the TFC during the entire period. During 2009-10, Non-plan revenue expenditure was 39.64 per cent (₹ 756.18 crore) more than the TFC recommendation. Nevertheless the State continued to remain revenue surplus during the entire period.

1.2.2 Debt waiver under Debt Consolidation and Relief facilities

The Twelfth Finance Commission has framed a scheme of debt relief of Central loans named debt Consolidation and Relief Facility based on fiscal performance of the State linked to the reduction of deficits of the States. Under the scheme, the repayments due on Central loans from 2005-06 to 2009-10, after consolidation and reschedulement of loans, will be eligible for write off. The amount sanctioned by GOI as debt relief each year will be adjusted by showing repayment of Central loans and crediting the amount to the head of account '0075 Miscellaneous receipts'. The states will be eligible for the benefit subject to fulfilment of certain conditions, viz. Legislating FRBM Act, gradual abolition of revenue deficit by 2008-09, bringing annual reduction targets for fiscal deficit, bringing out the Annual Fiscal Policy Statement etc. As assessed by the TFC, in the case of Nagaland, the amount of repayment due for the period 2005-10 after consolidation and reschedulement was ₹ 80.15 crore. The ratio of total repayment to average revenue deficit (2001-02 to 2003-04) is 1.47 by which repayments will be written off for every rupee reduction in revenue deficit. Thus, the annual repayment due was ₹ 16.03 crore. During the period 2005-10, GOI sanctioned ₹ 35.42 crore as debt relief for Government of Nagaland, as detailed below.

Table 1.5: Debt Relief due and received during the period 2005-10

(Rupees in crore)

Year	Debt relief due as per TFC recommendations	Debt relief sanctioned by the Central Government
2005-06	16.03	0.00
2006-07	16.03	3.68
2007-08	16.03	15.87
2008-09	16.03	15.87
2009-10	16.03	0.00
Total	80.15	35.42

Thus, due to non-fulfilment of the conditionality's for receiving the debt relief, the State Government failed to receive an amount of ₹ 44.73 crore as debt relief during the period 2005-10.

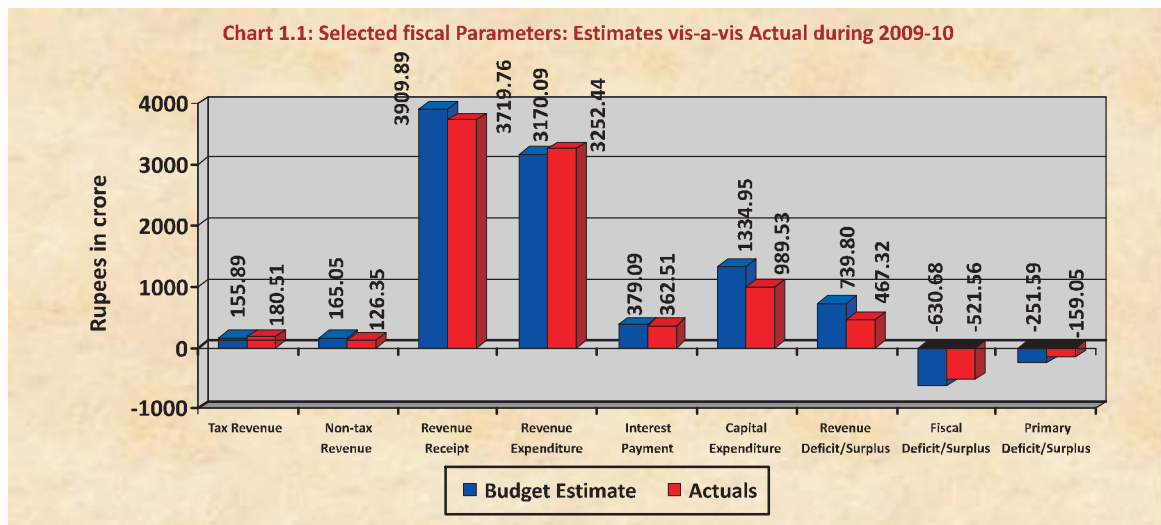
1.3 Budget Analysis

The budget papers presented by State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Several reasons may account for the deviation of the actual realization/expenditure from the budget estimates. It may be because of unanticipated and unforeseen events or under or over estimation of expenditure or revenue at the budget stage etc. Actual realization of revenue and its disbursement however, depends on a variety of factors, some internal and others external. **Table 1.6** presents the consolidated picture of State Finances during 2008-09 Actual, 2009-10 Budget Estimates (BEs), 2009-10 Revised Estimates (REs) and 2009-10 Actual.

Table1.6: Variation in Actual Fiscal parameters over estimates

(Rupees in crore)

Parameters	2008-09	2009-10		
	Actual	Budget Estimates	Revised Estimates	Actual
Tax Revenue	156.02	155.89	156.40	180.51
Non-Tax Revenue	180.55	165.05	140.55	126.35
Revenue Receipt	3400.89	3909.89	3953.34	3719.76
Non-debt Capital Receipt	2.57	4.63	4.63	4.20
Revenue Expenditure	2889.54	3170.09	3534.44	3252.44
Interest Payment	313.99	379.09	372.41	362.51
Capital Expenditure	853.09	1334.95	1329.94	989.53
Disbursement of Loans & Advances	1.46	40.15	24.50	3.55
Revenue Deficit/Surplus	511.35	739.80	418.90	467.32
Fiscal deficit/Surplus	-340.63	-630.68	-930.91	-521.56
Primary Deficit/surplus	-26.64	-251.59	-558.50	-159.05



- During 2009-10, the actual revenue receipts fell short of the budget estimates by ₹ 190.13 crore (4.86 per cent) while actual revenue expenditure was higher by ₹ 82.35 crore (2.60 per cent) over budget estimates resulting in attaining a lower revenue surplus of ₹ 272.48 crore as compared to the projections in the budget estimates.
- During the current year the tax revenue of the State increased by 15.70 per cent (₹ 24.49 crore) over the previous year. The actual collection of tax revenue during the year also increased by 15.79 per cent (₹ 24.62 crore) over the budget estimate for the year mainly due to higher collection of Sales Tax (₹ 16.58 crore), Taxes on vehicle (₹ 2.73 crore) and Tax on goods and passengers (₹ 1.61 crore). The revenue from Sales Tax, Trade etc. contributed the major share of Tax Revenue (73.25 per cent) during the current year and it increased by 15.27 per cent over the previous year.
- The decrease in Non-Tax Revenue (₹ 38.70 crore) as compared to the budget estimates for 2009-10 was due to decrease in receipts mainly under Power (₹ 40.83 crore) offset by increase in interest receipt (₹ 3.52 crore).
- The increase in Revenue Expenditure (₹ 82.35 crore) by 2.60 per cent over the budget provision was due to increase in General service (₹ 171.59 crore) 12.15 per cent offset by decrease in Social Service (₹ 3.02 crore) 0.39 per cent and Economic Service (₹ 86.22 crore) 8.79 per cent.
- Capital Expenditure of the State grew by ₹ 136.44 crore (15.99 per cent) over the previous year. The decrease in Capital Expenditure of ₹ 345.42 crore (25.88 per cent) during the year over the budget provision was due to decrease in General

Service (₹ 241.39 crore) and Social Service (₹ 137.34 crore) offset by increase in Economic Service (₹ 33.30 crore).

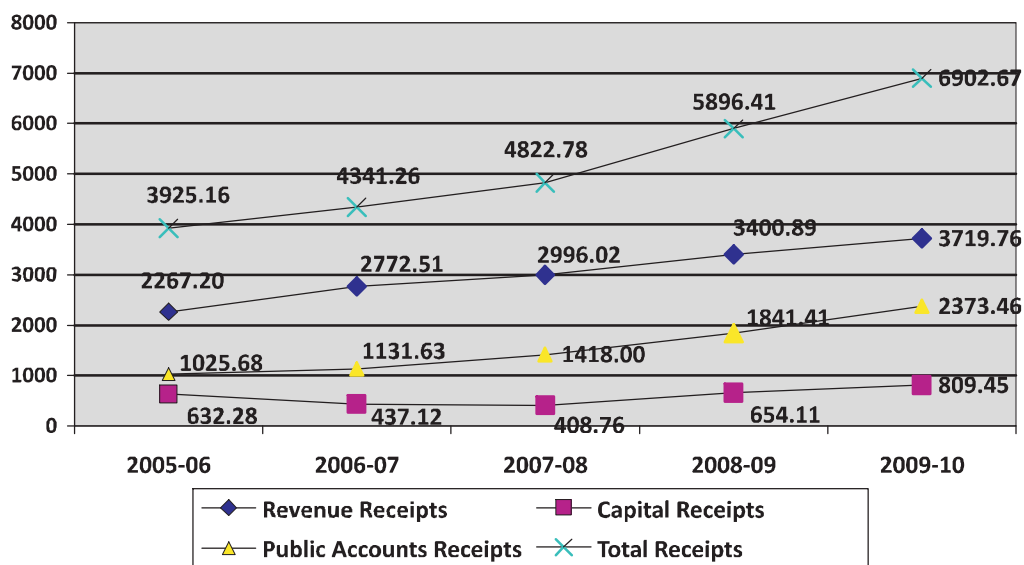
- Actual fiscal deficit fell short of assessment made in the budget estimates by ₹ 109.12 crore (17.30 *per cent*) mainly due to decrease in Capital Expenditure. The primary deficit also decreased by ₹ 92.54 crore as compared to the budget estimates for 2009-10.

1.4 Resources of the State

1.4.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenue, non-tax revenue, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the last two years as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2005-10. **Chart 1.3** depicts the composition of resources of the State during the current year.

Chart 1.2: Trends in Receipts



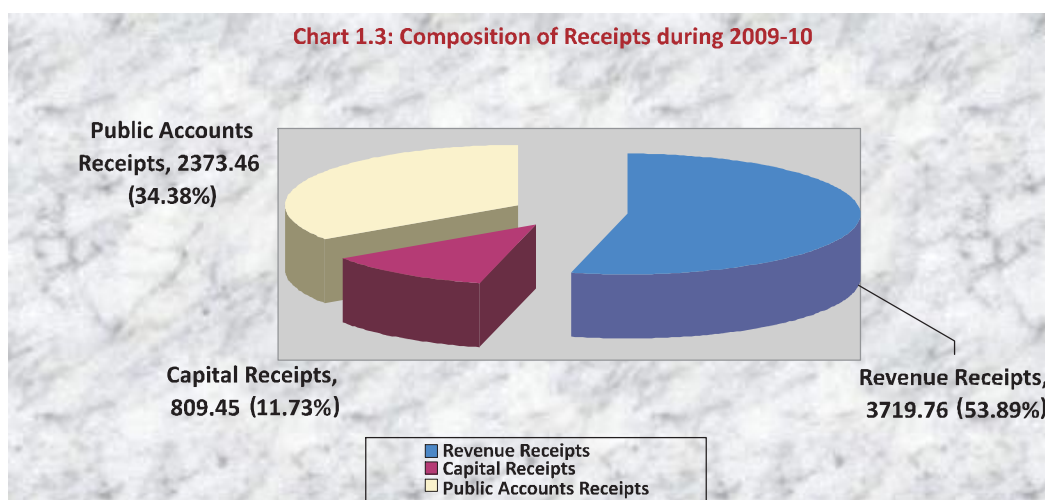


Chart 1.2: shows that the total receipts of the State Government for the year 2009-10 was ₹ 6902.67 crore out of which, the revenue receipts was ₹ 3719.76 crore constituting 53.89 *per cent* of the total receipts. The balance came from capital receipts and Public Account receipts.

The revenue receipts of the State increased from ₹ 2267.20 crore in 2005-06 to ₹ 3719.76 crore in 2009-10 at a compound annual growth rate of 13.18 *per cent*. The buoyancy of Revenue receipts w.r.t GSDP during the year was 0.76 *per cent*.

The capital receipts (including Public Account receipts) constituted 46.11 *per cent* of the total receipts of the State during the year 2009-10, an increase of 91.98 *per cent* from ₹ 1657.96 crore in 2005-06 to ₹ 3182.91 crore in 2009-10.

Public Account receipts increased by 28.89 *per cent* (₹ 532.05 crore) in 2009-10 over the previous year due to increase in Remittances (₹ 137.37 crore), Deposit and Advances (₹ 417.00 crore) and Provident Fund (₹ 5.01 crore) offset by decrease in Reserve Fund (₹ 2.26 crore) and Suspense and Miscellaneous (₹ 25.07 crore).

1.4.2 Funds Transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies² for the implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. To present a holistic

² State Implementing Agency includes any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA and State Health Mission for NRHM etc.

picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies is detailed in **Appendix 1.5**. An approximate amount of ₹ 957.33 crore has been directly transferred during the year. Significant amounts released for major programmes/schemes are presented in **Table 1.7**.

Table-1.7: Funds Transferred Directly to State Implementing Agencies

(Rupees in crore)

Name of the Programme/Scheme	Name of the Implementing Agency in the State	Total funds released by the GOI during 2009-10
National Rural Employment Guarantee Programme	Project Directors, DRDA, 11 Districts	562.95
Sarva Shiksha Abhiyan (SSA)	SSA State Mission Authority	67.54
Pradhan Mantri Gram Sadak Yojana	SGO	60.02
National Rural Health Mission (NRHM)	State Health Society	59.56
Rural Housing (Indira Awas Yojana)	Project Directors, DRDA, 11 Districts	39.94
Accelerated Rural Water supply Programme	DWSM	37.70
Central Rural Sanitation Programme	DWSM	10.59
National Aforestation Programme	FDA	10.07
National Bamboo Mission	NBMDA	9.65
National Aids Control	Nagaland State Aids Control Society	7.21
DRDA Administration	Project Director (DRDA)	6.65
Swarnjayanti Gram Swarozgar Yojana (SGSY)	Project Director (DRDA)	6.48
Promotion and Dissemination of art and Culture	ABIOGENSIS	5.97
Conservation of Natural Resources & Eco. System	PHE Department	5.81
MPs Local Area Development Scheme	Dy. Commissioner, Dimapur	5.00
Total		895.14

Source: 'Central Plan Scheme Monitoring System' portal in Controller General of Account's website

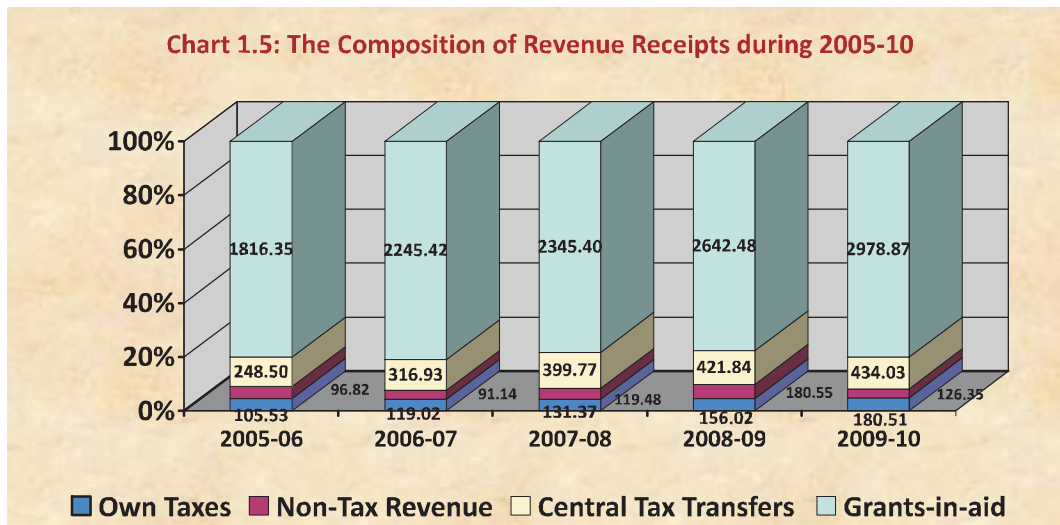
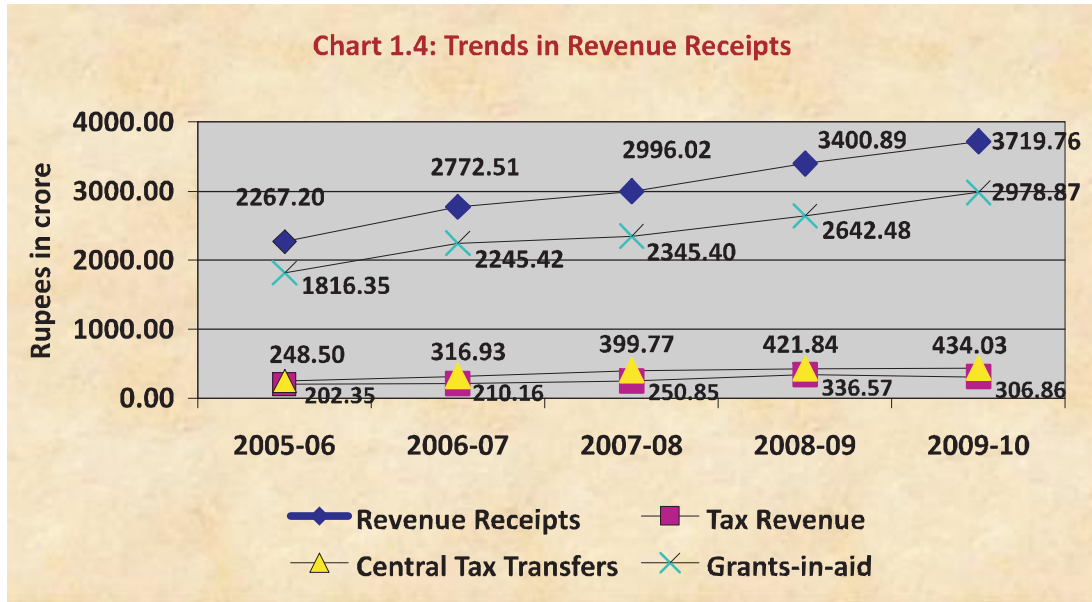
An amount of ₹ 957.33 crore was directly transferred by GOI to the State Implementing Agencies during 2009-10 an increase of ₹ 485.40 crore (102.85 per cent) from the previous year. Out of a total amount of ₹ 957.33 crore directly transferred to implementing agencies during the year, ₹ 750.07 crore (93.50 per cent) was transferred for four Central schemes viz., National Rural Employment Guarantee Programme ₹ 562.95 crores (58.80 per cent), Sarva Shiksha Abhiyan (SSA) ₹ 67.54 crore (7.06 per cent), Pradhan Mantri Gram Sadak Yojana ₹ 60.02 (6.27 per cent) and National Rural Health Mission ₹ 59.56 crores (6.22 per cent).

With the transfer of an approximate amount of ₹ 957.33 crore directly by GOI to the state Implementing Agencies, the total availability of State resources during 2009-10 had increased from ₹ 6902.67 crore to ₹ 7860.00 crore. There is no single agency monitoring the funds directly transferred by the GOI and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by the State Implementing Agencies

and funded directly by the GOI and therefore, utilization of these funds remain to be verified by Audit to establish accountability of the State Government for these funds.

1.5 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2005-10 are presented in **Appendix 1.3** and also depicted in **Charts 1.4** and **1.5** respectively.



The revenue receipts have shown a progressive increase over the period 2005-10 with marginal inter-year variations and changes in its composition i.e. the share of own taxes, non-tax revenue and Central transfers during the period 2005-10.

Tax Revenue receipt increased from ₹ 202.35 crore in 2005-06 to ₹ 306.86 crore in 2009-10 at a compound annual growth rate of 10.97 *per cent*.

The trends in revenue receipts relative to GSDP are presented in **Table 1.8** below:

Table 1.8: Trends in Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (Rupees in crore)	2267.20	2772.51	2996.02	3400.89	3719.76
Rate of growth of RR (<i>per cent</i>)	23.25	22.29	8.06	13.51	9.38
R R/GSDP (<i>per cent</i>)	35.57	39.85	41.79	45.03	43.90
Buoyancy Ratios³					
Revenue Buoyancy w.r.t GSDP	2.26	2.44	2.66	2.52	0.76
State's Own Tax Buoyancy w.r.t GSDP	3.37	1.40	3.43	3.50	1.29

The Revenue Receipts of the State increased from ₹ 2267.20 crore in 2005-06 to ₹ 3719.76 crore in 2009-10 at a compound annual growth rate of 13.18 *per cent*. While 8.25 *per cent* of the revenue receipts during 2009-10 have come from the State's Own Resources comprising taxes and non-taxes, Central Tax Transfers and Grants-in-aid together contributed 91.75 *per cent*. The share of State's Own Resources and the Central Transfers in Revenue receipts of the State exhibited relative stability during the last five years (2005-10).

Central tax transfers to the State increased by 2.89 *per cent* (₹ 12.19 crore) from ₹ 421.84 crore in 2008-09 to ₹ 434.03 crore in 2009-10. This was due to increase in Corporation Tax (₹ 40.46 crore), Tax on Income Other than Corporation Tax (₹ 12.58 crore), Tax on Wealth (₹ 0.29 crore) and Service Tax (₹ 0.22 crore) offset by decrease in Customs (₹ 13.16 crore) and Union Excise Duties (₹ 28.20 crore).

Grants-in-aid from Government of India have increased by 12.73 *per cent* (₹ 336.39 crore) from ₹ 2642.48 crore in 2008-09 to ₹ 2978.87 crore in 2009-10 contributing 80.08 *per cent* of the total Revenue Receipts during 2009-10. This increase was due to enhanced grants for non-plan grants (₹ 144.10 crore), Grants for State/Union Territory Plan Scheme (₹ 37.73 crore), Grants for Central Plan Scheme (₹ 109.54 crore), Centrally Sponsored Plan Schemes (₹ 23.14 crore) and Grants for Special Plan Scheme (₹ 21.88 crore).

The growth rate of Revenue Receipts was more than twice that of GSDP growth rate during 2005-06 to 2008-09. The growth rate of Revenue Receipts was however, less than the growth rate of GSDP in 2009-10. The State's own tax buoyancy with respect to

³Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

GSDP was 3.37 in 2005-06 which declined to 1.29 in 2009-10 indicating that the State's own tax was not keeping pace with the GSDP of the State.

1.5.1 State's Own Resources

As the State's share in Central taxes and Grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for plan schemes etc, the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. **Appendix 1.3** presents the gross collection in respect of major taxes and duties as well as the components of non-tax receipts vis-à-vis budget estimates, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2005-06 to 2009-10. **Appendix 1.6 A & B** also presents the component-wise tax and non-tax revenue for the years 2005-10.

The tax revenue increased by ₹ 24.49 crore (15.70 per cent) from ₹ 156.02 crore in 2008-09 to ₹ 180.51 crore in 2009-10. The share of sales tax in total tax revenue not only remained significant but increased from 73.12 per cent in 2005-06 to 73.25 per cent in the current year. Taxes on Vehicles (₹ 16.73 crore) and Tax on Goods and Passengers (₹ 3.96 crore) were the other contributors to the State's tax revenue.

The increase in sales tax revenue (₹ 17.52 crore) which was mainly on account of introduction of VAT, contributed around 71.54 per cent of incremental tax revenue of the State during the year.

Non-tax revenue exhibited fluctuation over the period 2005-10 and increased steeply from ₹ 91.14 crore in 2006-07 to ₹ 180.55 crore in 2008-09 but decreased (₹ 54.20 crore) to ₹ 126.35 crore in 2009-10. The major contributors in the non-tax revenue included Power (₹ 75.17 crore), Road Transport (₹ 10.81 crore), Miscellaneous General Services (₹ 7.04 crore), Forestry and Wildlife (₹ 7.70 crore), Housing (₹ 3.43 crore), Co-operation (₹ 3.15 crore) and Roads and Bridges (₹ 2.34 crore). Decrease in Non Tax Revenue (NTR) in 2009-10 was mainly on account of Power (₹ 36.32 crore) and Miscellaneous General Service (₹ 21.01 crore).

1.5.2. Loss of Revenue due to Evasion of Taxes, Write off/Waivers and Refunds

The Sales Tax Department of the State Government could not furnish the information about evasion of tax. The details of tax refunds, write off and waiver of revenue during the year 2009-10 was stated to be nil.

1.5.3 Revenue Arrears

The Sales Tax Department could not furnish the information about revenue arrears for the year 2009-10. However, it was observed from the arrear revenue furnished up to the year 2008-09 (₹ 18.71 crore) that it increased by ₹ 2.99 crore during 2008-09 over the

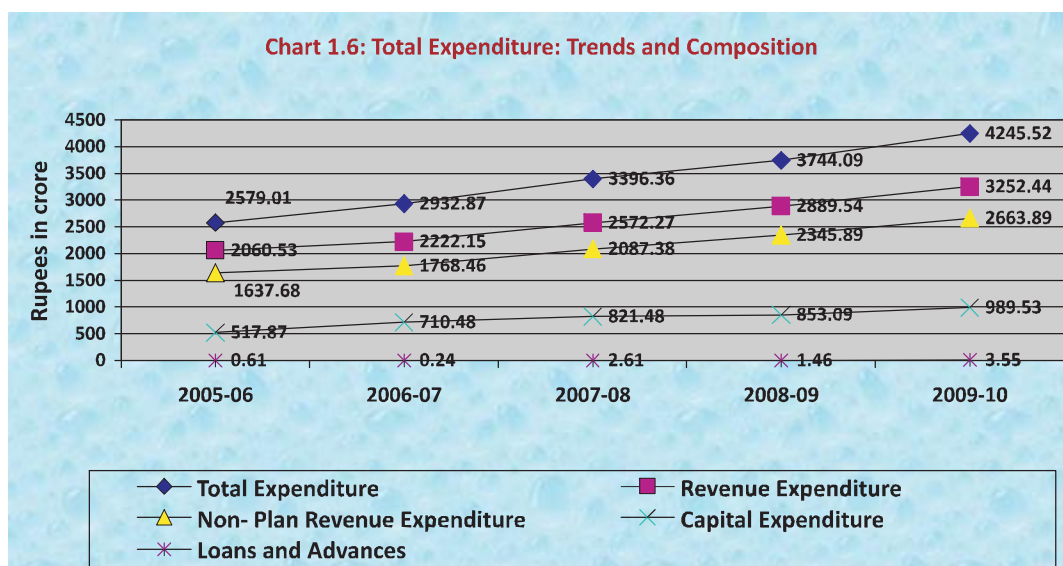
previous year. The increase was mainly on Sales & Trade ₹ 3.07 crore and Petroleum Tax ₹ 0.08 crore offset by marginal decrease on Central Sales Tax ₹ 0.13 crore, Purchase Tax ₹ 0.02 crore and Professional Tax ₹ 0 01 crore.

1.6 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

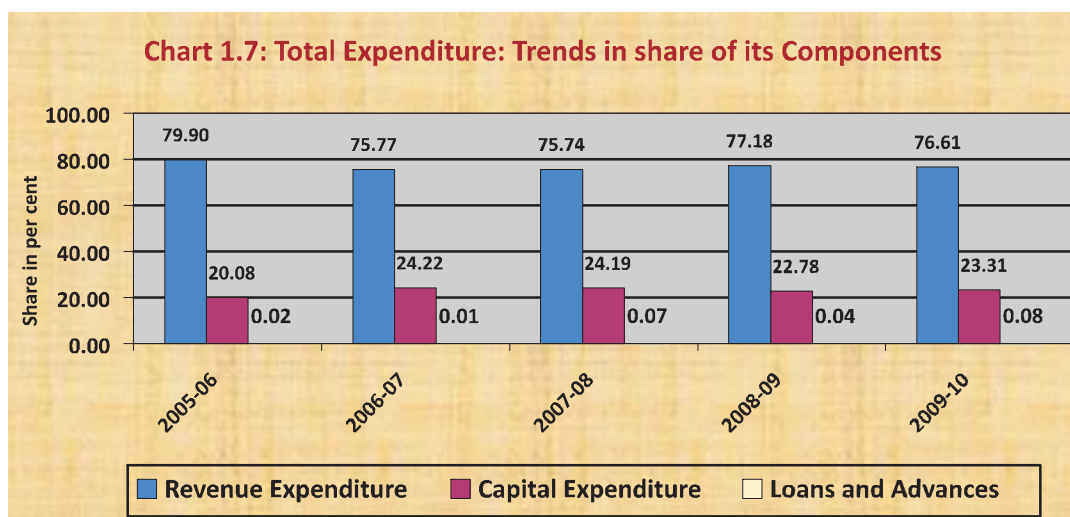
1.6.1 Growth and Composition of Expenditure

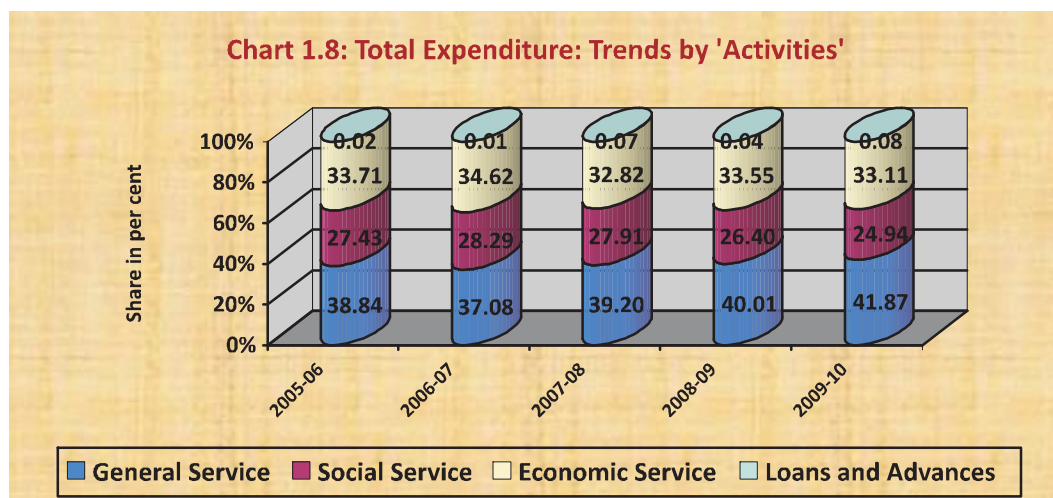
Chart 1.6 presents the trends in total expenditure over a period of five years (2005-10) and its composition both in terms of ‘economic classification’ and ‘expenditure by activities’ is depicted respectively in **Charts 1.7 and 1.8**.



Statements 12 & 13 of the Finance Accounts depict the detailed revenue expenditure by minor heads and capital expenditure respectively. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services and extend the network of these services through capital expenditure and investments to discharge their debt service obligations. The total expenditure of the State increased from ₹ 2579.01 crore in 2005-06 to ₹ 4245.52 crore in 2009-10.

Total expenditure during 2009-10 at ₹ 4245.52 crore increased by ₹ 501.43 crore (13.39 per cent) over the previous year. Out of the total expenditure in 2009-10, revenue expenditure was 76.61 per cent (₹ 3252.44 crore) while capital expenditure was 23.31 per cent (₹ 989.53 crore) and loans and advances was 0.08 per cent (₹ 3.55 crore). The break-up of total expenditure in terms of plan and non-plan reveals that while the share of plan expenditure constituted 36.95 per cent (₹ 1568.54 crore), the remaining 63.05 per cent was non-plan expenditure (₹ 2676.98 crore). The increase in total expenditure during 2009-10 over the previous year was due to increase of revenue expenditure by ₹ 362.90 crore and capital expenditure by ₹ 136.44 crore and disbursement of loans and advances by ₹ 2.09 crore. The non-plan revenue expenditure increased by 13.56 per cent during the year compared to the projection of 6.51 per cent made by the State Government in Fiscal Correction Path (FCP) for 2009-10. The capital expenditure (₹ 989.53 crore) exceeded by ₹ 267.04 crore (36.96 per cent) the assessment made by State Government in its FCP (₹ 722.49 crore).





Revenue expenditure had predominant share varying from 75.74 per cent to 79.90 per cent of the total expenditure of the State during 2005-10. Revenue expenditure is incurred to maintain the current level of services and payments for the past obligations and as such does not result in any addition to the State's infrastructure and service network.

Revenue expenditure of the State has increased by 57.84 per cent from ₹ 2060.53 crore in 2005-06 to ₹ 3252.44 crore in 2009-10 at a compound annual growth rate of 12.09 per cent. Both Non Plan Revenue expenditure (NPRE) and Plan Revenue expenditure (PRE) have shown a consistent increase over the period 2005-10. Of the total increase of ₹ 362.90 crore in revenue expenditure during 2009-10 over the previous year, increase in NPRE contributed 87.63 per cent (₹ 318.00 crore) while PRE accounted for the remaining 12.37 per cent (₹ 44.90 crore). The increase of ₹ 318.00 crore in NPRE during 2009-10 over the previous year was mainly due to increase in Police (₹ 100.84 crore), Interest Payments (₹ 48.52 crore), Pensions and Other Retirement Benefits (₹ 50.01 crore), Medical and Public Health (₹ 19.39 crore), Crop Husbandry (₹ 15.95 crore) and Power (₹ 16.74 crore). The PRE has increased by ₹ 44.90 crore from ₹ 543.65 crore in 2008-09 to ₹ 588.55 crore in 2009-10 mainly due to increase in expenditure under Animal Husbandry (₹ 13.73 crore), Technical Education (₹ 10.64 crore), Village and Small Industry (₹ 7.30 crore) and Agriculture Research and Education (₹ 6.94 crore). The actual non-plan revenue expenditure vis-à-vis assessment made by TFC and State Government are given below:-

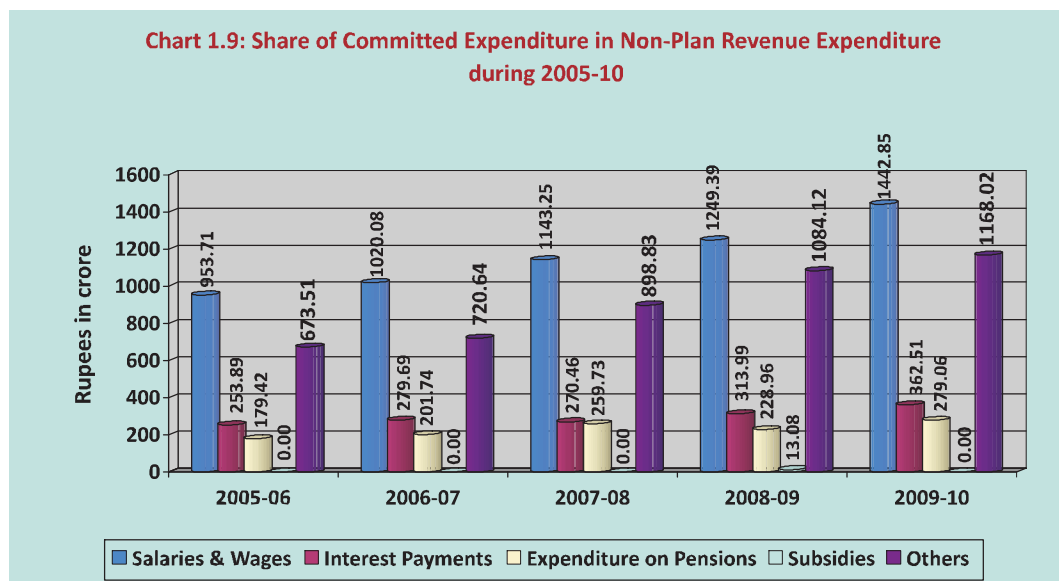
(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in FCP	Actual
Non-Plan Revenue Expenditure	1907.71	2117.61	2663.89

The actual NPRE exceeded the normative assessment made by TFC by ₹ 756.18 crore (39.64 per cent) and the assessment made by the State Government in its FCP for the year 2009-10 by ₹ 546.28 crore (25.80 per cent).

1.6.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Chart 1.9** present the trends in the expenditure on these components during 2005-10.



Expenditure on salaries under Non-Plan and Plan during the current year is ₹ 1405.90 crore and ₹ 36.95 crore respectively. The increase in salaries by ₹ 193.46 crore over the previous year was mainly due to release of dearness allowance installments and incremental benefits. Salary and wages accounted for 38.79 per cent of the revenue receipts during 2009-10. Salary expenditure was 55.26 per cent of revenue expenditure, net of interest payment and pension, which was within the ceiling of 61 per cent targeted in Nagaland Fiscal Responsibility and Budget Management (NFRBM) Act, but was much higher than the norm of 35 per cent recommended by the TFC.

The expenditure on pension has increased by 21.88 per cent (₹ 50.10 crore) from ₹ 228.96 crore in 2008-09 to ₹ 279.06 crore in 2009-10 mainly due to introduction of new retirement policy for Government employees. The pension payments were ₹ 31.06 crore less than the projection made in the FCP (₹ 310.12 crore) while it was ₹ 5.12 crore less than the assessment made by TFC (₹ 284.18 crore) for the year 2009-10. The State Government has introduced the new pension policy only with effect from 1 January 2010.

Interest payments increased by 42.78 per cent (₹ 108.62 crore) from ₹ 253.89 crore in 2005-06 to ₹ 362.51 crore in 2009-10. The interest payments increased by ₹ 48.52 crore during 2009-10 over the previous year due to increase in Internal Debt (₹ 35.66 crore), and Small Savings, Provident Fund etc. (₹ 2.35 crore). There was also an increase in interest payment on Loans and Advances from Central Government (₹ 10.51 crore).

Interest payments relative to revenue receipts at 9.75 per cent was well within the norm of 15 per cent as recommended by TFC.

1.6.3 Financial Assistance by State Government to local bodies and other Institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.9**

Table 1.9: Financial Assistance to Local Bodies etc.

Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09	(Rupees in crore)	
					2009-10	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	6.24	2.55	2.40	2.90	8.81	31.22
Municipal Corporations and Municipalities	...	0.27	0.27	0.13	9.46	9.46
Zilla Parishads and Other Panchayati Raj Institutions	...	...	...	...	...	...
Development Agencies	0.28	...	29.03	24.83	26.35	26.35
Hospitals and Other Charitable Institutions	5.74	8.12	8.73	9.41	10.23	3.98
Other Institutions	21.17	23.10	1.41	2.53	1.75	1.51
Total	33.43	34.04	41.84	39.80	56.60	72.52
Assistance as percentage of RE	1.62	1.53	1.63	1.38	1.79	2.23

The total assistance to local bodies has increased (₹ 39.09 crore) from ₹ 33.43 crore in 2005-06 to ₹ 72.52 crore in 2009-10. **Table 1.9** shows that the assistance declined gradually from ₹ 6.24 crore in 2005-06 to ₹ 2.90 crore in 2008-09 in respect of Educational Institutions due to less release of grants to non-Government Colleges and Institutions. However, ₹ 31.22 crore was released during the year mainly as Assistance to Non-Government Secondary Schools (₹ 27.57 crore). The assistance increased in respect of Hospitals and other Charitable Institutions from ₹ 5.74 crore in 2005-06 to ₹ 9.41 crore in 2008-09 mainly due to increase of grants to Naga Hospital Authority but declined during the year (₹ 3.98 crore). The financial assistance granted under the head Development Agencies (₹ 26.35 crore) was given to Village Development Boards mainly for community development schemes (₹ 25.26 crore), matching grant (₹ 0.50 crore) and additional grants (₹ 0.59 crore).

1.7 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provision for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.7.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like, education, health etc. **Table 1.10** analyses the fiscal priority given by the Nagaland Government to various expenditure heads in 2005-06 (the first year of the Twelfth Finance Commission Award Period) and the current year viz 2009-10 with regard to developmental expenditure, social sector expenditure and capital expenditure.

Table-1.10: Fiscal priority of the State during 2008-09

Fiscal priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/AE
All NE States Average* 2005-06	29.92	65.98	32.91	16.21	18.06	4.63
Nagaland 2005-06	40.46	61.16	27.43	20.08	17.46	11.65
All NE States Average* 2009-10	37.18	64.98	34.64	17.55	16.47	5.65
Nagaland 2009-10	50.10	58.13	24.93	23.31	12.03	4.18

AE: Aggregate Expenditure DE: Developmental Expenditure SSE: Social Sector Expenditure
CE: Capital Expenditure
Developmental expenditure includes Developmental Revenue Expenditure, Developmental Capital Expenditure and Loans and Advances disbursed.
Source: For GSDP, the information was collected from the State's Directorate of Economics and Statistics

The Government of Nagaland had a much higher AE/GSDP ratio in both the years under consideration compared to the average of NE States. The ratio of developmental expenditure as a proportion to aggregate expenditure was lower than NE States average which indicates that the State has not given priority to this category of expenditure as compared to other States. In Social Sector Expenditure Nagaland Government's expenditure as a percentage of AE was much less than the NE States during both the years. The expenditure on education in Nagaland (as a proportion of AE) was also lower than that of average NE states. However, in the case of health, Nagaland gave a much higher priority in 2005-06 than other NE states. In the current year however, the priority given to health was lower in the case of Nagaland compared to the other NE states.

The Government may consider giving greater emphasis to Social Sector considering the higher BPL population in the State.

1.7.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on developmental heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods⁴. Apart from improving the allocation towards

⁴ Core public goods are which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of that goods, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

developmental expenditure⁵, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.11** presents the trends in developmental expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years, **Table 1.12** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table-1.11: Developmental Expenditure

Components of Developmental Expenditure	2005-06	2006-07	2007-08	2008-09	(Rupees in crore)	
					2009-10	
					BE	Actual
Developmental Expenditure (a to c)	1577.27 (61.15)	1845.39 (62.92)	2065.21 (60.81)	2246.10 (59.99)	2658.09	2467.96 (58.13)
a. Developmental Revenue Expenditure	1120.63 (43.45)	1201.83 (40.98)	1378.83 (40.60)	1540.70 (41.15)	1757.70	1668.46 (39.30)
b. Developmental Capital Expenditure	456.03 (17.68)	643.32 (21.93)	683.77 (20.13)	703.94 (18.80)	899.99	795.95 (18.75)
c. Developmental Loans and Advances	0.61 (0.02)	0.24 (0.01)	2.61 (0.08)	1.46 (0.04)	0.40	3.55 (0.08)

Figures in parentheses indicate percentage to aggregate expenditure

The developmental expenditure (₹ 2467.96 crore) is less than the assessment made by the State Government in the budget by ₹ 190.13 crore. The developmental revenue and capital expenditure increased by 8.29 *per cent* (₹ 127.76 crore) and 13.07 *per cent* (₹ 92.01 crore) respectively over the previous year. The increase in developmental revenue expenditure was mainly under Education, Sports, Art & Culture (₹ 64.94 crore), Health & Family Welfare (₹ 23.28 crore), Agriculture & Allied Activities (₹ 58.66 crore) and Energy (₹ 17.32 crore) offset by decrease in Water Supply, Sanitation, Housing and Urban Development (₹ 12.92 crore), Rural Development (₹ 22.37 crore) and Special Area Programmes (₹ 11.06 crore).

⁵The analysis of expenditure data is disaggregated into developmental and non-developmental expenditure. All expenditure relating to Revenue Account, Capital Account and Loans and Advances are categorized into social services, economic services and general services. Broadly, the social and economic services constitute developmental expenditure, while expenditure on general services is treated as non-developmental expenditure.

Table 1.12 –Efficiency of Expenditure Use in Selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2008-09		2009-10	
	Ratio of CE to TE	In RE, the share of S&W	Ratio of CE to TE	In RE, the share of S&W
Social Services (SS)				
General Education	4.71	86.06	2.62	81.23
Health and Family Welfare	9.42	81.17	10.97	80.89
WS, Sanitation, & HUD	83.43	66.47	63.30	27.62
Total (SS)	29.52	73.15	25.81	71.71
Economic Services (ES)				
Agri & Allied Activities	17.14	47.79	15.01	76.83
Irrigation and Flood Control	11.64	13.05	2.43	14.85
Power & Energy	41.68	19.46	29.59	21.25
Transport	47.75	59.81	68.82	76.91
Total (ES)	32.81	32.22	40.88	50.54
Total (SS+ES)	31.36	50.73	13.14	62.60

TE: Total Expenditure of respective section; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages

Table 1.12 shows that the ratio of CE to TE under Social services decreased from 29.52 *per cent* in 2008-09 to 25.81 *per cent* in 2009-10 mainly due to decrease under Water Supply, Sanitation, Housing & Urban Development. The ratio of CE to TE under Economic services increased by 8.07 *per cent* over the previous year mainly due to increase under Transport.

The share of salary and wages on General Education under Social service was 81.23 *per cent* of its revenue expenditure and on Health & Family Welfare and Water Supply Sanitation, Housing & Urban Development, the share was 80.89 *per cent* and 27.62 *per cent* respectively. The percentage of salary and wages relative to its revenue expenditure on Social services was 1.44 *per cent* lower than the previous year.

The salary and wage expenditure in terms of percentage of revenue expenditure under Economic services was higher by 18.32 *per cent* over the previous year.

The percentage of salary and wage expenditure relative to revenue expenditure under Social and Economic services taken together was higher by 11.87 *per cent* during 2009-10 over the previous year.

1.8 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite

steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.8.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2010 is given in **Table 1.13**.

Table 1.13: Department-wise Profile of Incomplete Projects

(Rupees in Crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Cost Over Runs	Cumulative actual exp as on 31.3.2010
Power Department	2	124.67	15.13	45.42
PWD (R&B)	62	667.30	9.76	410.02
Public Health Engineering	41	64.94	-	44.75
Police Engineering Project	6	443.99	-	145.19
Total	111	1300.90	24.89	645.38

Source: Finance Accounts and Departmental records

As per the Finance Accounts there were 47 incomplete projects as on 31 March 2010 pertaining to two departments in which ₹ 189.94 crore were blocked. The targeted year of completion, physical progress and cost overruns, if any, on these projects have not been furnished by the departments through called for and hence could not be ascertained in audit.

Two other departments viz. Power and PWD (R & B) furnished to audit that 64 projects were incomplete as on 31 March 2010 in which ₹ 455.44 crore have been blocked. There has been a cost overrun of ₹ 24.89 crore in these projects. One project of the Power Department on which ₹ 32 crore had been spent was force-closed on the advice of the Planning Commission, Government of India and another project on which ₹ 13.42 crore have been spent has been kept on hold due to landslide and fund constraint.

Delay in completion of works invites the risk of escalation in the cost of the works. The actual cost overrun would be available on closure of the claims of the construction after completion of the projects. Thus, works need to be completed in time to contain time and cost overrun especially on high cost works. Besides, projects should be selected after proper survey and investigation in order to avoid force-closure of projects leading to unfruitful outflow of Government funds.

1.8.2 Investment and returns

As on 31 March 2010, Government had invested ₹ 192.09 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.14**). The average return on this investment was 'Nil' during the last five years while the Government paid an average interest rate of 11.50 *per cent* on its borrowings during 2006-2010.

Table-1.14: Return on Investment

Investment/Return/Cost of Borrowings	(Rupees in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (a-e) (₹ in crore)	103.11	119.84	141.90	164.94	192.09
(a) Joint Stock Companies	18.66	24.66	28.66	32.10	32.10
(b) Government Companies	58.54	69.27	81.16	100.76	127.91
(c) Statutory Corporations	0.04	0.04	0.04	0.04	0.04
(d) Rural Banks	0.00	0.00	0.00	0.00	0.00
(e) Co-operatives	25.87	25.87	32.04	32.04	32.04
Return (₹ in crore)	...	...	...	...	...
Return (per cent)	...	...	...	...	...
Average rate of interest on Govt borrowing (per cent)	10.50	11.50	11.50	11.50	11.50
Difference between interest rate and return (per cent)	10.50	11.50	11.50	11.50	11.50

Out of the total Government investment of ₹ 192.09 crore at the close of the current year, ₹ 127.91 crore was invested in 6 Government companies, ₹ 32.10 crore in 2 Joint Stock Companies and the remaining amount of ₹ 32.08 crore was invested in Statutory Corporations, Co-operative Bank and Co-operative Societies etc. During the current year, the Government made additional investment of ₹ 27.15 crore in State public sector and other Undertakings.

A Government company *viz.*, Nagaland Sugar Mills Ltd. (₹ 7.29 crore-investment) and a Joint Stock Company, Nagaland Paper and Pulp Corporation (₹ 6.33 crore-investment) were closed down; while three Government Corporations- Nagaland Industrial Development Corporation Ltd. (₹ 8.39 crore), Nagaland Industrial Raw Materials & Supply Corporation Ltd., (₹ 4.05 crore) and Nagaland Handloom & Handicrafts Development Corporation Ltd., (₹ 2.82 crore) were incurring losses. Since the accounts of Nagaland State Mineral Development Corporation Ltd., (₹ 59.28 crore) are outstanding from 1998-99, the actual financial status of the company as of March 2010 could not be assessed.

A performance-based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service. The Government should ensure better value for money in investments by identifying the Companies/Corporations which are endowed with low financial but high socio-economic returns and justify if high cost borrowings are worth to be channelised in those Companies/Corporations.

1.8.3 Loans and advances by State Government

In addition to investments in Co-Operative Societies, Corporations and Companies, Government has also been providing loans and advances to many Institutions/Organizations. **Table 1.15** presents the outstanding loans and advances as on 31 March 2010, interest receipts vis-à-vis interest payments during the last three years.

Table-1.15: Average Interest Received on Loans Advanced by the State Government

Quantum of loans/interest receipts/ cost of borrowings	2007-08	2008-09	2009-10 (Rupees in crore)	
			BE	Actual
Opening Balance	26.19	25.74	25.74	24.63
Amount advanced during the year	2.61	1.46	24.50	3.55
Amount repaid during the year	3.06	2.57	4.63	4.20
Closing Balance	25.74	24.63	45.61	23.98
Net addition	(-)0.45	(-)1.11	-	-0.65
Interest Receipts	1.68	1.04	-	0.39
Interest receipts as <i>per cent</i> to outstanding loans and advances	6.53	4.22	-	1.63
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	11.50	11.50	-	11.50
Difference between interest payments and interest receipts (<i>per cent</i>)	4.97	7.28	-	9.87

At the end of March 2010, the Government had outstanding loans and advances of ₹ 23.98 crore. The amount of loans disbursed during the year increased from ₹ 1.46 crore in 2008-09 to ₹ 3.55 crore in 2009-10. Out of the total amount of loans advanced during the year, ₹ 3.36 crore was for Economic Services and ₹ 0.19 crore to Government Servants. Under the Economic Service, cent per cent of loans went to Co-operatives. Recovery of loans and advances increased from ₹ 2.57 crore in 2008-09 to ₹ 4.20 crore in 2009-10. The interest received as percentage of outstanding loans decreased from 4.22 *per cent* in 2008-09 to 1.63 *per cent* in 2009-10, which was much less than the interest paid by the Government on its own borrowings (11.50 *per cent*).

1.8.4 Cash Balances and Investment of Cash balances

Table 1.16 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.16: Cash Balances and Investment of Cash balances

Particulars	(Rupees in crore)		
	As on 1 April 2009	As on 31 March 2010	Increase/ Decrease
Cash Balances	94.50	102.55	8.05
Investments from Cash Balances (a to d)	440.33	612.12	171.79
a. GOI Treasury Bills	164.57	311.05	146.48
b. GOI Securities	...	...	...
c. Other Securities, if any specify	...	...	...
d. Other Investments	275.76	301.07	25.31
Funds-wise Break-up of Investment from Earmarked balances (a to c)	67.44	89.77	22.33
a. Guarantee redemption fund Investment Account	2.00	3.00	1.00
b. CRF Investment Account	15.55	15.68	0.13
c. Sinking Fund Investment Account	49.89	71.09	21.20
Interest Realized	8.90	7.87	-1.03

The State Government's net cash balance at the end of current year amounted to ₹ 102.55 crore, an increase of ₹ 8.05 crore over the previous year. Investments from cash balances increased by ₹ 171.79 crore from ₹ 440.33 crore in 2008-09 to ₹ 612.12 crore in 2009-10. This was mainly due to increase in investment in Treasury bills (₹ 146.48 crore) and Sinking Fund Account (₹ 21.20 crore). An amount of ₹ 7.87 crore was realized during the year as interest on the amount invested, a decrease of ₹ 1.03 crore from the previous year. The interest received against Investment on Cash Balance was around 1 *per cent* during 2009-10 while Government paid interest at the rate of 11.50 *per cent* on its borrowing during the year. Hence, it is in-advisable to maintain idle cash balances.

1.9 Assets and Liabilities

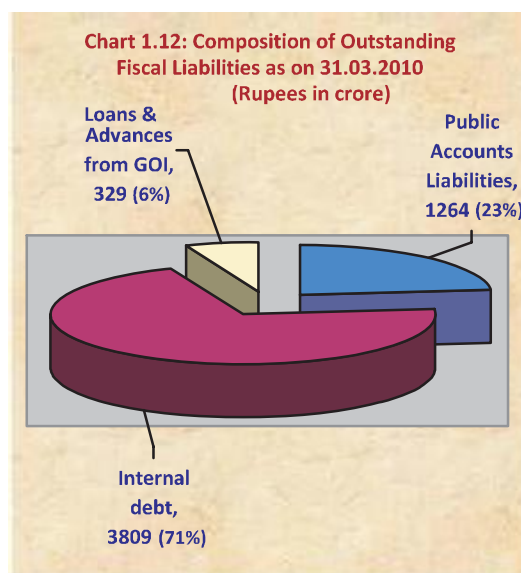
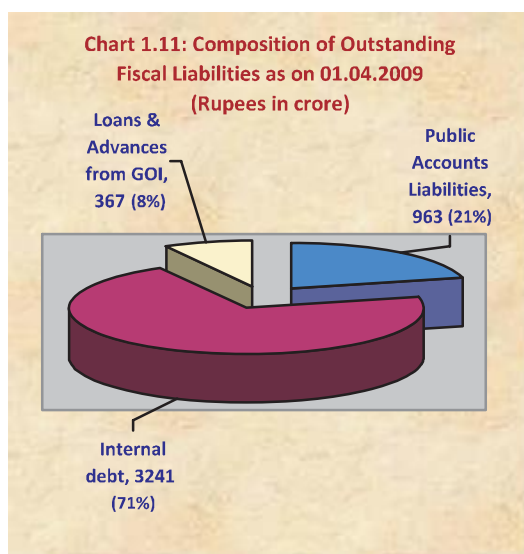
1.9.1 Growth and composition of Assets and Liabilities

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. **Appendix 1.4 B** gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. While the liabilities in this Appendix 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 and loans and advances given by the State Government and cash balances.

'Total liabilities' as defined in Nagaland Fiscal Responsibility and Budget Management Act, 2005 means 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.

1.9.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.3**. However the composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.11** and **1.12**.



The growth rate of fiscal liability was 18.18 per cent during 2009-10 over previous year. Fiscal Liabilities of the State comprised of Consolidated Fund Liabilities and Public Account Liabilities. The Consolidated Fund Liability (₹ 4137.97 crore) comprised of market loan (₹ 2878.76 crore), loans from Government of India (₹ 329.48 crore) and other loans (₹ 929.73 crore). The Public Account Liabilities (₹ 1264.07 crore) comprise of Small Saving, Provident Fund (₹ 485.54 crore), interest bearing obligations (₹ Nil) and non-interest bearing obligations like deposits and other earmarked funds (₹ 778.53 crore). *The ratio of fiscal liabilities to GSDP has increased from 60.52 per cent in 2008-09 to 63.75 per cent in 2009-10. These fiscal liabilities stood at nearly 1.45 times the revenue receipts and 17.60 times of the State own resources at the end of 2009-10. The fiscal liabilities to GSDP was 9.88 per cent higher than the assessment made by State Government in its Medium Term Fiscal Policy Statement (MTFPS) for the year 2009-10.*

1.9.3 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 guarantee has been extended. As per NFRBM Act 2005, the State Government set up a guarantee redemption fund in 2006-07 and decided to charge guarantee fees at the rate of 1 per cent of GSDP to cover the risk in the guarantees. During the year 2009-10 there was a balance of rupees one crore in the guarantee redemption fund investment account.

As per **Statement 9** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table 1.17**.

Table-1.17: Guarantees given by the Government of Nagaland*(Rupees in crore)*

Guarantees	2007-08	2008-09	2009-10
Max amount guaranteed	7.24	7.24	20.00
Outstanding amount of guarantees	NA	NA	10.91
Percentage of maximum amount guaranteed to total revenue receipts	0.24	0.21	0.54
Criteria as per FRBM Act/any other Act or Order of the State	1 per cent of GSDP	1 per cent of GSDP	1 per cent of GSDP

Government had guaranteed loans raised by various corporations and others which at the end of 2009-10 stood at ₹ 10.91 crore. It was 0.13 *per cent* of the GSDP i.e. well within the limit prescribed in the Act. Out of the total outstanding guarantees, ₹ 8.78 crore (80 *per cent*) pertained to Nagaland Sugar Mills Company Limited, Dimapur for repayment of principal and payment of interest on loan obtained from the NIDC.

1.9.4 Off-Budget Borrowings

The State Government had no off-budget borrowings during the year. As per the recommendations of the TFC, the State Government has set up a Sinking Fund for amortization of market borrowings as well as other loans and debt obligations during 2009-10. Contribution to the Sinking Fund was ₹ 16.17 crore as of March 2010 and the entire amount of the fund was invested.

1.10 Debt Sustainability

During 2009-10, Government raised internal debt of ₹ 805.25 crore and other obligations of ₹ 158.03 crore. Government repaid internal debt of ₹ 237.25 crore, GOI loans of ₹ 37.35 crore and other obligations of ₹ 134.16 crore along with interest of ₹ 362.51 crore resulting in net increase in debt receipts by ₹ 192.01 crore during the year.

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability⁶ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization⁷; sufficiency

⁶ The Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt.

⁷ A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate 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 primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

of non-debt receipts⁸; net availability of borrowed funds⁹; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.18** analyzes the debt sustainability of the State according to these indicators for a period of five years beginning from 2005-06.

Table 1.18: Debt Sustainability: Indicators and Trends

(Rupees in crore)

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	(-)58.58	40.14	(-)455.54	(-)307.30	(-)121.24
Sufficiency of Non-debt Receipts (Resource Gap)	(-)88	150	(-)241	57	(-)182
Net Availability of Borrowed Funds	-80.40	113.18	152.59	374.71	469.44
Burden of Interest Payments (IP/RR Ratio) (in per cent)	11.20	10.08	9.03	9.23	9.75
Maturity Profile of State Debt (In Years)					
0 – 1	-	-	-	293.90(09)	274.60(6)
1 – 3	-	-	-	317.86(10)	551.94(13)
3 – 5	-	-	-	476.51(15)	303.74(7)
5 – 7	-	-	-	296.00(09)	596.65(13)
7 and above	-	-	-	1870.95(57)	2685.62(61)
Total				3255.22	4412.55

Figures in the parenthesis indicate percentage to total debt.

Debt will stabilize if the quantum spread plus primary deficit is positive. However, it would be seen from the above table that the sum of quantum spread together with primary deficit remained negative during the period from 2007-08 to 2009-10. The sum of quantum spread and primary deficit at (-) ₹ 307.30 crore in 2008-09 against (-) ₹ 121.24 crore in 2009-10 indicates that additional efforts are required by the State to stabilize the debt and then attain sustainability in the ensuing years.

Of the total debt burden of ₹ 4412.55 crore, ₹ 274.60 crore matured and was paid during 2009-10. The majority of rest of the debt burden (₹ 2685.62 crore i.e. 61 per cent) would mature after 7 years.

A negative resource gap indicates the non-sustainability of debt while a positive resource gap strengthens the capacity of the State to sustain the debt. During the year 2009-10, there was a negative resource gap, as compared to a positive resource gap in the previous

⁸ Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

⁹ Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

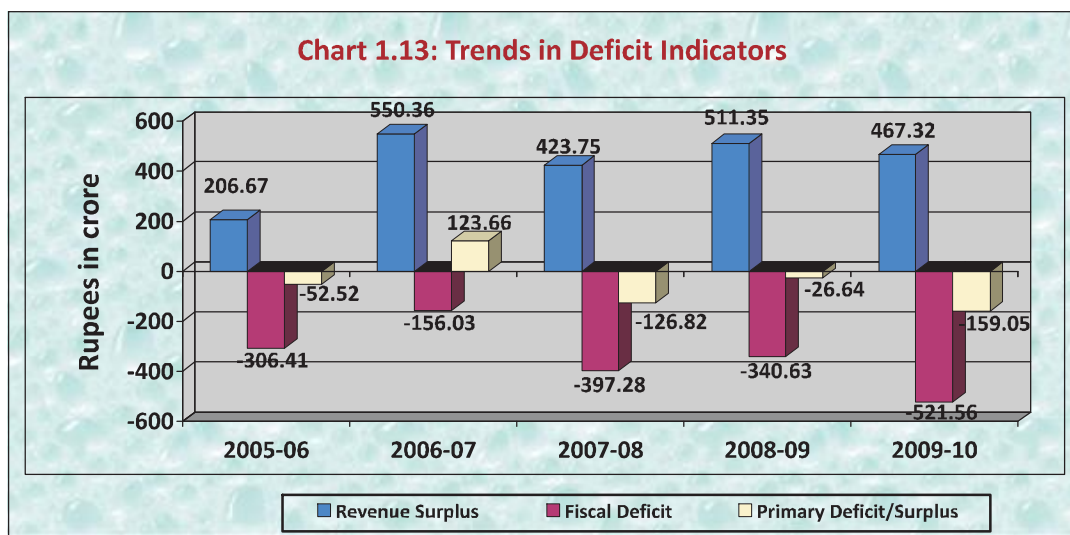
year, indicating inability of the State to sustain its debt. The State therefore, needs to strive to bring the resource gap to positive by enhancing incremental non-debt revenue and reducing incremental expenditure.

1.11 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2009-10.

1.11.1 Trends in Deficits

Charts 1.13 and 1.14 present the trends in deficit indicators over the period 2005-10.



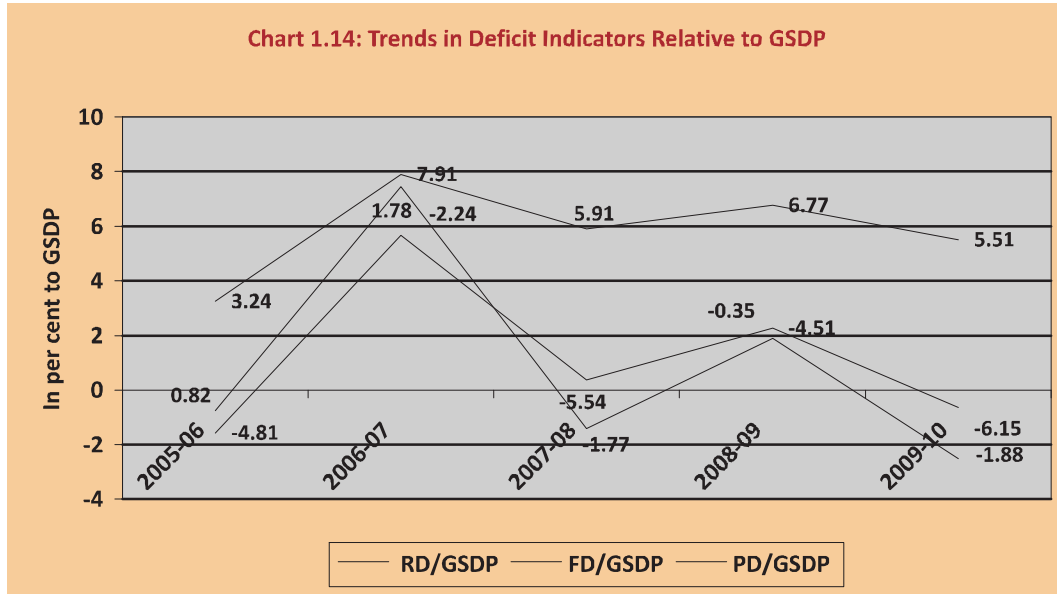


Chart 1.13 reveals that the revenue account experienced a surplus of ₹ 467.32 crore during 2009-10, an increase from ₹ 206.67 crore in 2005-06. However, the significant deterioration in revenue account during the current year as compared to the previous year was mainly on account of increase in revenue expenditure by ₹ 362.90 crore (12.56 per cent) against an increase of revenue receipt by ₹ 318.87 crore (9.38 per cent) over the previous year.

Due to the decrease in revenue surplus along with a marginal increase of ₹ 1.63 crore in non-debt capital receipts accompanied by an increase of ₹ 136.44 crore in capital expenditure including loans & advances disbursement ₹ 2.09 crore during 2009-10 over the previous year, the fiscal deficit increased by ₹ 180.93 crore during the current year from the level of ₹ 340.63 crore in 2008-09.

The primary deficit also increased (₹ 132.41 crore) from ₹ 26.64 crore in 2008-09 to ₹ 159.05 crore in 2009-10. The increase in primary deficit was due to increase of fiscal deficit (₹ 180.93 crore) and increase of interest payment (₹ 48.52 crore) during the current year.

1.11.2 Composition of Fiscal deficit and its financing Patterns

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in Table 1.19.

Table 1.19: Components of Fiscal Deficit and its Financing Pattern

		<i>(Rupees in crore)</i>				
	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit		-306	-156	-397	-341	-522
		(-1.66)	(-2.24)	(-5.54)	(-4.51)	(6.16)
1	Revenue Deficit	207	550	424	511	467
2	Net Capital Expenditure	518	710	821	853	990
3	Net Loans and Advances	-5	-4	...	-1	-1
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	214	250	297	373	433
2	Loans from GOI	-14	-17	-15	-22	-37
3	Special Securities Issued to National Small Savings Fund	11	15	...	-2	3
4	Loans from Financial Institutions	97	56	52	96	132
5	Small Savings, PF etc	4	-7	13	30	23
6	Deposits and Advances	-46	92	75	214	278
7	Suspense and Misc	-27	-60	-58	-189	-147
8	Remittances	-32	-78	-42	-126	-349
9	Others	106	-44	-91	...	...

Figures in brackets indicate the per cent to GSDP.

It can be seen from Table 1.18 that fiscal deficit increased (₹ 216 crore) from ₹ 306 crore in 2005-06 to ₹ 522 crore in 2009-10 mainly due to increase in Capital expenditure (₹ 137 crore) Market Borrowings (₹ 60 crore), Deposits and Advances (₹ 64 crore) and Loans from Financial Institutions (₹ 36 crore).

The increase in capital expenditure indicated that borrowed funds were being allocated for productive use. The solution to the Government debt problem lies on the actual outcome of borrowed funds i.e., whether they are being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity to the economy which may result in increase in Government revenue in future, making debt payments manageable.

1.11.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (Table 1.20) would indicate the extent to which the deficit/surplus has been on account of enhancement in

capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.20: Primary deficit/surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary expenditure ¹⁰	Primary revenue surplus	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2005-06	2273	1807	518	...	2325	466	52
2006-07	2777	1942	710	...	2652	835	125
2007-08	2999	2302	821	3	3126	697	(-)127
2008-09	3403	2576	853	1	3430	827	(-)27
2009-10	3724	2889	990	4	3883	834	(-)159

The non-debt receipts of the State during 2005-10 were sufficient to meet the primary revenue expenditure. The non-debt receipts increased by 64 *per cent* from ₹ 2,273 crore in 2005-06 to ₹ 3,724 crore in 2009-10 while the primary revenue expenditure increased by 60 *per cent* from ₹ 1,807 crore in 2005-06 to ₹ 2,889 crore in 2009-10. During this period (2005-10) Capital Expenditure grew by 91 *per cent*. The State enjoyed a primary surplus during 2005-07 which however, turned to primary deficit during the last three years and was ₹ 159 crore in 2009-10.

1.12 Conclusion and Recommendations

The fiscal position of the State viewed in terms of the key fiscal parameters during 2009-10 revealed that the State's revenue surplus had declined by ₹ 44.03 crore while the fiscal deficit had increased by ₹ 180.93 crore and the primary deficit had also increased by ₹ 132.41 crore in 2009-10 relative to the previous year.

Revenue Receipts

During 2009-10, 92 *per cent* of the total revenue came from the Government of India as Central transfers (12 *per cent*) and grants-in-aid (80 *per cent*). The State could not achieve the total revenue collection target fixed by the TFC during 2009-10. Besides, the own tax revenue of the State fell short of the TFC recommendations in all the years from 2005-10.

The State Government needs to boost its own tax revenue at least to the level recommended by the TFC in order to reduce dependency on funds from Government of India.

Revenue Expenditure

During 2009-10, non-plan revenue expenditure was ₹ 756.18 crore (39.64 *per cent*) more than the TFC recommendations. The expenditure on salaries and wages increased by 15.48 *per cent* against the TFC norms of growth rate of six *per cent*. The expenditure on

¹⁰ Primary expenditure of the State, defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

salary was 55.26 per cent of revenue expenditure, net of interest payment and pension, which was within the ceiling of 61 per cent targeted in NFRBM Act, but was much higher than the norm of 35 per cent recommended by the TFC.

The ratio of developmental expenditure as a proportion to aggregate expenditure was lower than NE State's average which indicates that the State has not given priority to this category of expenditure as compared to other NE States. The State Government's social sector expenditure as a percentage of aggregate expenditure was much less than the NE States average during the years 2005-06 and 2009-10. The expenditure on education in Nagaland (as a proportion of aggregate) was also lower than that of average NE States. In the case of health, Nagaland accorded a much higher priority in 2005-06 than other NE States. In the current year however, the priority given to health was lower in the case of Nagaland as compared to other NE States.

The non-plan revenue expenditure on salary needs to be contained and the ratio of developmental expenditure needs to be given more priority especially in the areas of education, health etc.

Debt Sustainability

The State should have adequate incremental non-debt receipts to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could also be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. During 2009-10, the non-debt receipts were not sufficient and therefore, the State recorded a negative resource gap of ₹ 182 crore.

The State, needs to strive to bring the resource gap to positive by enhancing incremental non-debt revenue and reduce incremental expenditure in the coming years.

Fiscal Correction Path

During 2009-10 the State's revenue surplus had declined while the fiscal deficit and the primary deficit had increased relative to the previous year. Overall fiscal liabilities of the State increased at a compound annual growth rate of 14.08 per cent during 2005-10. The fiscal liabilities increased by ₹ 831 crore (18.18 per cent) from ₹ 4571 crore in 2008-09 to ₹ 5402 crore in 2009-10. The committed liabilities for the State projected by the TFC was ₹ 1208 crore of non-plan revenue expenditure for the year 2009-10. Compared to this, there was an increase of ₹ 876 crore (72.52 per cent) in the actual expenditure during 2009-10.

The interest received on outstanding loans and advances by the State Government decreased from 4.22 per cent in 2008-09 to 1.63 per cent in 2009-10, which was much less than the interest paid (11.50 per cent) by the Government on its own borrowings.

There is a reasonable prospect of returning back to a fiscal correction path if efforts are made to increase tax compliance, collection of revenue arrears and prune unproductive expenditure so that deficits are contained.

Investments and Returns

The Government had invested ₹ 192.09 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives at the end of March 2010. The average return on this investment was NIL during the last five years while the Government paid an average interest rate of 11.50 per cent on its borrowing during 2006-10.

A performance based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service. The Government should ensure better value for money in investments by identifying the Companies/Corporations which are endowed with low financial but high socio-economic returns and justify if high cost borrowings are to be channelized in those Companies/Corporations.

Cash Balances

The State Government's net cash balance at the end of 2009-10 was ₹ 102.55 crore which had increased by ₹ 8.05 crore over the previous year. The interest received on investment of cash balance during 2009-10 was around 1 per cent while the State Government paid interest at the rate of 11.50 per cent on its borrowing during the year.

Since it is not advisable to maintain idle cash balances, the State Government may refrain from holding cash balances in excess of requirements.

Incomplete Projects

A total of 111 projects were incomplete as on 31 March 2010 in which ₹ 645.38 crore were blocked. There has already been a cost overrun of ₹ 24.89 crore in these projects. One project costing ₹ 32 crore has been force-closed and another costing ₹ 13.42 crore has been kept on hold. Delay in completion of works invites the risk of escalation in the cost of the works. The actual cost overrun would be available on closure of the claims of the construction after completion of the projects.

The works needs to be completed in time to contain time and cost overrun especially on high cost works. Besides, projects should be selected after proper survey and investigation in order to avoid force-closure of projects leading to unfruitful outflow of Government funds.

Oversight of funds transferred directly from the GOI to the State implementing agencies

An approximate amount of ₹ 957.33 crore was directly transferred by Government of India to the State Implementing Agencies during 2009-10. There is no single agency for

monitoring the funds directly transferred by the Government of India and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by the State Implementing Agencies and funded directly by the Government of India and therefore, utilisation of this funds remain to be verified by audit to establish the accountability of the State Government for these funds.

A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General (Accounts & Entitlement).