
CHAPTER I

OVERVIEW OF THE STATE FINANCES

Chapter I: Overview of the State Finances

1.1 Profile of the State

Nagaland 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 (215 km) and runs parallel to the bank of Brahmaputra. With a geographical area of 16,579 sq. kms. *i.e.* about 0.50 *per cent* of country's total geographical area, Nagaland population in 2021 is 21.90 lakh which is 0.16 *per cent* population of the Country. Nagaland has a lower density of population, population below poverty line, infant mortality rate and decadal population growth (2011 to 2021) as compared to the All India average figures. It has a higher literacy rate as compared to the All India Average figures. At present, Nagaland has 12 districts. The per capita GSDP in respect of Nagaland for the year 2020-21 is ₹1,34,339 as compared to ₹1,45,680 for the nation.

General and financial data relating to the State are given in *Appendix 1.1*.

1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time. The growth rate for the period from 2016-17 to 2020-21 compared with India's GDP is presented in **Table 1.1**:

Table 1.1: Trends in GSDP compared to the GDP

| Year | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---------------------|
| GDP (2011-12 Series) | 1,53,91,669 (3 rd RE) | 1,70,90,042 (2 nd RE) | 1,88,86,957 (2 nd RE) | 2,03,51,013 (1 st RE) | 1,97,45,670 (PE) |
| Growth rate of GDP over previous year (in <i>per cent</i>) | 11.76 | 11.03 | 10.51 | 7.75 | -2.97 |
| State's GSDP (2011-12 Series) | 21,722 | 24,393 | 26,527 | 29,536 (PE) | 29,313 (AE) |
| Growth rate of GSDP over previous year (in <i>per cent</i>) | 11.26 | 12.29 | 8.75 | 11.34 | -0.76 |

Sources: GDP- Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation GSDP- Directorate of Economics and Statistics, Government of Nagaland

RE: Revised Estimates; PE: - Provisional Estimates; A.E: - Advance Estimates

As can be seen from the details tabulated above, during the five-year period 2016-21, the growth rate of GSDP of the State showed fluctuating trend as compared to decreasing trend of the GDP. However, the growth rate for 2017-18 and 2019-21 for the State was higher compared to the national growth rate. The CAGR of GSDP for Nagaland (10.25 *per cent*) in the decade was lower than the CAGR of Arunachal Pradesh (11.18 *per cent*), Assam (10.38 *per cent*), Manipur (10.93 *per cent*), Mizoram (16.67 *per cent*), Sikkim (12.69 *per cent*) and Tripura (13.25 *per cent*) and

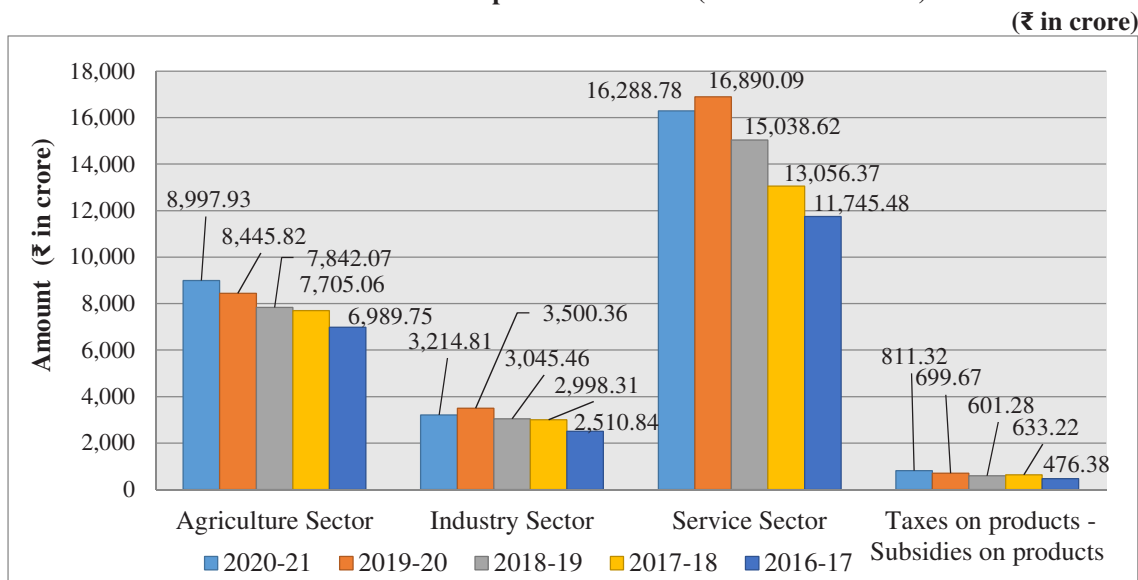
was higher than the CAGR of the other North Eastern and Himalayan (NE&H)¹ States and all India CAGR (9.48 per cent).

The GSDP of the State fell short of the assessment made by the XV FC during 2020-21. The actual GSDP of the State during 2020-21 was ₹29,312.83 crore which fell short by ₹3,579.17 crore, *i.e.*, 10.88 per cent less than the assessment of the XV FC (₹32,892.00 crore). While the XV FC projected the annual growth rate of GSDP of the State for the 2020-21 as 10.50 per cent, the annual growth rate of GSDP of the State stood at (-) 0.76 per cent during 2020-21. This reduced growth rate of the GSDP than the assessment made by the XV FC had an adverse impact on the resource mobilisation and public expenditure in the State.

GSDP is the most important indicator for measuring the economic growth of a State. These estimates of economy, over a period of time, reveal the extent and direction of the changes in the levels of economic development. The State Domestic Product is classified under three broad Sectors such as Primary, Secondary and Tertiary and is compiled economic activity-wise as per the methodology prescribed by the Central Statistics Office (CSO), Government of India (GoI) and furnished to the Ministry of Statistics and Programme Implementation. Moreover, GSDP is the sum total of value added by different economic sectors (Agriculture, Industry and Services), which form the three broad sectors, produced within the boundaries of the State calculated without duplication during a year. It is one of the measures of economic growth for a State's economy.

Charts 1.1 and 1.2 depict the details of the shift in sectoral contribution to GSDP and sectoral growth of the GSDP during the period 2016-21.

Chart-1.1: Sectoral composition of GSDP (2016-17 to 2020-21)



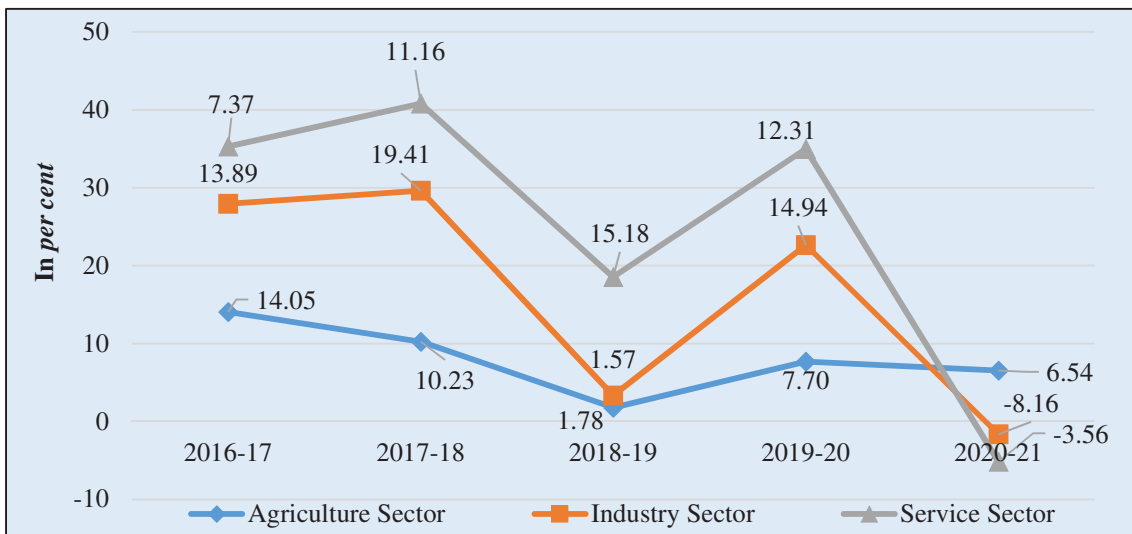
Source: Information furnished by the Directorate of Economics and Statistics, GoN

¹ Total 11 North Eastern and Himalayan States:

Eight North Eastern States: (i) Arunachal Pradesh, (ii) Assam, (iii) Manipur, (iv) Meghalaya, (v) Mizoram, (vi) Nagaland, (vii) Sikkim and (viii) Tripura

Three Himalayan States: (i) Himachal Pradesh, (ii) Jammu and Kashmir and (iii) Uttarakhand

Chart 1.2: Sectoral growth in GSDP



Source: Information furnished by the Directorate of Economics and Statistics, Government of Nagaland

The GSDP of the State increased by ₹7,590.38 crore during the period 2016-17 (₹21,722.45 crore) to 2020-21 (₹29,312.83 crore) at a Compounded Annual Growth Rate (CAGR) of 7.78 per cent. During the current year, GSDP decreased by ₹223.10 crore (0.76 per cent) over the previous year mainly due to decrease in contribution under Industry and Service sectors.

During the five-year period 2016-17 to 2020-21, the Service sector was the major contributor to the GSDP contributing over 50 per cent of the GSDP. During 2020-21, the Service sector contributed 55.57 per cent followed by the Agriculture sector with 30.70 per cent and Industry sector with 10.97 per cent. Taxes on products - Subsidies on products formed 2.76 per cent of GSDP.

The sector-wise trend is discussed below:

- (i) Agriculture Sector increased by ₹2,008.18 crore during the period 2016-17 to 2020-21 at a CAGR of 6.52 per cent. During 2020-21, the major contributor in this sector was Agriculture, Forestry and Fishing (97.34 per cent). The increase of ₹552.11 crore (6.54 per cent) over the previous year was primarily due to increase in activities under 'crops' and 'forestry and logging' by 5.81 and 9.87 per cent respectively, over the previous year.
- (ii) Industry Sector increased by ₹703.97 crore during the period 2016-17 to 2020-21 at a CAGR of 6.37 per cent. During 2020-21, the major contributors in this sector were construction (70.33 per cent) and electricity, gas, water supply and other utility services (19.89 per cent). The decrease of ₹288.55 crore (8.16 per cent) during 2020-21 over the previous year was primarily due to decrease in contribution under construction by 12.40 per cent over the previous year.
- (iii) Service Sector increased by ₹4,543.30 crore during the period 2016-17 to 2020-21 at a CAGR of 8.52 per cent. During 2020-21, the major contributors in this sector were public administration (34.65 per cent), other services (26.11 per cent), and trade, repair, hotels and restaurants (16.68 per cent). The decrease of

₹601.31 crore (3.56 per cent) during 2020-21 over the previous year was primarily due to decrease under 'Trade, Hotels and Restaurants' and 'Transport, storage, communication & services related to broadcasting' by 18.30 per cent.

- (iv) Taxes on products - Subsidies on products increased by ₹334.94 crore at a CAGR of 14.24 per cent during the period 2016-17 to 2020-21. During 2020-21, there was an increase of ₹111.65 crore (15.96 per cent) over the previous year due to an increase under 'Taxes on products' by 12.00 per cent and 'Subsidies on products' by 5.60 per cent over the previous year.

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Principal Accountant General (Accounts and Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Principal Accountant General (Audit), and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Principal Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS);
- GSDP data and other State related statistics; and
- Various audit reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the XV Finance Commission (FC), State Fiscal Responsibility and Budget Management Act, best practices and guidelines of the GoI.

1.3 Report Structure

The SFAR is structured into the following five Chapters:

| | |
|--------------------|--|
| Chapter – 1 | Overview of the State Finances This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State’s fiscal position including the deficits/ surplus. |
| Chapter – 2 | Finances of the State This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2016-17 to 2020-21, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State. |
| Chapter – 3 | Budgetary Management This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management. |
| Chapter – 4 | Quality of Accounts and Financial Reporting Practices This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government. |
| Chapter - 5 | Functioning of State Public Sector Enterprises This chapter comments on an overall picture of the financial performance of State Public Sector Undertakings (SPSUs). |

1.4 Overview of Government Account Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

Consolidated Fund of the State (Article 266 (1) of the Constitution of India)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, *etc.*), Ways and Means Advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (*e.g.*, salaries of Constitutional authorities, loan repayments, *etc.*), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

Contingency Fund of the State (Article 267 (2) of the Constitution of India)

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the

State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

Public Accounts of the State (Article 266 (2) of the Constitution of India)

Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayable like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the Government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue Receipts consist of tax revenue, non-tax revenue, share of Union Taxes/Duties, and grants from Government of India.

Revenue Expenditure consists of all those expenditures of the government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The capital receipts consist of:

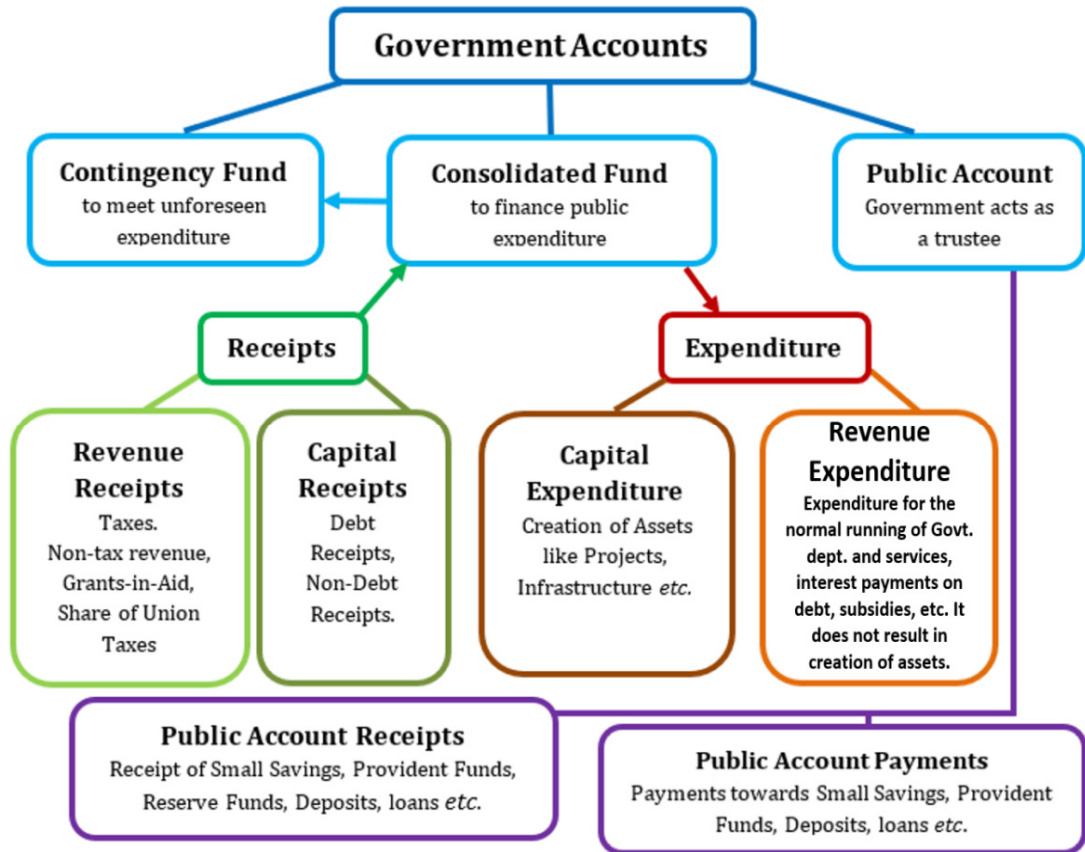
Debt Receipts include Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, *etc.*;

Non-debt Receipts include Proceeds from disinvestment, recoveries of loans and advances;

Capital Expenditure includes expenditure incurred with the objective of increasing concrete assets of a material and permanent character *viz.*, on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the government to PSUs and other parties.

The layout of the Finance Accounts has been shown in **Appendix 1.1, Part A** and the pictorial depiction of the structure of Government Accounts is given in **Chart 1.3**.

Chart 1.3: Pictorial depiction of the structure of Government Accounts



At present, we have an accounting classification system in government that is both functional and economic as shown in **Table 1.2**.

Table 1.2: Accounting classification system in Government

| | Attribute of transaction | Classification |
|-----------------------------|---|--|
| Standardised in LMMH by CGA | Function- Education, Health, <i>etc.</i> / Department | Major Head under Grants (4-digit) |
| | Sub-Function | Sub Major head (2-digit) |
| | Programme | Minor Head (3-digit) |
| Flexibility left for States | Scheme | Sub-Head (2-digit) |
| | Sub-scheme | Detailed Head (2-digit) |
| | Economic nature/Activity | Object Head-salary, minor works, <i>etc.</i> (2-digit) |

The functional classification lets us know the department, function, scheme or programme, and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, *etc.* Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, while “salary” object head is revenue expenditure, “construction” object head is capital expenditure. Object Head is the primary unit of appropriation in the budget documents.

Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year, in the form of an **Annual Financial Statement**. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund. Some States have more than one consolidated Budget – there could be sub-budgets like Gender Budget, Agriculture Budget, Weaker sections (SCs/ STs) Budget, Disability Budget, *etc.*

Government of Nagaland (GoN) has not prepared its Budget manual so far. While formulating its Budget for 2020-21, the State Government introduced several significant and proactive policies to promote the overall development of the State and its people. However, no separate sub-budgets were prepared during 2020-21. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

Summarised position of Finances

Details of actual financial results *vis-à-vis* Budget Estimates (BEs) for the year 2020-21 *vis-à-vis* actual of 2019-20 are shown in **Table 1.3**.

Table 1.3: Financial results *vis-à-vis* BEs

| Sl. No. | Components | 2019-20 Actuals | 2020-21 | | Percentage of Actual to BEs | Percentage of Actuals to GSDP |
|------------|--------------------------------------|------------------|------------------|------------------|-----------------------------|-------------------------------|
| | | | BEs | Actuals | | |
| 1. | Tax Revenue | 958.23 | 1,011.12 | 1,022.74 | 101.15 | 3.49 |
| 2. | Non-Tax Revenue | 339.29 | 272.23 | 242.60 | 89.12 | 0.83 |
| 3. | Share of Union Taxes and Duties | 3,267.08 | 4,493.38 | 3,409.25 | 75.87 | 11.63 |
| 4. | Grants-in-Aid and Contributions | 6,858.69 | 8,871.15 | 6,752.84 | 76.12 | 23.04 |
| 5. | Revenue Receipts (1+2+3+4) | 11,423.29 | 14,647.88 | 11,427.43 | 78.01 | 38.98 |
| 6. | Recovery of Loans and Advances | 1.09 | 1.50 | 1.23 | 82.00 | 0.00 |
| 7. | Other Receipts | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 8. | Borrowings and other Liabilities (a) | 1,417.43 | 1,819.89 | 1,175.06 | 64.57 | 4.01 |
| 9. | Capital Receipts (6+7+8) | 1,418.52 | 1,821.39 | 1,176.29 | 64.58 | 4.01 |
| 10. | Total Receipts (5+9) | 12,841.81 | 16,469.27 | 12,603.72 | 76.53 | 43.00 |
| 11. | Revenue Expenditure | 11,637.02 | 13,623.54 | 11,052.06 | 81.12 | 37.70 |
| 12. | Interest payments | 813.74 | 970.50 | 856.77 | 88.28 | 2.92 |
| 13. | Capital Expenditure (b) | 1,215.58 | 2,288.64 | 1,677.54 | 73.30 | 5.72 |
| 14. | Capital outlay | 1,206.32 | 2,285.14 | 1,671.93 | 73.17 | 5.70 |
| 15. | Loan and advances | 9.26 | 3.50 | 5.61 | 160.29 | 0.02 |
| 16. | Total Expenditure (11+13) | 12,852.60 | 15,912.18 | 12,729.60 | 80.00 | 43.43 |

| Sl. No. | Components | 2019-20 Actuals | 2020-21 | | Percentage of Actual to BEs | Percentage of Actuals to GSDP |
|---------|--|-----------------|----------|----------|-----------------------------|-------------------------------|
| | | | BEs | Actuals | | |
| 17. | Revenue Deficit(-)/ Surplus (+) (5-11) | -213.73 | 1,024.34 | 375.37 | 36.65 | 1.28 |
| 18. | Fiscal Deficit {16-(5+6+7)} | 1,428.22 | 1,262.80 | 1,300.94 | 103.02 | 4.44 |
| 19. | Primary Deficit (18-12) | 614.48 | 292.30 | 444.17 | 151.96 | 1.52 |

Source: Finance Accounts, 2020-21 and Annual Financial Statement, 2020-21

(a) Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt+Net of Contingency Fund+Net (Receipts-Disbursements) of Public Account+Net of Opening and Closing Cash Balance.

(b) Expenditure on Capital Account includes Capital Expenditure and Loans and Advances disbursed.

- The actual own tax revenue collections exceeded the budget estimates, while the non-tax revenue, share of Union Taxes and Duties and Grants-in-Aid (GIA) from the GoI fell short over the budget estimates. The overall Revenue Receipts of the State fell short of the BEs mainly due to overestimation of the GIA from the GoI at BEs stage.
- During 2020-21, the State moved from a Revenue Deficit to a Revenue Surplus State due to less expenditure over the previous year and marginal growth of Revenue Receipts. The Revenue Receipts increased by ₹4.14 crore (0.04 per cent) from ₹11,423.29 crore in 2019-20 to ₹11,427.43 crore in 2020-21, while the Revenue Expenditure decreased by ₹584.96 crore (5.03 per cent) from ₹11,637.02 crore in 2019-20 to ₹11,052.06 crore in 2020-21.
- The Fiscal Deficit decreased over the previous year. It decreased by ₹127.28 crore (8.91 per cent) from ₹1,428.22 crore in 2019-20 to ₹1,300.94 crore in 2020-21. The Government's Capital Expenditure increased by ₹461.96 crore (38.00 per cent) from ₹1,215.58 crore in 2019-20 to ₹1,677.54 crore in 2020-21.

Summarised position of Assets and liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

The financial position of the Government of Nagaland as on 31 March 2021 is given in **Appendix 1.2**. The summarised position of Assets and Liabilities of the State for the year 2020-21 as compared to the previous year 2019-20 is shown in **Table 1.4**.

Table 1.4: Summarised position of Assets and Liabilities

(₹ in crore)

| Liabilities | | | | Assets | | | | | |
|-------------------|-----------------------------|----------|---------------------|--------|---------|----------------------|---------------------|-----------|----|
| | 2019-20 | 2020-21 | Increase (per cent) | | 2019-20 | 2020-21 | Increase (per cent) | | |
| Consolidated Fund | | | | | | | | | |
| A | Internal Debt | 8,986.93 | 10,331.14 | 15 | A | Gross Capital Outlay | 19,302.06 | 20,973.99 | 9 |
| B | Loans and Advances from GoI | 131.15 | 317.88 | 142 | B | Loans and Advances | 37.07 | 41.45 | 12 |

| Liabilities | | | | Assets | | | | | |
|------------------|--------------------------------------|------------------|------------------------|-----------|---------|---|------------------------|------------------|-----------|
| | 2019-20 | 2020-21 | Increase (per cent) | | 2019-20 | 2020-21 | Increase (per cent) | | |
| Contingency Fund | 0.35 | 0.35 | 0 | | | | | | |
| Public Account | | | | | | | | | |
| A | Small Savings, Provident Funds, etc. | 2,131.38 | 1,875.68 | -12 | A | Advances | 0.37 | 0.58 | 57 |
| B | Deposits | 960.38 | 978.57 | 2 | B | Remittance | - | - | - |
| C | Reserve Funds | 1,628.43 | 1,754.57 | 8 | C | Suspense and Miscellaneous | 89.02 | 90.1 | 1 |
| D | Remittances | -661.18 | -661.02 | 0 | | Cash balance (including investment in Earmarked Fund) | 2,627.83 | 2,745.33 | 4 |
| | | | | | | Total | 22,056.35 | 23,851.45 | 8 |
| | | | | | | Deficit in Revenue Account | 8,878.91 | 9,254.28 | 4 |
| | Total | 13,177.44 | 14,597.17 | 11 | | Total | 13,177.44 | 14,597.17 | 11 |

Source: Finance Accounts, 2020-21

As can be seen from the above table, the Assets and Liabilities of the State showed an increase of 11 *per cent* during 2020-21 over the previous year. The increase in Liabilities was mainly due to increase in Reserve Funds (eight *per cent*) and Loans and Advances from GoI (142 *per cent*), which was offset by decrease in Small Savings, Provident funds, etc. (12 *per cent*) over the previous year. Similarly, the increase in Assets was mainly due to increase in Cash balance (including investment in Earmarked Fund) (four *per cent*) and disbursement of Loans and Advances (12 *per cent*).

1.5 Fiscal Balance: Achievement of deficit and total debt targets

When a government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture government deficit.

Deficits must be financed by borrowing giving rise to government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which adds to the stock of debt. If the government continues to borrow year after year, it leads to the accumulation of debt and the government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the government transfers the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some twenty years later by raising taxes or reducing expenditure. Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if government deficits succeed in their goal of raising production, there will be more income and, therefore, more saving. In this case, both government and

industry can borrow more. Also, if the government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. There has also been an attempt to raise receipts through the sale of shares in PSUs. However, the major thrust has been towards reduction in government expenditure. This could be achieved through making government activities more efficient through better planning of programmes and better administration.

The Central and individual State Governments have passed Fiscal Responsibility and Budget Management Act (FRBM) with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium term framework. In this context the Act provides quantitative targets to be adhered by the state with regard to deficit measures and debt level.

State Government enacted the Nagaland Fiscal Responsibility and Budget Management (NFRBM) Act, 2005 in line with the Union FRBM Act, 2003, to ensure stability and sustainability, improve efficiency and transparency in management of public finances, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove impediments to effective conduct of fiscal policy and prudent debt management.

In line with the recommendations of the Central Finance Commissions, the NFRBM Act was subsequently amended thrice *i.e.* July 2009, March 2011 and March 2021. However, the NFRBM Act was not amended in line with the XIV FC recommendations (Paragraph 2.6 of XIV FC Report) during the award period (2015-20) of XIV FC (2015-20). Hence, the recommendations of the XV FC (Paragraph 1.25 of 2020-21) on adherence of FRBM Act (amended in 2018) could not be observed.

In addition to the Fiscal Correction Path (FCP), the State Government is required to prepare every year, as per the provisions of the NFRBM Act, 2005, a Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets. The State Government had prepared MTFPS every year.

The status of achievement *vis-à-vis* projections set by the XIV/ XV FC, based on the information furnished by Finance Department, Government of Nagaland during the period 2016-17 to 2020-21 is given in **Table 1.5**:

Table 1.5: Compliance with the projections of FRBM Act

| Fiscal Parameters | XIV/ XV FC projections | Achievement | | | | |
|--|--|----------------------|----------------------|------------------------|------------------------|------------------------|
| | | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| Revenue | 2016-20: | 790.34 | 827.86 | 517.43 | (-)213.73 | 375.37 |
| Deficit (-)/ Surplus (+) (₹ in crore) | Revenue Surplus 2020-21: Revenue Deficit | ✓ | ✓ | ✓ | ✗ | ✓ |
| Fiscal Deficit (-)/ Surplus (+) | 2016-20: Three <i>per cent</i> of GSDP 2020-21: 3.92 | (-)284.86 (-1.31) | (-)446.09 (-1.83) | (-)1,082.32 (-4.08) | (-)1,428.22 (-4.84) | (-)1,300.94 (-4.44) |
| | | ✓ | ✓ | ✗ | ✗ | ✗ |
| Ratio of total outstanding debt to GSDP (<i>per cent</i>) | 2016-17: 33.00 2017-18: 31.00 2018-19: 42.00 2019-20: 40.00 2020-21: 45.20 | 44.00 | 42.67 | 39.75 | 41.23 | 45.96 |
| | | ✗ | ✗ | ✓ | ✗ | ✗ |

Source: Finance Department, GoN and Finance Accounts of respective years

State Government was successful in maintaining Revenue Surplus as projected in FC reports, in four out of the five years, during the five-year period from 2016-17 to 2020-21.

The State was successful in achieving the respective Fiscal Deficit as *per cent* of GSDP projections made in FC reports in two out of the last five years during 2016-21.

During the five-year period from 2016-17 to 2020-21, the State Government was successful in maintaining outstanding debt to GSDP ratio only in 2018-19 as per the projection made in FC reports. The State Government could not maintain outstanding debt to GSDP ratio projection during 2020-21 as the State Government availed additional one *per cent* borrowing allowed by GoI under the Atma Nirbhar Package which increased States' borrowing limits from three *per cent* to five *per cent*.

The position of projections made by the State Government in its MTFPS *vis-à-vis* achievements during the year 2020-21 is depicted in **Table 1.6**.

Table 1.6: Actuals *vis-à-vis* projection in MTFPS for 2020-21

(₹ in crore)

| Sl. No. | Fiscal Variables | Projection as per MTFPS | Actuals (2020-21) | Variation (in <i>per cent</i>) |
|-----------|--|-------------------------|-------------------|---------------------------------|
| 1. | Own Tax Revenue | 1,011.13 | 1,022.74 | 1.15 |
| 2. | Non-Tax Revenue | 272.23 | 242.60 | -10.88 |
| 3. | Share of Central Taxes | 4,493.37 | 3,409.25 | -24.13 |
| 4. | Grants-in-Aid from GoI | 8,871.15 | 6,752.84 | -23.88 |
| 5. | Revenue Receipts (1 + 2 + 3 + 4) | 14,647.88 | 11,427.43 | -21.99 |
| 6. | Revenue Expenditure | 13,623.54 | 11,052.06 | -18.88 |
| 7. | Revenue Surplus (5 - 6) | 1,024.34 | 375.37 | -63.35 |
| 8. | Fiscal Deficit | 1,262.80 | 1,300.94 | 3.02 |
| 9. | Debt-GSDP ratio (<i>per cent</i>) | 40.99 | 45.96 | 12.12 |
| 10. | GSDP growth rate at current prices (<i>per cent</i>) | 15.57 | -0.76 | 104.88 |

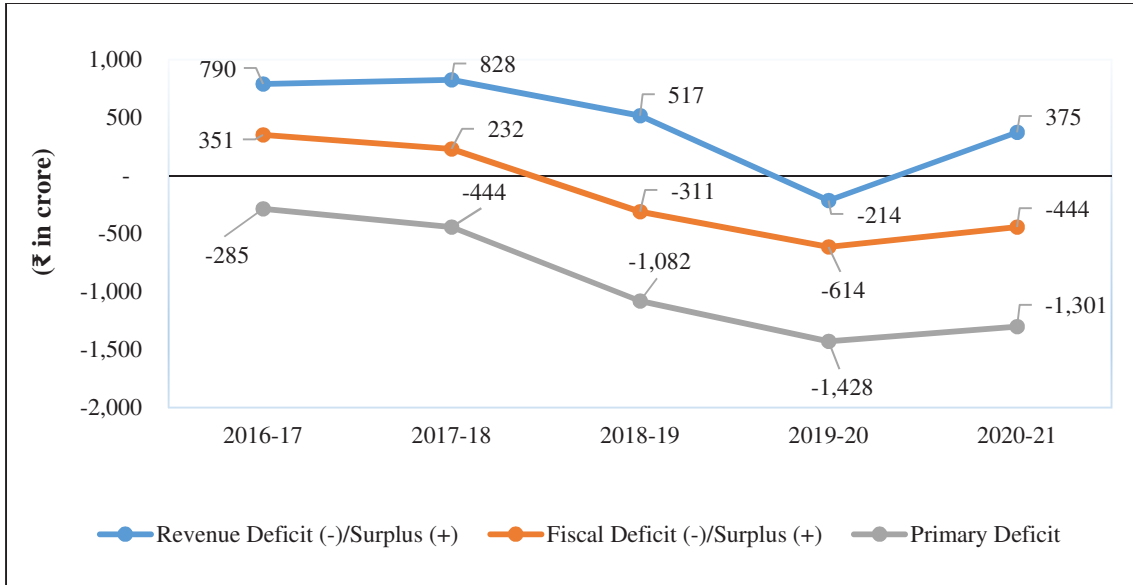
Source: MTFP Statement and Finance Accounts, 2020-21

As can be seen from the above table, the projections made in MTFPS relating to two key fiscal parameters *i.e.*, Revenue Deficit and Fiscal Deficit were not achieved during 2020-21. The projection relating to growth rate of GSDP was not met with

negative growth in GSDP. Moreover, projection relating to Debt-GSDP ratio was also not met, with the year ending at a higher Debt to GSDP ratio.

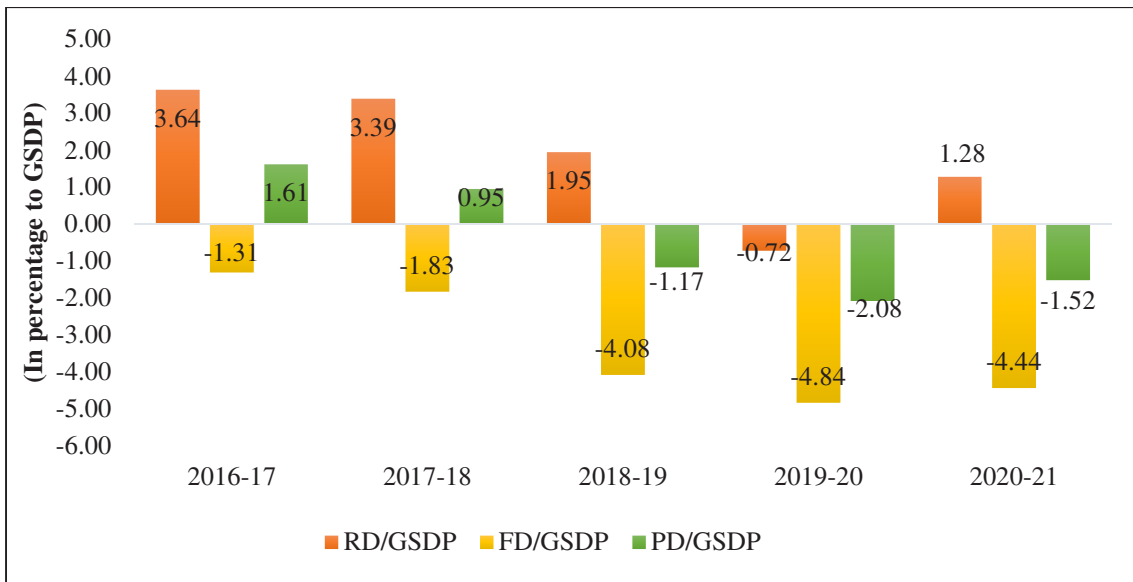
Charts 1.4 and 1.5 present the trends in deficit indicators and **Chart 1.6** presents the trends in Fiscal Liabilities and GSDP *vis-à-vis* target set by the State Government in its MTFP statement over the period 2016-17 to 2020-21.

Chart 1.4: Trends in deficit parameters



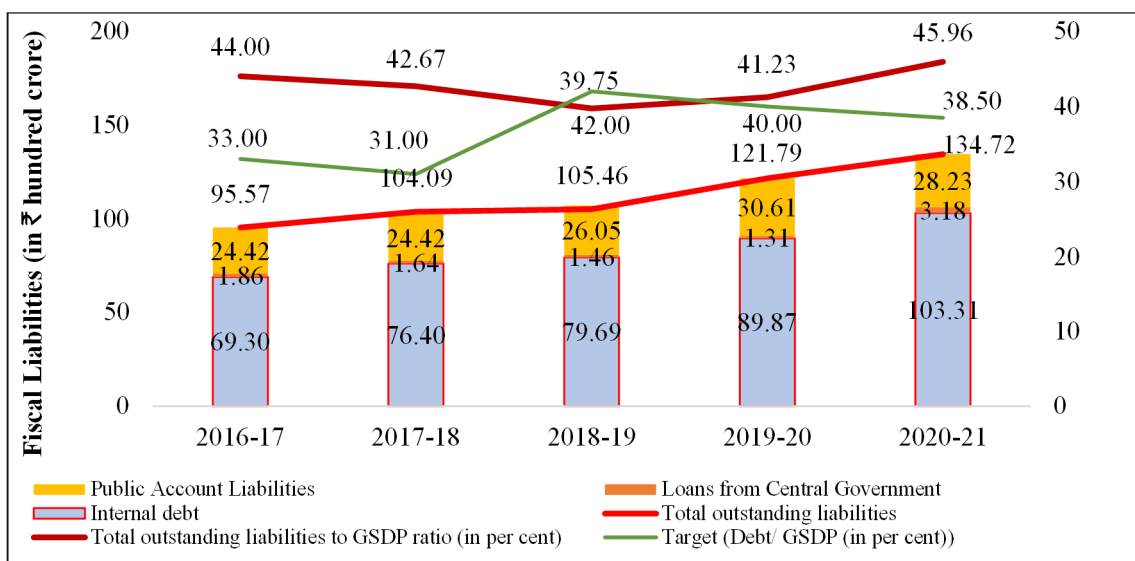
Source: Finance Accounts for respective years and GSDP-Directorate of Economics and Statistics, GoN

Chart 1.5: Trends in Surplus/ Deficit relative to GSDP



Source: Finance Accounts for respective years and GSDP-Directorate of Economics and Statistics, GoN
RD: Revenue Deficit, FD: Fiscal Deficit; PD: Primary Deficit

Chart 1.6: Trends in Fiscal Liabilities and GSDP



Source: Finance Accounts for respective years and GSDP-Directorate of Economics and Statistics, GoN

As can be seen from the above charts, Surplus on Revenue Account was witnessed during 2020-21 and it was mainly due to the fact that the State witnessed decrease in Revenue Expenditure whereas Revenue Receipt increased marginally during the year over the previous year. During 2020-21, Revenue Expenditure decreased by 5.03 per cent (₹584.96 crore) over the previous year, while Revenue Receipt increased marginally by 0.04 per cent (₹4.14 crore) during the same period.

The total fiscal liabilities showed increasing trend during the five-year period 2016-21. The increasing trend was mainly due to increase in Public Account liabilities and Internal Debt. During this period, the total outstanding liabilities to GSDP ratio was above the norm set by the State Government in its MTFPS in four years.

1.6 Deficits and Total Debt after examination in audit

In order to present better picture of State Finances, there is a tendency to classify revenue expenditure as capital expenditure and to conduct off budget financial activities.

Post audit - Deficits

Misclassification of revenue expenditure as capital and off budget financial activities impact deficit figures. Besides, deferment of clear cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to National Pension Scheme, Sinking and Redemption funds, etc. also impacts the revenue surplus and fiscal deficit figures.

Audit noticed overstatement of Revenue Surplus by ₹189.18 crore and understatement of Fiscal Deficit by ₹151.02 crore for 2020-21, as detailed in **Table 1.7**.

Table 1.7: Revenue and Fiscal Deficit, post examination by Audit

| Particulars | Impact on (₹ in crore) {Understated (+)/ overstated (-)} | | Paragraph Reference |
|---|---|-------------------|---------------------|
| | Revenue Surplus | Fiscal Deficit | |
| Short-contribution to National Pension Scheme | (-) 142.23 | (+) 142.23 | Para 2.4.2.3 |
| Grants-in-Aid booked as Capital Expenditure instead of Revenue | (-) 0.07 | - | Para 3.3.2.1 |
| Minor works budgeted/ booked under Capital Section instead of Revenue | (-) 41.52 | - | Para 3.3.2.2 |
| Major works budgeted/ booked under Revenue Section instead of Capital | (+) 3.43 | - | Para 3.3.2.2 |
| Interest adjustment on Defined Contribution Pension Scheme | (-) 7.78 | (+) 7.78 | Para 4.2 |
| Short transfer to Guarantee Redemption Fund | (-) 0.87 | (+) 0.87 | Para 2.5.2.3 |
| State Compensatory Afforestation Fund | (-) 0.14 | (+) 0.14 | Para 2.5.2.4 |
| Total | (-) 189.18 | (+) 151.02 | |

Source: Finance Accounts, 2020-21

Based on the result of examination of misclassification during post audit, the Revenue Surplus would reduce from ₹375.37 crore to ₹186.19 crore and Fiscal Deficit would increase from ₹1,300.94 crore to ₹1,451.96 crore.

1.7 Conclusion

The fiscal position of the State is viewed in terms of three key fiscal parameters – Revenue Deficit/ Surplus, Fiscal Deficit/ Surplus and primary deficit/surplus.

The State's GSDP decreased by ₹223.10 crore (0.76 per cent) from ₹29,535.93 crore in 2019-20 to ₹29,312.83 crore in 2020-21. During the last five years, there was a steady increase in GSDP from ₹21,722.45 crore in 2016-17 to ₹29,535.93 crore in 2019-20. The GSDP negative growth rate for Nagaland (-0.76 per cent) was higher than the all India GDP growth rate (-2.97 per cent) in 2020-21. Service Sector was the major contributor of GSDP during the year with 55.57 per cent. Agriculture Sector was the second largest contributor with 30.70 per cent while Industry Sector (10.97 per cent) and Taxes on products – Subsidies on products (three per cent) were third and fourth respectively.

During 2020-21, the State had a Revenue surplus of ₹375.37 crore which was 1.28 per cent of GSDP. Fiscal deficit was ₹1,300.94 crore during 2020-21 which was 4.44 per cent of GSDP and primary deficit was ₹444.17 crore, 1.52 per cent of GSDP.

The State's Revenue Deficit in previous year turned into Revenue Surplus, which was ₹375.37 crore for the year, mainly due to decrease in Revenue Expenditure (5.03 per cent) and marginal increase in Revenue Receipt (0.04 per cent).

The State's Revenue Receipts (₹11,427.43 crore) increased by 0.04 per cent (₹4.14 crore) over the previous year (₹11,423.29 crore), mainly due to increase in Own Tax Revenue (6.73 per cent) and State's share in Union Taxes and Duties (4.35 per cent).

The State's Own Tax Revenue (₹1,022.74 crore) increased by 6.73 per cent over the previous year (₹958.23 crore). State's share of Union Taxes and Duties

(₹3,409.25 crore) in comparison to the previous year (₹3,267.08 crore) increased by ₹142.17 crore (4.35 per cent).

Revenue Expenditure was ₹11,052.06 crore and it decreased by 5.03 per cent (₹584.96 crore) over the previous year (₹11,637.02 crore).

Capital Expenditure which was ₹1,671.93 crore for the year, increased by 38.60 per cent (₹465.61 crore) over the previous year's expenditure ₹1,206.32 crore. It was mainly due to increase in capital outlay under General Services (147.15 per cent) and Economic Services (29.22 per cent).

The State's Total Expenditure for the year, which was ₹12,729.60 crore, decreased by 0.96 per cent (₹123.00 crore) over the previous year (₹12,852.60 crore). It was mainly due to decrease in Revenue Expenditure (₹584.96 crore) offset by increase in Capital Expenditure (₹465.61 crore).

The State's Fiscal Deficit (₹1,300.94 crore) decreased by 8.91 per cent (₹127.28 crore) as compared to previous year (₹1,428.22 crore). The Government was successful in maintaining Revenue Surplus as projected in FRBM Act (amended in March 2021) during the year but the Fiscal Deficit-GSDP ratio and Outstanding Debt-GSDP ratio were above the ceilings prescribed under the Act.

Based on the result of examination of misclassification during post audit, the Revenue Surplus would reduce from ₹375.37 crore to ₹186.19 crore and Fiscal Deficit would increase from ₹1,300.94 crore to ₹1,451.96 crore.

1.8 Recommendations

- The State Government needs to keep up the trend of Own Tax Revenue collection achieved during 2020-21 by focusing on other potential areas, apart from State Goods and Services Tax to have a sustained increase in Own Tax Revenues.
- The State Government needs to make efforts to achieve the projections on deficit and debt parameters, made in the Nagaland FRBM Act.