

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

Summary

In Nagaland, revenue deficit had increased from Rs.36.13 crore in 2000-01 to Rs.159.37 crore in 2002-03. However, there was revenue surplus of Rs.546.80 crore in 2003-04 which came down to Rs.154.89 crore in 2004-05. The decline in revenue surplus was mainly on account of receipt of one time grant in aid in 2003-04 of Rs.365 crore.

Revenue of the State consisted mainly of Grants in aid from Government of India (83 *per cent*), Central tax transfers (9 *per cent*) and its own tax (4 *per cent*) and non-tax revenue (4 *per cent*). Overall revenue receipts increased from Rs.1,254.10 crore in 2000-01 to Rs.1,839.52 crore in 2004-05 at an average growth rate of 14.26 *per cent*. There were, however, significant inter year variations in the growth rates. The revenue receipts for 2004-05 were less from the year 2003-04 by Rs.520.27 crore (22 *per cent*). While 8 *per cent* of the revenue receipts during 2004-05 came from the State's own resources comprising taxes and non-taxes, Central tax transfer and Grants-in-aid together contributed 92 *per cent* of the total revenue.

Total expenditure of the State increased from Rs.1,531.98 crore in 2000-01 to Rs.2064.41 crore in 2004-05 at an average growth rate of 9.56 *per cent*. The expenditure decreased by Rs.144.79 crore (6.55 *per cent*) in 2004-05 compared to the previous year though the average growth of 9.56 *per cent* was noticed during the last five years.

The interest payment during 2004-05 was Rs.249.62 crore up by 6.34 *per cent* over the last year. The debt burden was Rs.1,429.93 crore in 2000-01 and had increased to Rs.2,146.29 crore in 2004-05 at an average rate of 12.89 *per cent*.

1.1 Introduction

The Finance Accounts of the Government of Nagaland are laid out in 19 statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in Box 1.1.

Box 1.1

Lay out of Finance Accounts

Statement No.1 presents the summary of transactions of the State Government receipts and expenditure, revenue and capital, public debt receipts and disbursements, etc., in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No.2 contains the summarized statement of capital outlay showing progressive expenditure to the end of 2004-05.

Statement No.3¹ gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc. There is no commercial irrigation project in Nagaland.

Statement No.4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No.5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No.6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.

Statement No.7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.

Statement No.9 shows the revenue and expenditure under different heads for the year 2004-05 as a percentage of total revenue/expenditure.

Statement No.10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No.11 indicates the detailed account of revenue receipts by minor heads.

Statement No.12 provides accounts of revenue expenditure by minor heads under non-plan and plan separately and capital expenditure by major head-wise.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2004-05.

¹ Statement No.3 has been introduced from the current year. As a result lay out of Statement No.4 to 19 have accordingly been rearranged.

Statement No.14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, co-operative banks and societies, etc. up to the end of 2004-05.

Statement No.15 depicts the capital and other expenditure to the end of 2004-05 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

Statement No.17 presents detailed account of debt and other interest bearing obligations of the Government.

Statement No.18 provides the detailed account of loans and advances given by the Government, the amount of loan repaid during the year and the balance as on 31 March 2005.

Statement No.19 gives the details of earmarked balances.

1.2 Trend of Finances with reference to previous year

Finances of the State Government during the current year compared to previous year were as under:

(Rupees in crore)

2003-04	Sl. No.	Major Aggregates	2004-05
2359.79	1	Revenue Receipts (2+3+4)	1839.52
68.55	2.	Tax Revenue	78.31
60.91	3.	Non-Tax Revenue	77.90
2230.33	4.	Other Receipts	1683.31
6.81	5.	Non-Debt Capital Receipts	6.50
6.81	6.	Of which Recovery of Loans and Advances	6.50
2366.60	7.	Total Non-Debt Receipts (1+5)	1846.02
1464.29	8.	Non-Plan Expenditure (9+11+12)	1392.55
1449.59	9.	On Revenue Account	1389.82
234.74	10.	Of which Interest Payments	249.62
10.98	11.	On Capital Account	2.58
3.72	12.	On Loans disbursed	0.15
744.91	13.	Plan Expenditure (14+15+16)	671.86
363.40	14.	On Revenue Account	294.81
380.15	15.	On Capital Account	376.86
1.36	16.	On Loans disbursed	0.19
2209.20	17.	Total Expenditure (8+13)	2064.41
157.40	18.	Fiscal surplus (+)/Fiscal Deficit (-) (7-17)	(-) 218.39
546.80	19.	Revenue Surplus (+)/Deficit (-) (1-9-14)	154.89
392.14	20.	Primary surplus (+)/Primary Deficit (-) (18+10)	31.23

The rise in fiscal deficit was mainly on account of Rs.520.27 crore declined in revenue receipts (22 per cent).

1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the Government of Nagaland for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements made during the year as emerging from Statement-1 of the Finance Accounts and other detailed statements.

Table 1 - SUMMARY OF RECEIPTS AND DISBURSEMENT FOR THE YEAR 2004-05

(Rupees in crore)							
2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
Section-A : Revenue							
					Non-Plan	Plan	Total
2359.79	I. Revenue receipts	1839.52	1812.99	I. Revenue expenditure	1389.82	294.81	1684.63
68.55	Tax revenue	78.31	874.91	General Services	852.55	5.40	857.95
60.91	Non-tax revenue	77.90	422.32	Social Services	306.76	114.19	420.95
256.97	Share of Union Taxes/Duties	160.15	515.76	Economic Services	230.51	175.22	405.73
1973.36	Grants from Government of India	1523.16	-	Grants-in-aid/Contribution	-	-	-
2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
Section-B: Capital							
-	II. Misc. Capital Receipts	-	391.13	II. Capital Outlay	2.58	376.86	379.44
6.81	III. Recoveries of Loans and Advances	6.50	5.08	III. Loans and Advances disbursed	-	-	0.34
(-) 3.22	IV. Public debt receipts ²	424.30	174.59	IV. Repayment of Public Debt ³	-	-	202.42
-	V. Contingency Fund	-	-	V. Contingency Fund	-	-	-
658.48	VI. Public account receipts	776.73	971.27	VI. Public account disbursements	-	-	795.29
120.88	Opening Balance	(-)212.32	(-)212.32	Closing Balance	-	-	(-) 227.39
3142.74	Total	2834.73	3142.74	Total			2834.73

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2004-05 and wherever necessary, these are shown in the time series data and periodic comparisons. The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. In addition, the section also contains a paragraph on indicators of financial performance of the

² Includes net ways and means advances and overdraft also.

³ Bifurcation of Plan and non-Plan not available.

Government. Some of the terms used here are explained in *Appendix-I*. The other statements of Liabilities and Assets, Receipts and Payments, Sources and Application of funds and Time Series Data are given in *Appendix-II to V*.

The reporting parameters are depicted in the Box 1.2.

Box 1.2
Reporting Parameters
<p>Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. As the new GSDP as required to be published by the Statistics department of the State Government could not be made available, the estimated GSDP published by the Ministry of Finance, Department of Expenditure, Finance Commission Division, (Fiscal Reforms Unit) in the minutes of meeting of the Monitoring Committee on ‘Medium Term Fiscal Restructuring Policy of Nagaland’ have been used.</p> <p>For tax revenues, non-tax revenues, revenue/expenditure etc., buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.</p> <p>For most series, a trend growth during 2000-05 has been indicated. The ratios with respect to GSDP have also been depicted.</p>

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account as defined in Box 1.3.

Box 1.3 State Government Funds and the Public Account

Consolidated Fund	Contingency Fund	Public Account
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund titled ‘The Consolidated Fund of State’ established under Article 266(1) of the Constitution of India.	Contingency Fund of State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorization by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.	Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are made from it.

1.5 State finances by key indicators

1.5.1 Resources by volumes and sources: Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, state’s share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments,

recoveries of loans and advances, debt receipts from internal sources viz., market loans, borrowings from financial institutions/commercial banks etc., and loans and advances from Government of India as well as accruals from the Public account.

Table 2 shows that the total receipts of the State Government for the year 2004-05 were Rs.3047.05 crore. Of these, the revenue receipts of the State Government were Rs.1839.52 crore only, constituting 60.37 per cent of the total receipts. The balance of receipts came from borrowings, recovery of loans and advances and public account receipts.

Table 2 – Resources of Nagaland

(Rupees in crore)		
I.	Revenue Receipts	1839.52
II.	Capital Receipts	430.80
(a)	Miscellaneous Receipts	-
(b)	Recovery of Loans and Advances	6.50
(c)	Public Debt Receipts	424.30
III.	Contingency Fund Receipts	-
IV.	Public Account Receipts	776.73
(a)	Small Savings, Provident Fund, etc.	110.24
(b)	Reserve Fund	0.85
(c)	Deposits and Advances	131.50
(d)	Suspense and Miscellaneous	41.20
(e)	Remittances	492.94
Total Receipts		3047.05

1.5.2 Revenue Receipts: Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts of the State consist mainly of Grants-in-aid from Government of India, Central tax transfers and its own tax and non-tax revenues. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy is indicated in Table 3.

Table 3 - Revenue Receipts-Basic Parameters

(Value: Rupees in crore and others in per cent)						
	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Receipts	1254.10	1324.53	1346.90	2359.79	1839.52	1624.97
Composition of Revenue Receipts (%) :						
(i) Own Taxes	3.69	4.14	4.60	2.91	4.26	3.92
(ii) Non-Tax Revenue	3.13	3.28	3.26	2.58	4.23	3.30
(iii) Central tax Transfers	7.69	2.32	3.42	10.89	8.71	6.60
(iv) Grants-in-aid	85.49	90.26	88.72	83.62	82.80	86.18
Rate of Growth of Revenue Receipts (%)	10.84	5.62	1.69	75.20	(-) 22.05	14.26
Rate of Growth of Own Taxes (%)	5.73	12.20	11.11	(-) 36.74	46.39	7.74
Revenue Receipts/GSDP	37.40	34.95	31.45	48.77	33.64	37.24
Buoyancy of Own Taxes	0.440	0.938	0.855	*	3.569	0.595
Revenue Buoyancy	0.834	0.432	0.130	5.785	*	1.10
GSDP Growth (%)[#]	13.00	13.00	13.00	13.00	13.00	13.00

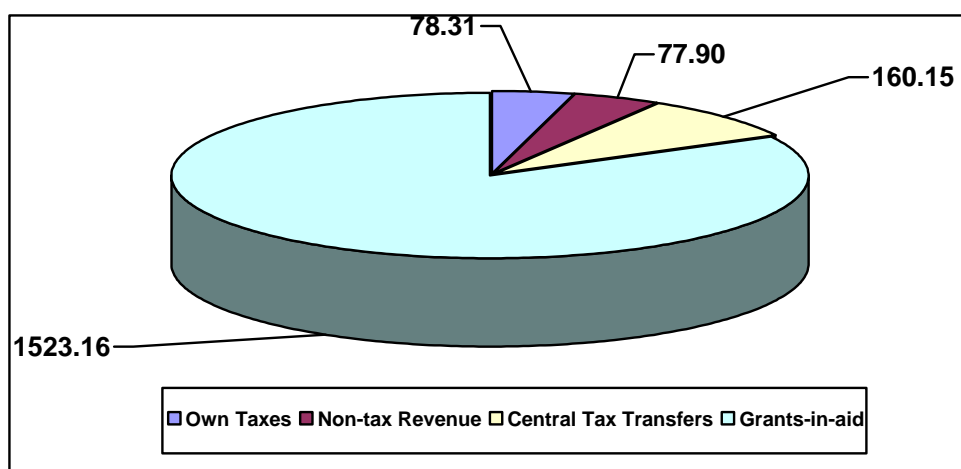
* Both Revenue Receipts and Own Taxes had a negative growth.

The GSDP for the relevant years having been not published by the State Government, the annual growth rate assumed by the Monitoring Committee under the Ministry of Finance Department, Government of India on "Medium Term Fiscal Restructuring Policy of Nagaland" has been taken.

The revenue receipts of the State increased from Rs.1254.10 crore in 2000-01 to Rs.1839.52 crore in 2004-05 at an average trend of 14.26 *per cent*. There were, however, significant inter-year variations in the growth rates. During the five-year period 2000-05, the State had a buoyant economy with its GSDP growth averaging 13 *per cent*. Rate of growth of revenue receipts which had remained lower than the growth of GSDP during 2000-03, surged to over 75 *per cent* in 2003-04. A buoyancy of 5.785 in 2003-04 pushed the overall buoyancy of revenue receipts to 1.10 during 2000-05. Almost the entire increase in revenue receipts was, however, contributed by grants in aid and tax transfers.

While 8 *per cent* of the revenue receipts during 2004-05 came from State's own resources comprising taxes and non-tax revenues, central tax transfers and grants-in-aid together contributed 92 *per cent* of the total revenue. Sales Tax was the major contributor (68 *per cent*) of State own tax revenue followed by other taxes (19 *per cent*). Of non-tax revenue sources, Power (51 *per cent*) and receipts from Miscellaneous general services (15 *per cent*) were the principal contributors.

**Revenue Receipts for 2004-05
(Rupees in crore)**



The source of total receipts under different heads and GSDP during 2000-2005 is indicated in Table 4.

Table 4 – Sources of Receipts: Trends

Year	Revenue Receipts	Capital Receipts				Total Receipts	Gross State Domestic product
		Non-Debt Receipts	Debt Receipts	Contingency Fund Receipts	Accruals in Public Account		
2000-01	1254.10	6.45	335.97	-	601.87	2198.39	3353.43
2001-02	1324.53	7.78	335.28	-	646.31	2313.90	3789.38
2002-03	1346.90	7.42	473.85	-	990.10	2818.27	4282.00
2003-04	2359.79	6.81	(-)3.22	-	658.48	3021.86	*4838.66
2004-05	1839.52	6.50	424.30	-	776.73	3047.05	*5467.68

* The GSDP for 2003-04 and 2004-05 being not published by the State Government, the projected estimated figures published by the Government of India have been used.

1.6 Application of resources

1.6.1 Trend of growth: Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs.1531.98 crore in 2000-01 to Rs.2064.41 crore in 2004-05 at an average trend of 9.56 per cent per annum. The expenditure in 2004-05 decreased substantially by 6.55 per cent compared to the previous year.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table-5 below:

Table 5 - Total Expenditure-Basic Parameters

(Value: Rupees in crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Total Expenditure*	1531.98	1669.27	1849.29	2209.20	2064.41	1864.83
Rate of Growth	15.16	8.96	10.78	19.46	(-)-6.55	9.56
TE/GSDP Ratio	45.68	44.05	43.19	45.66	37.76	43.27
Revenue Receipts/TE ratio	81.86	79.35	72.83	106.82	89.11	85.99
Buoyancy of total expenditure with						
GSDP	1.17	0.69	0.83	1.50	**	0.74
Revenue Receipts	1.40	1.60	6.39	0.26	**	1.99

*Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans and Advances.

**Both Total Expenditure and Revenue Receipts had a negative rate of growth.

The total expenditure relative to GSDP was almost stable during 2000-04 as reflected in percentage of total expenditure to GSDP (43.19 per cent to 45.68 per cent). However, due to decrease of total expenditure in 2004-05 the percentage of expenditure to GSDP also decreased to 37.76 per cent. Revenue receipts which were financing only 81.86 per cent of total expenditure in 2000-01 were financing about 89.11 per cent of total expenditure of 2004-05.

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services, interest payments, Social and Economic Services and loans and advances. Relative share of these components in total expenditure is indicated in Table 6.

Table 6 - Components of Expenditure – Relative Share

(in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
General Services	30.99	32.21	32.92	31.24	31.54	31.78
Interest Payments	11.56	12.01	11.60	10.63	12.09	11.58
Social Services	28.21	28.52	28.90	25.37	27.61	27.72
Economic Services	28.11	27.06	26.44	32.53	28.74	28.58
Loans and Advances	1.13	0.21	0.13	0.23	0.02	0.34

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. Notwithstanding these inter year and inter-component variations in relative shares overall share between developmental expenditure (social and economic services) and

non-developmental expenditure (general services and interest payments) was generally stable. There was an increase in non-development expenditure from 41.87 *per cent* in 2003-04 to 43.63 *per cent* during 2004-05. Around 43.36 *per cent* of the total expenditure was non-developmental in nature and the balance developmental.

1.6.2 Incidence of revenue expenditure: In the total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services and payment for past obligations and as such does not result in an addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table 7.

Table 7 - Revenue Expenditure – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Expenditure (Rupees in crore)	1290.23	1427.11	1506.27	1812.99	1684.63	1544.25
Rate of Growth (<i>per cent</i>)	13.10	10.61	5.55	20.36	(-)7.08	8.51
RE/GSDP	38.47	37.66	35.18	37.47	30.81	35.92
RE as % of TE	84.22	85.49	81.45	82.07	81.60	82.97
RE as % of Revenue Receipts	102.88	107.74	111.83	76.83	91.58	98.17
Buoyancy of Revenue Expenditure with (<i>per cent</i>)						
GSDP	1.01	0.82	0.43	1.57	*	0.65
Revenue Receipts	1.21	1.89	3.28	0.27	*	1.40

*Revenue Receipts had a negative growth.

Overall revenue expenditure of the State increased at an average trend of 8.51 *per cent*. Rate of growth of revenue expenditure reached a level of 20.36 *per cent* in 2003-04. On an average, 82.97 *per cent* of the total expenditure was on current consumption.

i) Salary expenditure: Salaries accounted for 44.84 *per cent* of revenue receipts and 48.96 *per cent* of revenue expenditure of the State during 2004-05. Expenditure on salaries increased from Rs.678.46 crore in 2000-01 to Rs.824.78 crore in 2004-05 registering an increase of 21.57 *per cent* in five years. Salary expenditure as percentage of revenue receipt and revenue expenditure, however, witnessed a substantial increase in 2004-05 over the previous year. The details are indicated in the Table 8.

Table 8

(Rupees in crore)					
Heads	2000-01	2001-02	2002-03	2003-04	2004-05
Salary expenditure	678.46	712.09	695.52	768.19	824.78
As a percentage of GSDP	20.23	18.79	16.24	15.88	15.08
As a percentage of revenue receipts	54.10	53.76	51.64	32.55	44.84
As a percentage of revenue expenditure	52.58	49.90	46.17	42.37	48.96

ii) Expenditure on pension payments: Pension payments increased by 52.84 *per cent* from Rs.87.56 crore in 2000-01 to Rs.133.83 crore in 2004-05.

Year-wise break-up of expenditure incurred on pension payments during the years 2000-01 to 2004-05 was as under:

Table 9

(Rupees in crore)

Year	Expenditure	Percentage to total revenue expenditure
2000-2001	87.56	6.79
2001-2002	112.26	7.87
2002-2003	133.38	8.85
2003-2004	140.81	7.77
2004-2005	133.83	7.94

The expenditure on account of pension has increased from 6.79 per cent of total revenue expenditure in 2000-01 to 7.94 per cent of total revenue expenditure in 2004-05.

iii) Interest payments: Interest payments and percentage of interest payment with reference to revenue receipts and revenue expenditure were as shown below.

Table 10

Year	Interest payments (Rupees in crore)	Percentage of interest payment with reference to	
		Revenue Receipts	Revenue Expenditure
2000-2001	177.09	14.12	13.73
2001-2002	200.47	15.14	14.05
2002-2003	214.58	15.93	14.25
2003-2004	234.74	9.95	12.95
2004-2005	249.62	13.57	14.82

Interest payments increased steadily by 40.96 per cent from Rs.177.09 crore in 2000-01 to Rs.249.62 crore in 2004-05 primarily due to higher borrowings. The interest payment was on Internal Debt (Rs.169.17 crore), loans received from Central Government (Rs.33.68 crore) and Small Savings, PF, etc. (Rs.46.77 crore).

Interest payments as a percentage of revenue expenditure had increased from 13.73 per cent in 2000-01 to 14.82 per cent in 2004-05.

1.7 Expenditure by allocative priorities

The expenditure of the State in the nature of plan expenditure, capital expenditure and development expenditure reflects its quality. Higher the ratio of these components to total expenditure better is the quality of expenditure. Table 11 gives these ratios during 2000-05, as follows.

Table 11 - Quality of Expenditure (per cent to total expenditure)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Plan Expenditure	29.50	28.29	31.56	33.73	32.54	31.12
Capital Expenditure	14.82	14.33	18.45	17.75	18.38	16.75
Development Expenditure	56.96	55.69	55.42	58.03	56.36	56.49

(Total expenditure does not include Loans and Advances)

All the three components of quality of expenditure had inter-year variations but no significant improvement was noticed in 2004-05 compared to earlier years.

Out of the developmental expenditure of Rs.1163.32 crore during the year, social services accounted for 49 *per cent* (Rs.569.92 crore). Expenditure on General Education, Health, Medical and Family Welfare, Water Supply and sanitation constituted 87.65 *per cent* (Rs.499.55 crore) of the expenditure on the Social sector.

Table 12 - Social Sector Expenditure

(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05
General Education	191.90	220.89	210.04	256.40	251.45
Health, Medical and Family Welfare	89.37	80.72	89.18	94.68	130.11
Water Supply and sanitation	95.87	113.77	155.22	125.30	117.99
Total	377.14	415.38	454.44	476.38	499.55
As a percentage of total expenditure on Social sector	87.27	87.25	85.02	85.00	87.65

(Reference: Appendix-III)

Similarly, the expenditure on Economic Services (Rs.593.40 crore) accounted for 51 *per cent* of the development expenditure, of which, irrigation and flood control, energy and transport accounted for 42.27 *per cent*.

Table 13 - Economic Sector Expenditure

(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05
Irrigation and flood control	12.83	13.47	18.66	21.34	23.29
Energy	111.13	113.41	132.36	219.64	138.70
Transport	49.23	52.95	72.25	90.45	88.82
Total	173.19	179.83	223.27	331.43	250.81
As a percentage of total expenditure on Economic sector	40.22	39.82	45.66	46.12	42.27

(Reference: Appendix-III)

1.7.1 Financial Assistance to Local Bodies and other Institutions

i) Extent of assistance: The quantum of assistance Rs.111.78 crore provided by way of grants to different local bodies etc., during the period of five years ending 2004-05 was as follows:

		(Rupees in crore)				
		2000-01	2001-02	2002-03	2003-04	2004-05
(A)	Universities and Educational Institutions	0.94	0.65	1.45	2.10	3.05
(B)	Development Agencies	13.01	2.67	0.43	-	24.67
(C)	Hospitals and other Charitable Institutions	-	-	-	0.10	5.59
(D)	Other Institutions	5.17	12.44	10.03	28.46	1.02
Total		19.12	15.76	11.91	30.66	34.33
Percentage of growth over previous year		-	-	-	157	11.97
Assistance as percentage of Revenue expenditure		1.48	1.10	0.79	1.69	2.04

(Source: Detailed Appropriation Accounts)

The assistance to the local bodies and other institutions during 2004-05 had increased by 11.97 *per cent* compared to the previous year mainly as a result of increased assistance to development agencies.

ii) Delay in furnishing Utilisation Certificates: At the end of March 2005, Utilisation Certificates (UCs) relating to Rs.94.28 crore in respect of grants released up to September 2004 and due by March 2005 from seven departments were outstanding as detailed below:

Table 15

Sl. No.	Department	Period	Number of Utilisation certificates not received	Amount (Rupees in crore)
1.	Industries & Commerce	1986-87 to 2004-05	47	23.57
2.	School Education	1982-83 to 2004-05	644	27.28
3.	Co-operation	1967-68 to 2004-05	319	16.15
4.	Rural Development	1980-81 to 2004-05	2,255	20.34
5.	Agriculture	1999-2000 to 2004-05	9	6.92
6.	Art and Culture	2001-02 to 2004-05	11	0.01
7.	Social Security and Welfare	2000-01 to 2004-05	1	0.01
Total			3,286	94.28

Due to non-receipt of utilisation certificates, it was not possible to ascertain whether the recipients had utilised the grants for the purpose(s) for which these were intended.

iii) Delay in submission of accounts: To identify the institutions which attract audit under the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971, Government and Heads of departments are required to furnish to Audit every year, detailed information about the financial assistance given to various institutions. On the basis of information available with Audit, annual accounts of bodies and authorities for 2004-05 and earlier years had not been received by the Accountant General as of November 2005 except eight District Rural Development Authorities (DRDA). The names of bodies and authorities, the accounts of which had not been received and the grants/loans received from the Government of India and the State Government during 2003-04 and 2004-05 are detailed in *Appendix-VI*.

1.8 Assets and liabilities

In the government accounting system, comprehensive accounting of fixed assets like land and buildings etc. owned by Government is not done. However, government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. *Appendix - II* gives an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government

and the cash balances. *Appendix-II* shows that while the liabilities increased by 9.69 per cent, the assets increased by 13.65 per cent. Liabilities had full back up of assets as defined. The liabilities of Government of Nagaland depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to retiring state employees, guarantees/letters of comforts issued by the State Government. *Appendix-V* depicts the time series data on State Government finances for the period 2000-05.

1.8.1 Investments and returns:

As on 31 March 2005, Government had invested Rs.73.41 crore in its statutory corporations, Government companies, joint stock companies and co-operative Societies. Government's return on this investment was nil during last five years. With an average interest rate of 12.36 per cent being paid by Government on its borrowings, the average annual subsidy amounted to 12.36 per cent and the implicit subsidy during the period 2000-05 was Rs.37.63 crore.

Table 16 - Return on Investment

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Investment (Rs. in crore)	51.04	53.87	58.47	69.36	73.41	61.23
Returns (Rs. in crore)	0.00	0.00	0.00	0.00	0.00	0.00
Percentage of returns	0.00	0.00	0.00	0.00	0.00	0.00
Average interest rate paid by Government	13.75	12.83	11.30	11.66	12.26	12.36
Difference between interest rates and return	13.75	12.83	11.30	11.66	12.26	12.36
Implicit subsidy (Rs. in crore)	7.02	6.91	6.61	8.09	9.00	7.52

1.8.2 Loans and advances by State Government:

In addition to investments in co-operatives, corporations and companies, Government has also been providing support in terms of loans and advances to many of these parastatals. Total outstanding balance as on 31 March 2005 was Rs.35.07 crore. Interest received on such loans had varied from 1.56 per cent to 8.57 per cent during 2000-05 (Table 17). Total implicit subsidy during 2000-05 on such loans was Rs.21.07 crore.

Table 17 - Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Opening Balance	41.49	52.39	48.04	42.96	41.23	45.22
Amount advanced during the year	17.35	3.43	2.33	5.08	0.34	5.71
Amount repaid during the year	6.45	7.78	7.42	6.81	6.50	6.99
Closing Balance	52.39	48.04	42.96	41.23	35.07	43.94
Net addition	10.90	(-) 4.35	(-)5.09	(-)1.73	(-)6.16	(-)1.29
Interest received	0.73	0.93	0.75	0.89	3.27	1.31
Interest received as percent to loan advance	1.56	1.85	1.65	2.11	8.57	3.15
Average Interest paid by the State (per cent)	13.75	12.83	11.30	11.66	12.26	12.36
Difference between interest paid and received (per cent)	12.19	10.97	9.65	9.55	3.69	9.21
Implicit subsidy	5.06	5.75	4.64	4.10	1.52	4.21

1.8.3 Commercial activities -Lack of accountability in the use of public funds in departmental commercial undertakings: Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are required to prepare *proforma* accounts annually in prescribed formats showing the results of financial operations so that Government can assess their functioning. The Heads of Departments in Government are to ensure that the undertakings which are funded by the budgetary releases, prepare the accounts in time and submit the same to the Accountant General for Audit.

As of 31 March 2005, there were nine such departmentally managed commercial and quasi-commercial undertakings under the control of Government of Nagaland. However, the preparation of *proforma* accounts for these units up to 2004-05 was in arrears for periods ranging from 1971-72 to 2004-05.

The failure of the Heads of Departments and the managements of the undertakings, in timely preparation of the *proforma* accounts was repeatedly commented upon in the earlier Reports of the Comptroller and Auditor General of India. Yet, there was no improvement in the position. The details are shown in Chapter-VI (Commercial) of the Report.

1.8.4 Management of cash balances: It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Reserve Bank of India has been put in place. The State has resorted to WMA facilities for 53 days during 2004-05 as against six days in the previous year. As regards overdraft, the State Government has used this facility for 3 days only in 2004-05 against 365 days in the previous year, depicting improvement in cash management.

Table 18 - Ways and Means Advances and Overdrafts of the State and interest paid thereon

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Ways and means advance						
Taken in the year	245.47	304.61	656.80	44.55	297.35	309.76
Outstanding	69.29	40.00	-	-	7.07	23.27
Interest paid	0.54	0.93	1.77	0.63	0.48	0.87
Number of days	136	188	311	6	53	139
Overdraft						
Taken in the year	208.57	363.82	349.55	-	57.02	195.79
Outstanding	99.30	177.63	5.23	5.23	2.32	57.94
Interest paid	20.60	0.52	0.71	0.13	0.33	4.46
Number of days	56	73	158	365	3	131

1.8.5 Undischarged liabilities

Fiscal liabilities – public debt and guarantees: The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time

be fixed by the Act of its Legislature. However, no such law has been passed by the State, to lay down any such limit. Table 20 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

Table 19 - Fiscal Liabilities-Basic Parameters

(Value: Rupees in crore and ratio in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Fiscal Liabilities [§]	1429.93	1695.93	2102.22	1924.41	2146.29	2088.95
Rate of Growth	24.78	18.60	23.96	(-) 8.46	11.53	12.89
Ratio of Fiscal Liabilities to						
GSDP	42.60	44.80	49.10	39.80	39.30	42.30
Revenue Receipts	114.00	128.00	156.10	81.60	116.70	114.10
Own Resources	1672.80	1603.00	1984.30	1486.50	1374.00	1599.40
Buoyancy of Fiscal Liabilities to						
GSDP	1.906	1.431	1.843	*	0.887	0.991
Revenue Receipts	2.286	3.312	14.185	*	*	0.976
Own Resources	2.727	0.783	181.045	*	0.558	(-) 0.508

§ Includes internal debt, loans and advances from GOI and other obligations.

* Rate of growth of fiscal liabilities was negative.

Overall fiscal liabilities of the State increased from Rs.1,429.93 crore in 2000-01 to Rs.2,146.29 crore in 2004-05 at an average rate of 12.89 *per cent* during 2000-05. However, the ratio of these liabilities to GSDP decreased from 42.60 *per cent* in 2000-01 to 39.30 *per cent* in 2004-05. These liabilities stood at 1.17 times of its revenue receipts and 13.74 times of its own resources.

The fiscal liabilities have grown at the same rate as the State's GSDP, revenue receipts and own resources. Average buoyancy of these liabilities with respect to GSDP was 0.99 indicating that for each one *per cent* increase in GSDP, fiscal liabilities were growing at the rate of 0.99 *per cent*.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. Fiscal liabilities in Nagaland satisfied this sustainability indicator.

Table 20 - Debt Sustainability-Interest Rate and GSDP Growth (in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Weighted Interest Rate	13.75	12.83	11.30	11.66	12.26	12.36
GSDP Growth	13.00	13.00	13.00	13.00	13.00	13.00
Interest spread	(-)0.75	0.17	1.70	1.34	0.74	0.64

Another important indicator of the debt sustainability is the net availability of the borrowed funds after payment of principal and interest. Table 21 below gives the position of receipt and re-payment of internal debt and other fiscal liabilities of the State over the last five years. The net funds available from the total receipts on account of public debt, loans and advances from Government of India and other debt receipts (including public account) declined from 5.98 *per cent* in 2000-01 to (-) 17.17 *per cent* in 2004-05. This is due to increased interest payments and repayment of loans from borrowed funds.

This indicates a very dangerous trend as the Government of Nagaland has to borrow money to repay its earlier liabilities.

Table 21 - Net Availability of Borrowed Funds

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Internal debt						
Receipt	163.05	224.23	238.58	393.93	256.22	255.20
Repayment(Principal + Interest)	127.34	267.79	180.55	211.80	247.15	206.93
Net Fund Available	35.71	(-) 43.56	58.03	182.13	9.07	48.28
Net Fund Available (<i>per cent</i>)	21.90	(-) 19.43	24.32	46.23	3.54	15.31
Loans and Advances from Government of India						
Receipt	49.58	62.01	447.67	(-) 397.15	163.92	65.21
Repayment (Principal + Interest)	63.66	86.73	76.61	164.81	171.21	112.60
Net Fund Available	(-) 14.08	(-) 24.72	371.06	(-) 561.96	(-) 7.29	(-) 47.40
Net Fund Available (<i>per cent</i>)	(-) 28.40	(-) 39.86	82.89	141.50	(-) 4.45	30.33
Other obligations						
Receipt	192.03	143.31	242.88	186.99	111.21	175.28
Repayment (Principal + Interest)	189.47	159.77	168.68	210.70	204.24	186.57
Total liabilities						
Receipt	404.66	429.55	929.13	183.77	531.35	495.69
Payments	380.47	514.29	425.84	587.31	622.60	506.10
Net receipts	24.19	(-) 84.74	503.29	(-) 403.54	(-) 91.25	(-) 10.41
Net Funds Available (<i>per cent</i>)	5.98	(-) 19.73	54.17	(-) 219.59	(-) 17.17	(-) 39.27

1.9 Management of deficits

1.9.1 Fiscal imbalances: The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the 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 so raised are applied are important pointers to its fiscal health. The revenue deficit of the State, which in turn indicates the excess of its revenue expenditure over revenue receipts, increased from Rs.36.13 crore in 2000-01 to Rs.159.37 crore in 2002-03, the revenue surplus *ie*, excess of revenue receipts over revenue expenditure was Rs.546.80 crore in 2003-04 which came down to Rs.154.89 crore in 2004-05 (Table 22).

Table 22 - Fiscal Imbalances-Basic Parameters

	(Value:Rupees in crore and ratio in <i>per cent</i>)					
	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue deficit(-)/surplus (+)	(-) 36.13	(-) 102.58	(-) 159.37	546.80	154.89	80.72
Fiscal deficit (-)/surplus (+)	(-) 271.43	(-) 336.96	(-) 494.97	157.40	(-) 218.39	(-) 232.87
Primary deficit(-)/surplus(+)	(-) 94.34	(-) 136.49	(-) 280.39	392.14	31.23	(-) 17.57
RD/GSDP	(-) 1.08	(-) 2.71	(-) 3.72	*	*	(-) 1.50
FD/GSDP	(-) 8.09	(-) 8.89	(-) 11.56	*	(-) 3.99	(-) 6.51
PD/GSDP	(-) 2.81	(-) 3.60	(-) 6.55	---	---	(-) 2.59
RD/FD	13.31	30.44	32.20	*	*	---

(Negative figures indicate deficit)

*There was Fiscal and Revenue surplus in 2003-04 and Revenue surplus in 2004-05.

There was a fiscal deficit of Rs.218.39 crore in 2004-05 indicating reversal of the surplus which accrued in the previous year.

1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 23 below presents a summarized position of the State government finances over 2000-2005, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and captures its important facets.

Table 23 - Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04	2004-05	Average
I. Resource Mobilisation						
Revenue Receipts/GSDP	37.40	34.95	31.45	48.77	33.64	37.24
Revenue Buoyancy	0.834	0.432	0.130	5.785	(-) 1.696	1.10
Own tax/GSDP	1.38	1.65	1.45	1.42	1.43	1.46
II. Expenditure Management						
Total Expenditure/GSDP	45.68	44.05	43.19	45.66	37.76	43.27
Revenue Receipts/Total Expenditure	85.75	84.22	85.49	81.45	82.07	83.80
Revenue Expenditure/ Total Expenditure	0.86	0.84	0.85	0.81	0.82	0.84
Plan Expenditure/Total Expenditure	29.50	28.29	31.56	33.73	32.54	31.12
Capital Expenditure/Total Expenditure	14.82	14.33	18.45	17.75	18.38	16.75
Development Expenditure/Total Expenditure	56.96	55.69	55.42	58.03	56.36	56.49
Buoyancy of TE with RR	1.40	1.60	6.39	0.26	0.30	1.99
Buoyancy of RE with RR	1.21	1.89	3.28	0.27	0.32	1.39
III. Management of Fiscal Imbalances						
Revenue surplus(+)/deficit(-) (Rs. in crore)	(-) 36.13	(-) 102.58	(-) 159.37	546.80	154.89	80.72
Fiscal deficit(-)/surplus(+) (Rs. in crore)	(-) 271.43	(-) 336.96	(-) 494.97	157.40	(-) 218.39	(-) 232.87
Primary deficit(-)/surplus(+) (Rs. in crore)	(-) 94.34	(-) 136.49	(-) 280.39	392.14	31.23	(-) 17.57
Revenue deficit/Fiscal deficit	13.31	30.44	32.20	*	*	---
IV. Management of Fiscal Liabilities (FL)						
Fiscal Liabilities/GSDP	42.64	44.75	49.09	39.77	42.98	43.85
Fiscal Liabilities/RR	114.02	128.04	156.08	81.55	116.68	119.27
Buoyancy of FL with RR	2.29	3.31	14.18	(-) 0.11	(-) 0.52	3.83
Buoyancy of FL with OR	2.727	0.783	181.045	(-) 0.381	0.558	36.95
Interest spread	(-) 0.75	0.17	1.70	1.34	0.74	0.64
Net Fund Available	5.98	(-) 19.73	54.17	(-) 219.59	(-) 17.17	(-) 39.27
V. Other Fiscal Health Indicators						
Return on Investment	0.00	0.00	0.00	0.00	0.00	0.00
BCR (Rs. in crore)	(-) 296.20	(-) 974.63	(-) 555.96	247.88	(-) 386.32	(-) 393.05
Financial Assets/Liabilities	1.05	0.97	0.95	1.17	1.21	1.07

*There was Revenue surplus.

The ratio of revenue receipts to GSDP and its buoyancy, which were on a declining trend during 2000-03 increased substantially during 2003-04 owing to increase in central tax transfers and Grants-in-aid from the Government of India. The ratio again dipped to 33.64 *per cent* in 2004-05. The ratio of own tax to GSDP, however, was stable during the last five years. The negative balance from current revenues (BCR) increased from (-) Rs.296.20 crore in 2000-01 to (-) Rs.386.32 crore in 2004-05 indicating increased dependence on external resources for plan and development expenditure.

1.11 Impact of Government Policies

Appendix-VII depicts the progress achieved in different socio-economic sectors during 2004-05 as compared to 2002-03 and 2003-04 according to information furnished by the Directors, Chief Engineers etc., of various departments of the State Government.