Chapter I
Finances of the State Government

Profile of Nagaland

The State is located in North-Eastern region of India. It is the twenty fifth largest State in terms of geographical area (16579 sq. km) as well as by population (1978502). As indicated in **Appendix 1.1(D)** the State's population decreased from 1990036 in 2001 to 1978502 in 2011 recording a decadal decrease of 0.58 *per cent*. The state's Gross State Domestic Product (GSDP) in 2012-13 at current prices was 13321.61 crore. The state's literacy rate increased from 66.59 *per cent* (as per 2001 census) to 79.55 *per cent* (as per 2011 census). The per capita income of the state (source Ministry of Home Affairs) stands at 56116 against the country's average of 60972. The general data relating to the State is given in **Appendix 1.1(D)**.

Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State's economy as it indicates the standard of living of the State's population. A trend analysis of growth of GDP for a period of five years at current prices indicates the performance of the Government in fiscal management of the State. The growth rate of the State GDP for the period 2008-13 compared with India's GDP is presented in the table below:

Annual growth rate of GDP and GSDP at current prices

Year	2008-09	2009-10	2010-11	2011-12	2012-13
State's GDP[1] (in crore)	9436.07	10526.77	11315.13(P)	12272.15(Q)	13321.61(A)
Growth in *per cent*	16.85	11.56	7.49	8.46	8.55
India's GDP* (in crore)	5303566	6108903	7266967	8353495	9461013
Growth in *per cent*	15.75	15.18	18.96	14.95	13.26

Source: Departmental figure

****Economic Survey 2012-13, Ministry of Finance, GOI***

The quantum of GDP (both State and India) is measured in terms of constant and current prices and as per their respective arithmetical calculations; these figures differ from each

[1] **GSDP figures communicated by the Government adopted. (P): Provisional Estimate, (Q): Quick Estimate & (A): Advance Estimate.**

other every year. For comparison between State and National GDPs, the GDP figure calculated on the basis of current price at factor cost with base year 2004-05 has been taken.

As can be seen from the above table, Nagaland achieved higher GSDP growth rate compared to National growth rate in the year 2008-09 but the growth rate was lower in all the other years from 2009-10 to 2012-13. Growth rate in respect of GSDP at current price was 8.55 *per cent* compared to National growth rate of 13.26 *per cent* in 2012-13.

1.1 Introduction

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The new format of Finance Accounts introduced from the year 2009-10, has been divided into two Volumes: Volume I and II. Volume I represents the financial statements of the Government in a summarised form while Volume II represents detailed financial statements, the structure and layout of which are depicted in **Appendix 1.1- Part B**.

This chapter provides a broad perspective of the finances of the Government of Nagaland during 2008-13. It analyses important changes in the major fiscal indicators compared to the previous year keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts and information obtained from the State Government. The structure of the Government Accounts and layout of the Finance Accounts have been explained in **Appendix 1.1 – Parts A and B. Appendix 1.3** represents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2008-13.

1.1.1 Summary of Fiscal Transactions in 2012-13

Appendix 1.2 represents the outcome indicators of the State's Own Fiscal Consolidation Roadmap (FCR)/Fiscal Correction Path. **Table 1.1** presents the summary of the State Government's fiscal transactions during the current year (2012-13) vis-à-vis the previous year (2011-12) while **Appendix 1.4** provides details of receipts and disbursements as well as overall fiscal position during the same period.

Table 1.1 Summary of Fiscal Operations in 2012-13

(Rupees in crore)

Receipts			Disbursements				
Section-A: Revenue							
Description	**2011-12**	**2012-13**	**Description**	**2011-12**	**2012-13**		
					Non Plan	**Plan**	**Total**
Revenue receipts[2]	5586.38	6204.29	Revenue expenditure[3]	4875.66	4571.29	1030.10	5601.39
Tax revenue	303.88	339.95	General services	2318.27	2521.95	15.85	2537.80
Non-tax revenue	232.95	207.17	Social services	1154.12	1095.63	366.16	1461.79
Share of Union Taxes/ Duties	803.20	917.14	Economic services	1403.27	953.71	648.09	1601.80
Grants from Government of India	4246.35	4740.03	Grants-in-aid and Contributions	0.00	0.00	0.00	0.00
Section-B: Capital							
Misc. Capital Receipts	0.00	0.00	Capital Outlay	1249.39	6.04	1249.14	1255.18
Recoveries of Loans and Advances	2.44	0.85	Loans and Advances disbursed	2.75	0.34	1.82	2.16
Public Debt receipts	1318.85	2730.12	Repayment of Public Debt	798.57			2343.19
Contingency Fund	0.00	0.00	Contingency Fund	0.00			0.00
Public Account receipts	2611.38	3041.66	Public Account disbursements	2364.57			2822.67
Opening Cash Balance	100.08	328.19	Closing Cash Balance	328.19	…	…	280.52
Total	**9619.13**	**12305.11**	**Total**	**9619.13**			**12305.11**

(Source: Finance Accounts for the respective years)

The following are the significant changes during 2012-13 over the previous year:

- Revenue receipts increased by ₹ 617.91 crore (11.06 *per cent*) from ₹ 5586.38 crore in 2011-12 to ₹ 6204.29 crore in 2012-13 due to increase in grants from Government of India (GOI) (₹ 493.68 crore), State's Own Tax revenue (₹ 36.07 crore) and State's share of Union taxes and duties (₹ 113.94 crore) offset by decrease in State's Non-Tax revenue (₹ 25.78 crore). The revenue receipts at ₹ 6204.29 crore was however, lower than the assessment made by the State Government in its Fiscal Consolidation Roadmap (FCR) (₹ 6866.76 crore) for the year 2012-13 by ₹ 662.47 crore.

- Revenue expenditure of the State, on the other hand increased by ₹ 725.73 crore (14.88 *per cent*) from ₹ 4875.66 crore in 2011-12 to ₹ 5601.39 crore in 2012-13, mainly under the heads Administrative services (₹ 80.04 crore), Interest payment and Servicing of Debt (₹ 35.25 crore), Pension and Miscellaneous General Services (₹ 90.10 crore), Education, Sports and Art & Culture (₹ 193.83 crore), Health and Family Welfare (₹ 34.21 crore), Social Welfare & Nutrition (₹ 46.01 crore), Agriculture and Allied Activities (₹ 47.07 crore), Energy (₹ 50.85 crore), Transport (₹ 25.62 crore) and Rural Development (₹ 36.40 crore). The revenue expenditure

[2] **Revenue receipts and Non-tax revenue are inclusive of gross receipt (₹ 5.60 crore) from State Lotteries.**
[3] **Revenue expenditure and General Services (Non-Plan) are inclusive of expenditure (₹ 1.96 crore) on State Lotteries**

(₹ 5601.39 crore) was lower than the assessment made by the State Government in its FCR (₹ 5766.01 crore) for the year 2012-13 by ₹ 164.62 crore.

- Capital Expenditure increased by ₹ 5.79 crore (0.46 *per cent*) from ₹ 1249.39 crore in 2011-12 to ₹ 1255.18 crore in 2012-13, mainly under the head Water supply, Sanitation, Housing & Urban Development (₹ 43.97 crore), Agriculture & Allied Activities (₹ 19.61 crore), Special Arean Programme (₹ 17.01 crore), Social Welfare & Nutrition (₹ 9.32 crore), Energy (₹ 5.49 crore) offset by decrease in General Service (₹ 24.74 crore), Education, Sports, Art & Culture (₹ 23.72 crore), General Economic Service (₹ 21.23 crore) and Health & Family Welfare (₹ 20.71 crore).
- Recoveries of Loans and Advances decreased by ₹ 1.59 crore and disbursement decreased by ₹ 0.59 crore in 2012-13 over the previous year.
- During the year 2012-13 public debt receipts[4] increased by ₹ 1411.27 crore from ₹ 1318.85 crore in 2011-12 to ₹ 2730.12 crore in 2012-13 and repayment also increased by ₹ 1544.62 crore from ₹ 798.57 crore in 2011-12 to ₹ 2343.19 crore in 2012-13 over the previous year.
- Public Account Receipts increased in 2012-13 over the previous year by ₹ 430.28 crore from ₹ 2611.38 crore in 2011-12 to ₹ 3041.66 crore in 2012-13 and disbursement also increased by ₹ 458.10 crore from ₹2364.57 crore in 2011-12 to ₹ 2882.67 crore in 2012-13.

The total inflow increased by ₹ 2457.87 crore (25.82 *per cent)* from ₹ 9519.05 crore in 2011-12 to ₹ 11976.92 crore in 2012-13. The total outflow also increased by ₹ 2733.65 crore (29.42 *per cent)* from ₹ 9290.94 crore in 2011-12 to ₹ 12024.59 crore in 2012-13. The cash balance of the State at the end of 2012-13 decreased by ₹ 47.67 crore (14.53 *per cent*) from ₹ 328.19 crore in 2011-12 to ₹ 280.52 crore in 2012-13.

1.1.2 Review of the fiscal situation

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 enact a fiscal responsibility legislation prescribing specific annual targets with a view to eliminate the revenue deficit by 2008-09 and reduce 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 (MTFPS), targets proposed in the Budget, XIII FC targets for the State vis-a-vis achievements during the year 2012-13 is depicted in **Table 1.2** below**:**

[4] **Public Debt Receipts includes market loans, special securities issued by RBI and loans and advances from GOI.**

Table: 1.2 Major fiscal variables provided in the budget, recommendations of the XIII FC, targeted in the NFRBM Act vis-à-vis actuals

Fiscal variables	2012-13				
	XIII FC targets for the State	Targets as prescribed in FRBM Act	Targets proposed in the Budget Estimates (BE)	Projections made in Five Year Fiscal Plan/MTFP	Actuals
Revenue Deficit(-)/ Surplus(+) (₹ in crore)	0.00	0.00	1291.11	0.00	602.90
Fiscal deficit/GSDP (in *per cent*)	3.50	3.50	3.42	3.50	4.91
Ratio of total outstanding debt of the Government to GSDP (in *per cent*)	54.90	54.90	48.74	49.55	55.94

The XIII FC recommended zero revenue deficit for the State during 2012-13. Accordingly, the State Government also projected zero revenue deficit in NRFBM and MTFPS. The State projected a revenue surplus of ₹ 1291.11 crore in the BE for 2012-13 and actually achieved a revenue surplus of ₹ 602.90 crore.

For the year 2012-13 the ratio of Fiscal deficit to GSDP was proposed at 3.50 *per cent* in XIII FC, NFRBM as well as MTFPS. Actual fiscal deficit was 4.91 *per cent* which was 1.41 *per cent* more than the projection.

During 2012-13, outstanding debt to GSDP ratio of 55.94 *per cent* was more than the projected figures as per XIII FC, NFRBM Act, MTFPS and budget estimates for 2012-13.

1.1.3 Budget estimates and actuals

The budget papers presented by the state Government provide descriptions of projections or estimations of revenue and expenditure for 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. Deviations from the Budget Estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives due to a variety of causes, some within the control of the Government and some beyond the control of the Government.

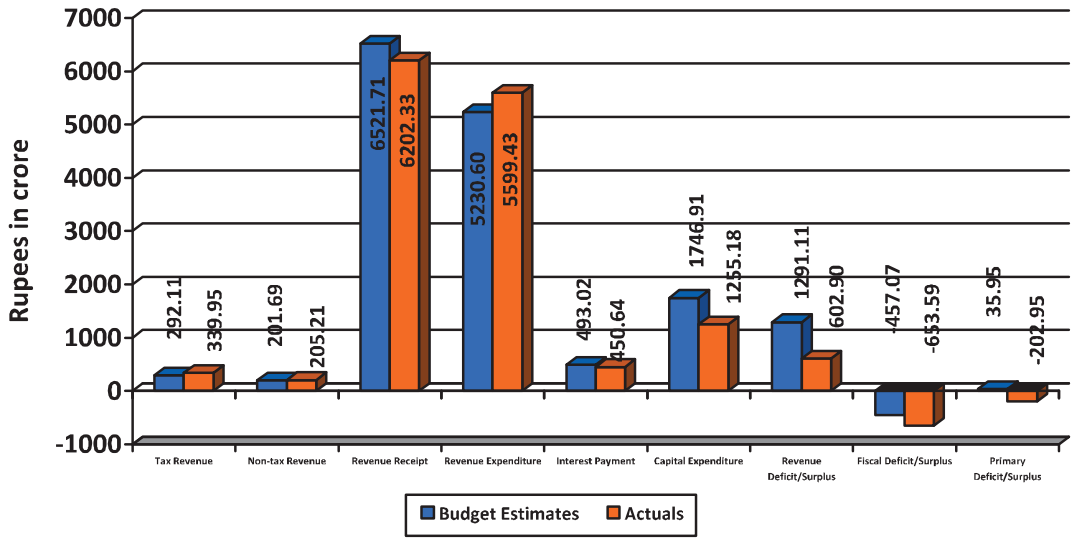
Chart 1.1 and Table 1.3 representing the budget estimates and actuals for some important fiscal parameters during 2012-13 are given below:

Table1.3: Variation in Actual Fiscal parameters over estimates

(Rupees in crore)

Parameters	2011-12	2012-13		
	Actuals	Budget Estimates	Revised Estimates	Actuals
Tax Revenue	303.88	292.11	292.98	339.95
Non-Tax Revenue	231.19	201.69	144.10	205.21
Revenue Receipts[5]	5584.62	6521.71	6448.15	6202.33
Non-debt Capital Receipts	2.44	3.82	2.70	0.85
Revenue Expenditure[6]	4873.90	5230.60	5732.50	5599.43
Interest Payments	417.39	493.02	482.31	450.64
Capital Expenditure	1249.39	1746.91	1932.27	1255.18
Disbursement of Loans & Advances	2.75	3.97	3.97	2.16
Revenue Deficit (-)/Surplus	710.72	1291.11	715.65	602.90
Fiscal deficit (-)/Surplus	-538.98	(-)455.95	(-)1217.89	(-)653.59
Primary Deficit/surplus	-121.59	37.07	(-)735.58	(-)202.95

Chart 1.1: Selected fiscal Parameters: Estimates vis-a-vis Actuals during 2012-13



- During 2012-13, the actual revenue receipts was less than the budget estimates by ₹ 319.38 crore (4.90 *per cent)* while actual revenue expenditure was higher by ₹ 368.83 crore (7.05 *per cent)* over budget estimates resulting in attaining a lower revenue surplus of ₹ 688.21 crore as compared to the projections made in the budget estimates.
- The actual collection of tax revenue during the year increased by ₹ 47.84 crore (16.38 *per cent*) over the budget estimates for the year mainly due to higher

[5] **Revenue receipts is net of receipts and expenditure under State Lottery**
[6] **Revenue expenditure is exclusive of expenditure (` 1.96 crore) on State Lotteries**

collection of Sales Tax, Trade etc. (₹ 36.66 crore) and Taxes on vehicle (₹ 11.64 crore) offset by decrease in other taxes (₹ 3.54 crore). The revenue from Sales Tax, Trade etc. contributed the major share of Tax Revenue (75.66 *per cent*) during the current year but it decreased by 0.40 *per cent* over the previous year.

- The increase in Non-Tax Revenue by ₹ 3.52 crore (1.75 per cent) as compared to the budget estimates for 2012-13 was due to increase in receipts mainly under Education, Sports, Art and Culture (₹ 45.19 crore) offset mainly by decrease in Power (₹ 17.17 crore), Civil Aviation (₹ 8.08 crore), Forestry and Wildlife (₹ 4.12 crore), Housing (₹ 2.27 crore), General Misc. services (₹ 5.28 crore), Road Transport (₹ 4.27 crore) and Co-operation (₹ 1.05 crore).
- The increase in Revenue Expenditure by ₹ 368.83 crore (7.05 *per cent*) over the budget provision for 2012-13 was due to increase in General Services ₹ 131.91 crore (35.76 *per cent*), Social Services ₹ 111.56 crore (30.25 *per cent*) and Economic Services ₹ 125.36 crore (33.99 *per cent*).
- During the year 2012-13, the actual Capital expenditure was less than the budget provision by ₹ 491.73 crore (28.15 *per cent*) which is attributable to decrease in General Services ₹ 433.48 crore (88.16 *per cent*) and Social Services ₹ 69.10 crore (14.05 *per cent*) offset by increase in Economic Services ₹ 10.85 crore (2.21 *per cent*).
- Actual fiscal deficit increased over the assessment made in the budget estimates by ₹ 197.64 crore (43 *per cent*) mainly due to increase in Revenue Expenditure. Against the primary surplus of ₹ 37.07 crore projected in the BE, the State witnessed primary deficit of ₹ 202.95 crore in 2012-13.

1.1.4 Gender Budgeting

The Constitution of India has mandated equality for every citizen of the country as a fundamental right. The Government of India has made international commitments in (i) The Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 1980; (ii) World Conference on Human Rights in Vienna in 1993; (iii) International Conference on Population and Development (ICPD) in Cairo in 1994; (iv) Fourth World Conference of Women in Beijing in 1995 and (v) Commonwealth Plan of Action on Gender and Development in 1995 about the action to be taken for improvement in the life of women.

One of the tools that can be used to promote women's equality and empowerment is gender-responsive budgeting, or Gender Budgeting, as it is more commonly known in India.

Among others, Gender Budgeting serves in (i) identifying the felt needs of women and reprioritising and/or increasing expenditure to meet these needs; (ii) Supporting gender mainstreaming in macro economics; (iii) Strengthening civil society participation in economics; (iv) Enhancing the linkages between economic and social policy outcomes; (v) Tracking public expenditure against gender and development policy commitments; and (vi) Contributing to the attainment of the Millennium Development Goals (MDGs).

Notwithstanding the Constitutional mandate and Government of India's commitments in the international forums, Gender Budgeting in Nagaland had not been adopted so far.

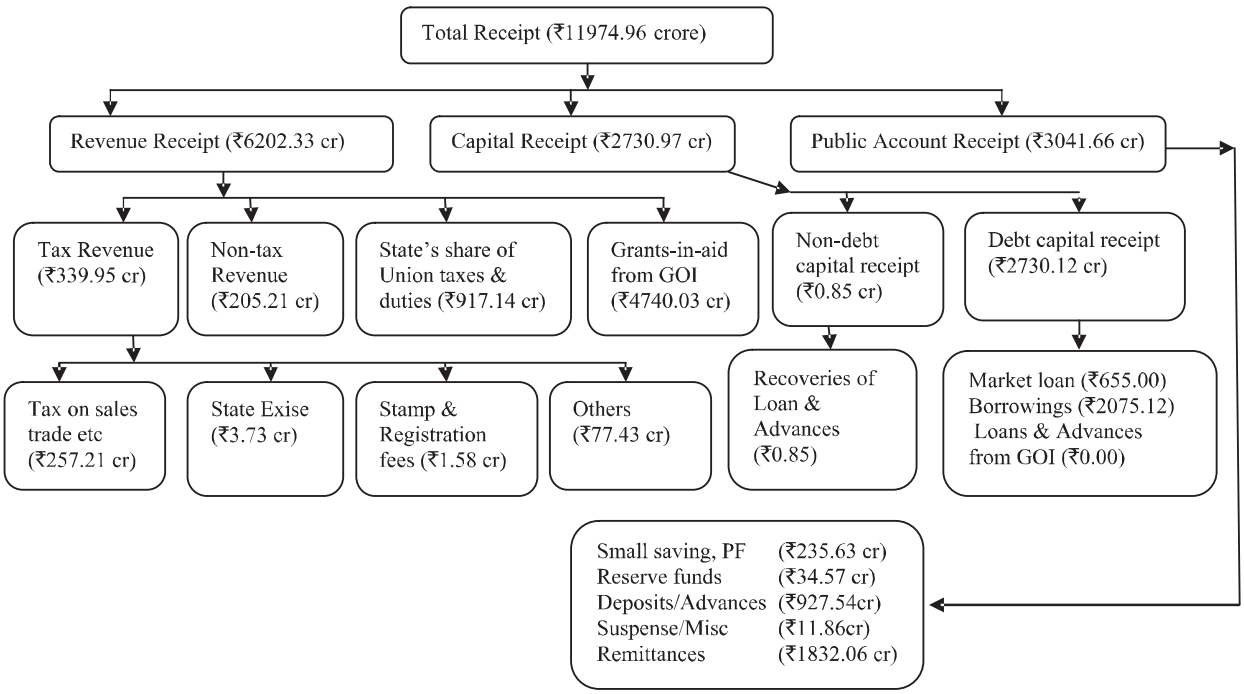
1.2 Resources of the State

1.2.1 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. Besides the funds available in the Public accounts after disbursement is also utilised by the Government to finance its deficit.

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**[7] depicts the trends in various components of the receipts of the State during 2008-13. **Chart 1.3** depicts the composition of resources of the State during the current year and **Table 1.4** presents the trends in growth and composition of receipts for the current years 2012-13.

Following flowchart shows the components and sub-components of resources.



[7] **Revenue receipts is net of receipts and expenditure under State Lottery**

Chart 1.2: Trends in Receipts

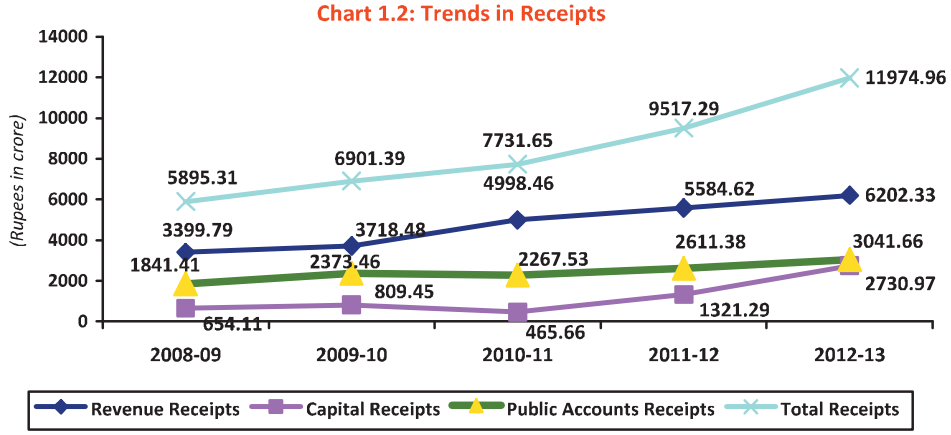


Chart 1.3: Composition of receipts during 2012-13

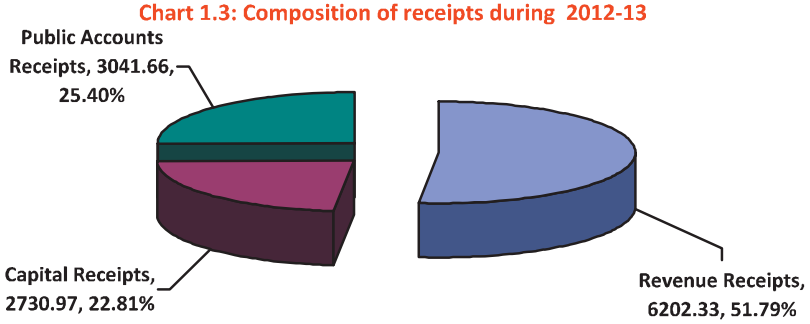


Table 1.4: Trends in growth and composition of receipts.

(Rupees in crore)

	Sources of State receipts	2008-09	2009-10	2010-11	2011-12	2012-13
I	**Revenue receipts**	**3399.79**	**3718.48**	**4998.46**	**5584.62**	**6202.33**
II	**Capital Receipts (CR)**	**654.11**	**809.45**	**465.66**	**1321.29**	**2730.97**
	Miscellaneous Capital Receipts	-	-	-	-	-
	Recovery of Loans and Advances	2.57	4.20	2.31	2.44	0.85
	Public Debt Receipts	651.54	805.25	463.35	1318.85	2730.12
	Rate of growth of non-debt CR	(-)16.01	63.42	(-)45.00	5.63	(-)65.16
	Rate of growth of debt CR	60.60	23.59	(-)42.46	184.63	107.01
	Rate of growth of Revenue Receipt	13.51	9.37	34.42	11.73	11.06
	Rate of growth of GSDP	**16.85**	**11.56**	**7.49**	**8.46**	**8.55**
	Rate of growth of CR	60.02	23.75	(-)42.47	183.75	106.69
	Debt Capital buoyancy w.r.t GSDP	3.60	2.04	(-)5.67	21.82	12.52
	Non Debt Capital Buoyancy w.r.t GSDP	(-)0.95	5.49	(-)6.01	0.67	(-)7.62
	Revenue Receipt Buoyancy w.r.t GSDP	0.80	0.81	4.60	1.39	1.29
III	**Contingency Fund**	**-**	**-**	**-**	**-**	**-**

	Sources of State receipts	2008-09	2009-10	2010-11	2011-12	2012-13
IV	**Public Account Receipts**	**1841.41**	**2373.46**	**2267.53**	**2611.38**	**3041.66**
	Small Savings, Provident Fund etc	144.53	149.54	191.57	196.97	235.63
	Reserve Fund	28.75	26.49	36.96	29.00	34.57
	Deposits and Advances	369.40	786.40	545.72	718.11	927.54
	Suspense and Miscellaneous	78.01	52.94	21.17	24.79	11.86
	Remittances	1220.72	1358.09	1472.11	1642.51	1832.06
	Total Receipts	**5895.31**	**6901.39**	**7731.65**	**9517.29**	**11974.96**

Chart 1.3 shows that the total receipts of the State Government for the year 2012-13 was ₹ 11974.96 crore out of which, the revenue receipts was ₹ 6202.33 crore constituting 51.79 *per cent* of the total receipts. The balance came from capital receipts and Public Account receipts.

The revenue receipts of the State increased from ₹ 3399.79 crore in 2008-09 to ₹ 6202.33 crore in 2012-13 at a compound annual growth rate of 12.78 *per cent*. The buoyancy of Revenue receipts w.r.t. GSDP during the year was 1.29 *per cent*.

The capital receipts (including Public Account receipts) constituted 48.21 *per cent* of the total receipts of the State during the year 2012-13, an increase of 131.32 *per cent* from ₹ 2495.52 crore in 2008-09 to ₹ 5772.63 crore in 2012-13.

Receipts and disbursements in respect of certain transactions such as small savings provident funds, reserve funds, deposits, suspense, remittances etc. which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State legislature. Here the Government acts as a banker. The balance after disbursements is the fund available with the government for use.

Public Account receipts increased by ₹ 430.28 crore (16.48 *per cent*) in 2012-13 over the previous year due to increase in Deposit and Advances (₹ 209.43 crore), Remittances (₹ 189.55 crore), Provident Fund (₹ 38.66 crore) and Reserve Fund (₹ 5.57 crore) offset by decrease in Suspense and Miscellaneous (₹ 12.93 crore).

1.2.2 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 Agencies[8] for the implementation of various schemes/programmes in social and economic sectors, which are recognised as critical. As in the present mechanism these funds are not routed through the State Budget/State Treasury System and hence do not find mention in the finance Accounts of the State. As such, the Annual Financial Accounts of the State does not provide a complete picture of the resources under the control of the State government. To present the holistic picture on availability of aggregate resources, funds directly transferred to State Implementing Agencies are presented in **Appendix 1.6.**

[8] **State Implementing Agency includes any Organisation/Institution including Non-Governmental Organisation which is authorised 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.**

During the year 2012-13 central funds of ₹ 1266.57 crore were directly transferred to the State implementing agencies. The amounts released for programmes assisted by Government of India are presented in **Table 1.5.**

Table-1.5: Funds Transferred Directly to State Implementing Agencies

(Rupees in crore)

Programme/Scheme	Implementing Agency in the State	Funds transferred directly by GOI during 2012-13	Amount Utilised
Mahatma Gandhi National Rural Employment Guarantee Programme	Project Directors, DRDA, 11 Districts	443.87	561.79[9]
Pradhan Mantri Gram Sadak Yojana (PMGSY)	Nagaland Rural Roads Development Agency	194.88	110.00
National Rural Drinking Water Programme	SWSM	110.20	107.47
National Rural Health Mission (NRHM)	State Health Society	100.64	107.26[9]
Integrated Watershed Management Programme	State Level Nodal Agency	78.17	71.20
Sarva Shiksha Abhiyan (SSA)	SSA State Mission Authority	77.91	NA
Rural Housing (Indira Awas Yojana)	Project Directors, DRDA	39.37	36.42
Central Rural Sanitation Programme	SWSM	23.03	3.96
National Aids Control Programme	Nagaland State AIDS Control Society	19.38	14.69
National Bamboo Mission	Nagaland Bamboo Mission Development Agency	16.60	15.01
Other Programmes[10]	90 other programmes	162.52	-
Total		**1266.57**	**1027.80**

Source: 'Central Plan Scheme Monitoring System' and Information furnished by Implementing Agencies

An amount of ₹ 1266.57 crore was directly transferred by GOI to the State Implementing Agencies during 2012-13, a decrease of ₹ 17.48 crore (1.36 per cent) over the previous year. Out of an amount of ₹ 1266.57 crore directly transferred to implementing agencies during the year, ₹ 1104.02 crore (87.17 per cent) was transferred for implementation of 10 Central Schemes viz. Mahatma Gandhi National Rural Employment Guarantee Programme, ₹ 443.87 crore (35.05 per cent), Sarva Shiksha Abhiyan (SSA) ₹ 77.91 crore (6.15 per cent), National Rural Health Mission (NRHM) ₹ 100.64 crore (7.94 per cent), National Rural Drinking Water Programme ₹ 110.20 crore (8.70 per cent), Central Rural Sanitation Programme ₹23.03 crore (1.82 per cent), Integrated Watershed Management Programme ₹ 78.17 (6.17 per cent), Rural Housing (Indira Awas Yojona) ₹ 39.37 crore (3.11 per cent), National Aids Control Programme ₹ 19.38 crore (1.53 per cent), National Bamboo Mission ₹ 16.60 crore (1.31 per cent) and Pradhan Mantri Gram Sadak Yojana (PMGSY) ₹ 194.88 crore (15.39 per cent). Further, an amount of ₹ 162.52 crore was directly released for implementation of 90 schemes.

[9] **Including unspent balance of previous year**
[10] **Since other programmes include releases for 90 schemes, the amounts utilised could not be obtained.**

With the transfer of an approximate amount of ₹ 1266.57 crore directly by GOI to the State Implementing Agencies, the total availability of State resources during 2012-13 had increased from ₹ 11976.92 crore to ₹ 13243.49 crore.

1.3 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 2008-13 are presented in **Appendix 1.3** and depicted in **Charts 1.4** and **1.5** respectively.

Chart 1.4: Trends in Revenue Receipts

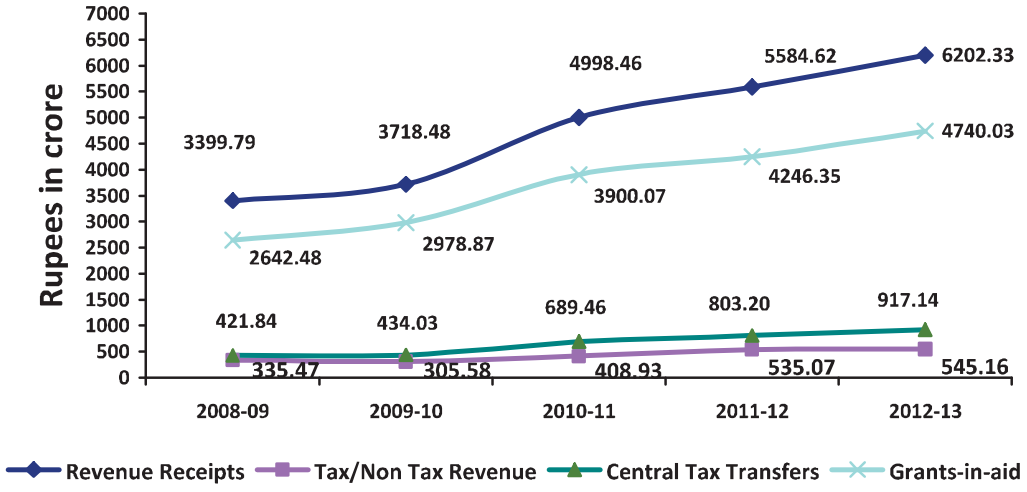
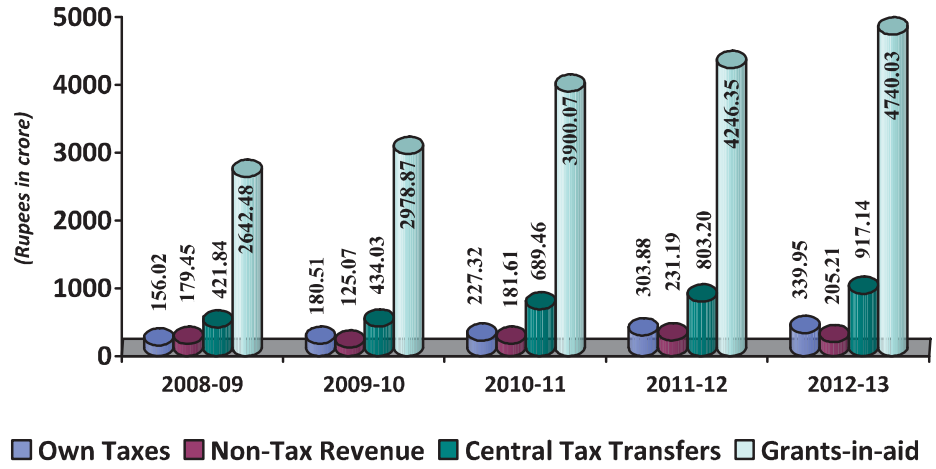


Chart 1.5: Composition of Revenue Receipts during 2008-13



The revenue receipts have shown a progressive increase with inter-year variations and changes in its composition i.e. the share of own taxes, non-tax revenue and Central transfers during the period 2008-13.

Tax and non-tax revenue receipts together increased by ₹ 209.69 crore (62.51 *per cent*) from ₹ 335.47 in 2008-09 to ₹ 545.16 crore in 2012-13 at a compound annual growth rate of 10.20 *per cent.*

The Revenue Receipts of the State increased from ₹ 3399.79 crore in 2008-09 to ₹ 6202.33 crore in 2012-13 at a compound annual growth rate of 12.78 *per cent*. While 8.79 *per cent* of the revenue receipts during 2012-13 have come from the State's Own Resources comprising taxes and non-taxes, Central Tax Transfers and Grants-in-aid together contributed 91.21 *per cent*. The percentage share of State's Own Resources and the Central Transfers in Revenue receipts of the State exhibited relative stability during the last five years (2008-13).

Central tax transfers to the State increased by ₹ 113.94 crore (14.19 *per cent*) from ₹ 803.20 crore in 2011-12 to ₹ 917.14 crore in 2012-13. This was due to increase in Corporation Tax (₹ 13.33 crore), Tax on Income other than Corporation Tax (₹ 36.66 crore), Service Tax (₹ 37.96 crore), Customs (₹ 13.17 crore) and Union Excise Duties (₹ 13.49 crore) offset by decrease in Tax on Wealth (₹ 0.67 crore).

The trends in revenue receipts as well as buoyancy ratios relative to GSDP are presented in **Table 1.6** below:

Table 1.6: Trends in Revenue Receipts and buoyancy ratios relative to GSDP

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Receipts (RR) (Rupees in crore)	**3399.79**	**3718.48**	**4998.46**	**5584.62**	**6202.33**
Rate of growth of RR (*per cent)*	13.51	9.37	34.42	11.73	11.06
R R/GSDP (*per cent)*	36.03	35.32	44.18	45.51	46.56
Buoyancy Ratios					
Revenue receipts Buoyancy w.r.t GSDP	0.80	0.81	4.60	1.39	1.29
State's Own Tax Buoyancy w.r.t GSDP	1.11	1.36	3.46	3.98	1.39
Gross State Domestic Product (Rupees in crore)	9436.07	10526.77	11315.13	12272.15	13321.61
Rate of growth of GSDP	16.85	11.56	7.49	8.46	8.55

The Revenue Receipts buoyancy with respect to GSDP was 1.39 in 2011-12 which decreased to 1.29 in 2012-13. The growth rate of Revenue Receipts was however, less than the growth rate of GSDP in 2008-09 and 2009-10. The State's own tax buoyancy with respect to GSDP was 3.98 in 2011-12 which decreased to 1.39 in 2012-13.

1.3.1 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, the State's performance in mobilisation of resources was assessed in terms of its own resources comprising revenue from its own tax and non-tax sources.

The States actual tax and non-tax receipts for the year 2012-13 vis-à-vis assessment made by XIII FC and MTFP (latest) are given in the table below:

Table 1.7: Tax & Non-tax receipts vis-à-vis assessment made by XIII FC and MTFPS

(Rupees in crore)

	XIII FC projections	Budget estimates	MTFP projection	Actuals
Tax revenue	251.91	292.11	292.11	339.95
Non-tax revenue	129.23	201.69	NA	205.21

Gross collection during the years from 2008-09 to 2012-13 are detailed in **Appendix 1.7**. The tax and non-tax revenue for the years 2011-12 and 2012-13 are detailed in **Charts 1.6** and **1.7** below.

1.3.1.1 Tax Revenue

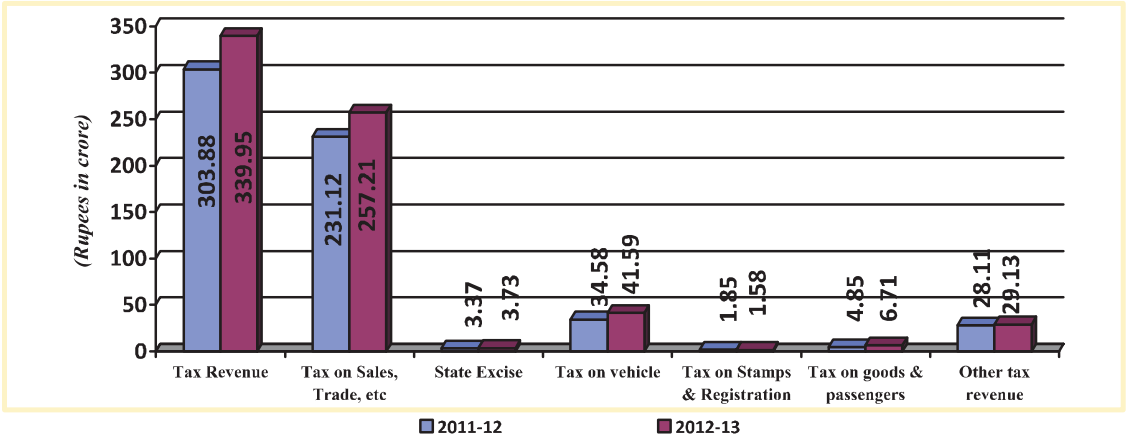
The gross collection in respect of major taxes and duties are given in **Table 1.8**.

Table 1.8: Collection of Tax Revenue 2008-13

(Rupees in crore)

Revenue Head	2008-09	2009-10	2010-11	2011-12	2012-13	% increase in 2012-13 over 2011-12
Taxes on sales, Trades, etc.	114.70	132.22	167.22	231.12	257.21	11.29
State Excise	3.33	3.14	3.00	3.37	3.73	10.68
Taxes on vehicles	14.14	16.73	23.92	34.58	41.59	20.27
Stamp duty & Registration fees	1.01	1.19	1.35	1.85	1.58	(-)14.59
Land Revenue	0.60	0.63	0.59	0.68	0.72	5.88
Taxes on goods & passengers	2.34	3.96	6.62	4.85	6.71	38.35
Other Taxes[11]	19.90	22.64	24.62	27.43	28.41	3.57
Total	**156.02**	**180.51**	**227.32**	**303.88**	**339.95**	**11.87**

Chart 1.6 : Tax Revenue component during 2011-12 and 2012-13 (Rupees in crore)



[11] **Other taxes includes taxes on immovable property other than agricultural land, taxes and duties on electricity and agricultural income.**

The major contributions to the State's tax revenue during the year were Tax on Sales, Trade, etc (₹ 257.21 crore), Taxes on Vehicles (₹ 41.59 crore) and Tax on Goods and Passengers (₹ 6.71 crore).

The own tax revenue increased by ₹ 36.07 crore (11.87 *per cent*) from ₹ 303.88 crore in 2011-12 to ₹ 339.95 crore in 2012-13 mainly due to increase in Tax on Sales, Trade, etc (₹ 26.09 crore), Tax on Vehicles (₹ 7.01 crore) and Tax on Goods & Passengers (₹ 1.86 crore).

The increase in sales tax revenue by ₹ 26.09 crore from ₹ 231.12 crore in 2011-12 to ₹ 257.21 crore in 2012-13 represented around 72.33 *per cent* of incremental tax revenue of ₹ 36.07 crore of the State during the year. The increase in sales tax revenue was mainly due to increase in tax on sale of 'Motor spirits and Lubricants'.

1.3.1.2 Non-tax Revenue

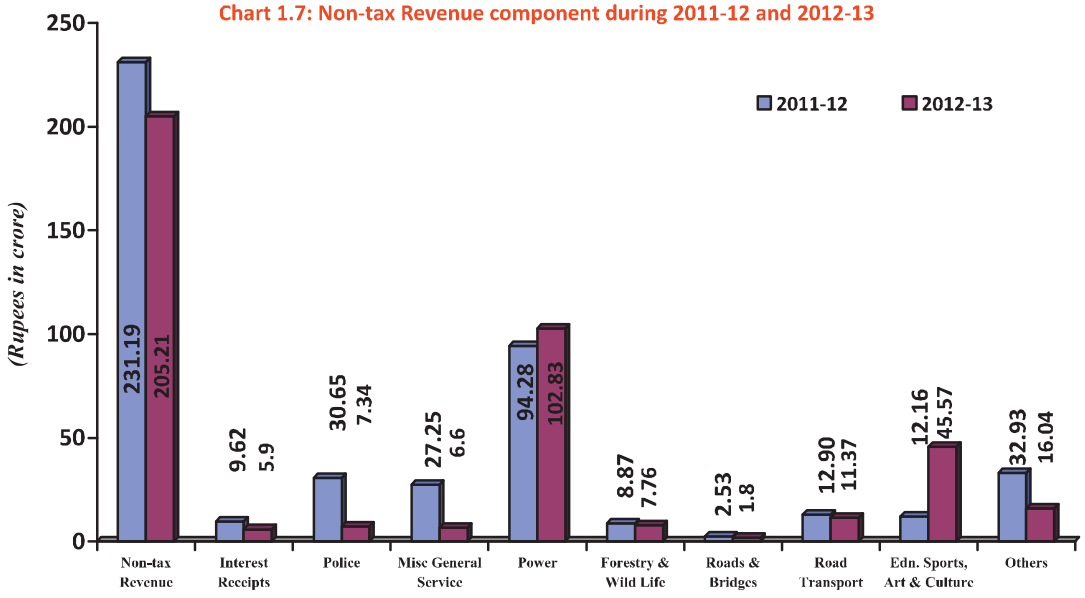
The gross collection of non-tax revenue are given in **Table 1.9** and the details of other non-tax receipts are given in **Chart 1.7:**

Table 1.9: Collection of Non-Tax Revenue 2008-13

(Rupees in crore)

Revenue Head	2008-09	2009-10	2010-11	2011-12	2012-13	% increase in 2012-13 over 2011-12
Interest received	11.57	10.02	14.35	9.62	5.90	(-)38.67
Dividends and profits	0.00	0.00	0.00	0.00	0.00	0.00
Other non-tax receipts	167.88	115.05	167.26	221.57	199.31	(-)10.05
Total	**179.45**	**125.07**	**181.61**	**231.19**	**205.21**	**(-)11.24**

Chart 1.7: Non-tax Revenue component during 2011-12 and 2012-13



Non-Tax Revenue (NTR) after showing decrease (30.30 *per cent*) in 2009-10 appreciated by 45.21 *per cent* during 2010-11 and 27.30 *per cent* during 2011-12. However, NTR decreased again by 11.24 *per cent* during 2012-13. NTR at ₹ 205.21 crore, constituted 3.31 *per cent* of the Revenue Receipts.

The major contributors to NTR during the year included Power (₹ 102.83 crore), Police (₹ 7.34 crore), Miscellaneous General Services (₹ 6.60 crore), Road Transport (₹ 11.37 crore), Education, Sports, Arts & Culture (₹ 45.57 crore), Interest Receipts (₹ 5.90 crore), Forestry and Wildlife (₹ 7.76 crore) and Roads & Bridges (₹ 1.80). Decrease in NTR in 2012-13 (₹ 25.98 crore) compared to previous year was mainly on account of decrease in Police (₹ 23.31 crore), Interest Receipts (₹ 3.72 crore), Miscellaneous General Service (₹ 22.41 crore), Road Transport (₹ 1.53 crore) and Other Non-tax revenue (₹ 16.89 crore) which was partially offset by increase in Power (₹ 8.55) and Education, Sports, Arts & Culture (₹ 33.41 crore).

1.3.2 Grants in aid from GOI

The break-up of Grants-in-aid received from GOI during 2008-13 is given in the **table 1.10** below:

Table 1.10: Grants-in-aid from Government of India

(Rupees in crore)

	2008-09	2009-10	2010-11	2011-12	2012-13
Grants for State Plan Schemes	1003.27	1041.00	936.32	1858.21	2174.93
Non-Plan Grants	1316.76	1460.86	2658.28	1831.88	2039.07
Grants for Central Plan Schemes, Centrally Sponsored Plan Schemes and Special Plan Schemes	322.45	477.01	305.47	556.26	526.03
Total	**2642.48**	**2978.87**	**3900.07**	**4246.35**	**4740.03**
Percentage of increase/decrease over previous year	12.67	12.73	30.92	8.88	11.63

Grants-in-aid from Government of India have increased by ₹ 493.68 crore (11.63 *per cent*) from ₹ 4246.35 crore in 2011-12 to ₹ 4740.03 crore in 2012-13 contributing 76.42 *per cent* of the total Revenue Receipts during 2012-13. This increase was due to enhanced grants for non-plan grants (₹ 207.19 crore), grants for State Plan Schemes (₹ 316.72 crore) and grants for Special Plan Schemes (₹ 40.21 crore) offset by decrease in grants for Centrally Sponsored Plan Schemes (₹ 38.24 crore) and grants for Central Plan Schemes (₹ 32.20 crore).

1.3.3 Central Tax Transfers

The break-up of State's share of union taxes and duties received during 2008-13 is given in the **Table 1.11** below:

Table 1.11: Central Tax Transfers

(Rupees in crore)

Head	2008-09	2009-10	2010-11	2011-12	2012-13
Corporation tax	138.19	178.65	269.56	316.26	329.59
Tax on income other than corporation tax	86.94	99.52	142.45	160.65	197.31
Tax on wealth	0.11	0.40	0.55	1.22	0.55
Customs	80.69	67.53	120.60	139.31	152.48
Union Excise Duties	70.37	42.17	87.74	90.14	103.63
Service Tax	45.54	45.76	68.56	95.62	133.58
Total	**421.84**	**434.03**	**689.46**	**803.20**	**917.14**

State's share of union taxes and duties increased by ₹ 113.94 crore (14.19 *per cent*) from ₹ 803.20 crore in 2011-12 to ₹ 917.14 crore in 2012-13 contributing 14.79 *per cent* of the total Revenue Receipts during 2012-13. This increase was due to increase in Corporation tax ₹ 13.33 crore, Tax on income other than corporation tax ₹ 36.66 crore, Customs ₹ 13.17 crore, Union Excise Duties ₹ 13.49 crore and Service tax ₹ 37.96 crore offset by decrease in Tax on Wealth ₹ 0.67 crore. Central Tax Transfers during the year (₹ 917.14 crore) was more than the assessment made in budget estimate (₹ 865.55 crore).

1.4 Capital Receipts

The capital receipts for the period from 2008-13 is given below:

Table No. 1.12: Capital Receipt

(Rupees in crore)

Source of State's Receipt	2008-09	2009-10	2010-11	2011-12	2012-13
Capital Receipts (CR)	**654.11**	**809.45**	**465.66**	**1321.29**	**2730.97**
Miscellaneous Capital Receipts	0.00	0.00	0.00	0.00	0.00
Recovery of Loans and Advances	2.57	4.20	2.31	2.44	0.85
Public Debt Receipt	651.54	805.25	463.35	1318.85	2730.12
Rate of growth of debt capital receipts (*per cent*)	60.60	23.59	(-)42.46	184.63	107.01
Rate of growth of non-debt capital receipts (*per cent*)	(-)16.01	63.42	(-)45.00	5.63	(-)65.16

1.4.1 Proceeds from disinvestment

During the financial year 2012-13, the Government of Nagaland did not resort to any disinvestment.

1.4.2 Recoveries of loans and advances

The State Government in its Medium Term Fiscal Policy Statement targeted recovery of Loans and Advances of ₹ 3.82 crore which was subsequently revised to ₹ 2.70 crore.

However, the actual recovery of ₹ 0.85 crore was only 31 *per cent* of the revised target set and also showed a decreasing trend compared to 2011-12 by 65.16 *per cent.*

1.4.3 Debt receipts from internal sources (market loans, borrowings from financial institutions, banks)

Debt receipts from internal sources increased by ₹ 1411.27 crore (107.01 *per cent*) from ₹ 1318.85 crore in 2011-12 to ₹ 2730.12 crore in 2012-13. Debt receipts from internal sources of ₹ 2730.12 crore comprised mainly of Market loans (₹ 655.00 crore), loans from financial institutions such as NABARD (₹ 48.74 crore) and Ways and Means Advances from RBI (₹ 1965.40 crore). This constituted 99.97 *per cent* of the total Capital receipts.

1.5 Public Accounts Receipts

Receipts and disbursements in respect of certain transactions such as small savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances, etc. which do not form part of the Consolidated Fund are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. Here the Government Acts as a banker. The balance after disbursement is the fund available with the Government for use.

Table 1.13: Public Account Balance

(Rupees in crore)

Resources under various heads	2008-09	2009-10	2010-11	2011-12	2012-13
Public Account Balance					
(a) Small Savings, Provident Fund, etc.	462.45	485.54	574.01	610.43	682.92
(b) Reserve Fund	36.61	58.95	91.58	120.58	144.71
(c) Deposits and Advances	501.10	778.53	858.78	1168.42	1377.55
(d) Suspense and Miscellaneous	0.00	0.00	0.00	0.00	0.00
(e) Remittances	0.00	0.00	0.00	0.00	0.00
Total	**1000.16**	**1323.02**	**1524.37**	**1899.43**	**2205.18**

Public Account balance increased by ₹ 305.75 crore (16.10 *per cent*) from ₹ 1899.43 crore in 2011-12 to ₹ 2205.18 crore in 2012-13. It was due to increase in Deposit and Advances (₹ 209.13 crore), Small Savings, PF (₹ 72.49 crore) and Reserve Fund (₹ 24.13 crore).

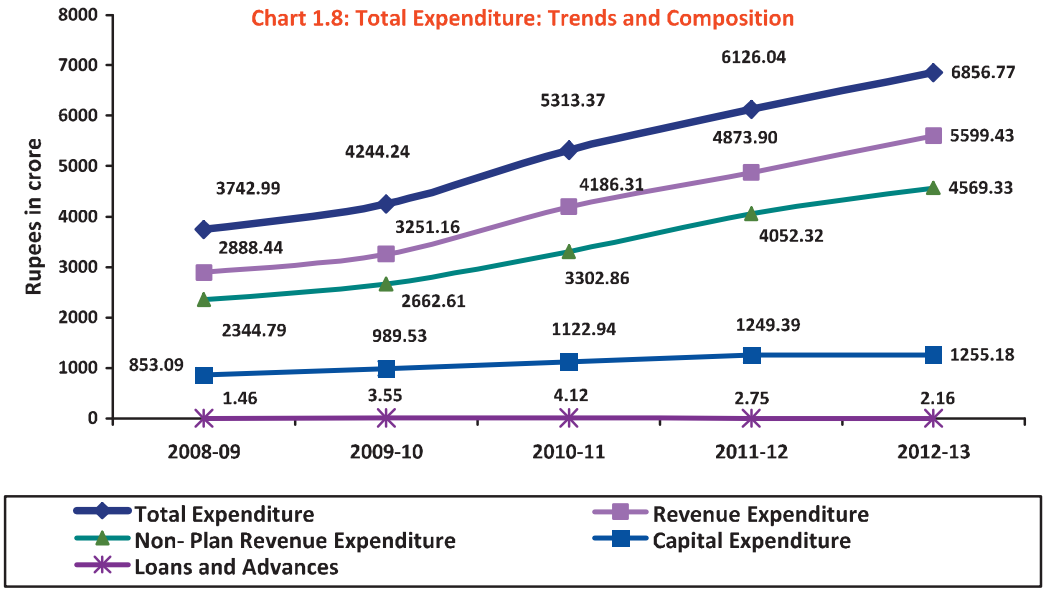
1.6 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since the Government is entrusted with major expenditure responsibilities. 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 1.8 presents the trends in total expenditure over a period of five years (2008-13) and its composition both in terms of 'classification of expenditure' and 'expenditure by activities' is depicted respectively in **Charts 1.9 and 1.10**.

Chart 1.8: Total Expenditure: Trends and Composition



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 ₹ 3742.99 crore in 2008-09 to ₹ 6856.77 crore in 2012-13.

Total expenditure during 2012-13 at ₹ 6856.77 crore increased by ₹ 730.73 crore (11.93 *per cent*) over the previous year. Out of the total expenditure in 2012-13, revenue expenditure was ₹ 5599.43 crore (81.66 per cent) while capital expenditure was ₹ 1255.18 crore (18.31 per cent) and loans and advances was ₹ 2.16 crore (0.03 per cent). The increase in total expenditure during 2012-13 over the previous year was due to increase of revenue expenditure by ₹ 725.53 crore and capital expenditure by ₹ 5.79 crore offset by decrease in disbursement of loans and advances by ₹ 0.59 crore.

The non-plan revenue expenditure (₹ 4569.33 crore) increased by ₹ 2.58 crore (0.06 *per cent*) during the year as compared to the projection made by the State Government in its Fiscal Consolidation Roadmap (FCR) for 2012-13 (₹ 4566.75 crore). The capital expenditure (₹ 1255.18 crore) was lower by ₹ 306.08 crore (19.60 *per cent*) as compared to the assessment made by the State Government in its FCR (₹ 1561.26 crore).

Chart 1.9: Total Expenditure: Trends in share of its Components

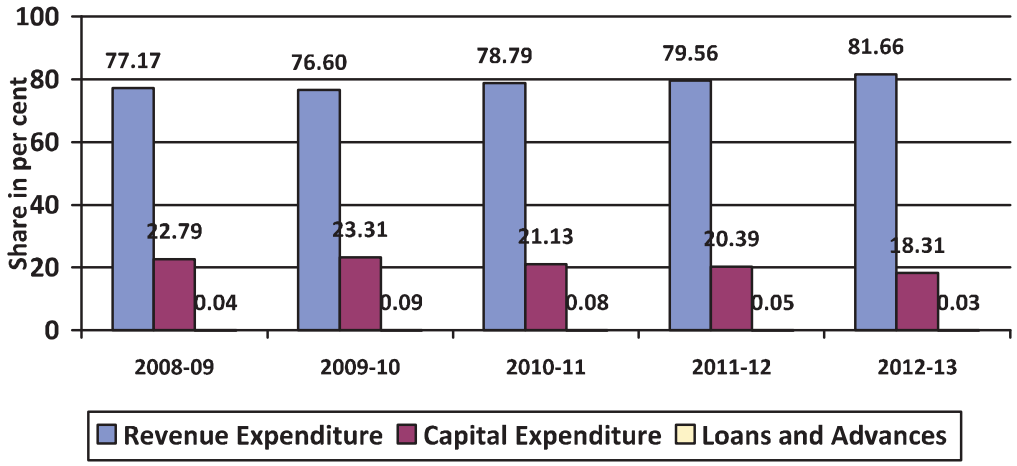
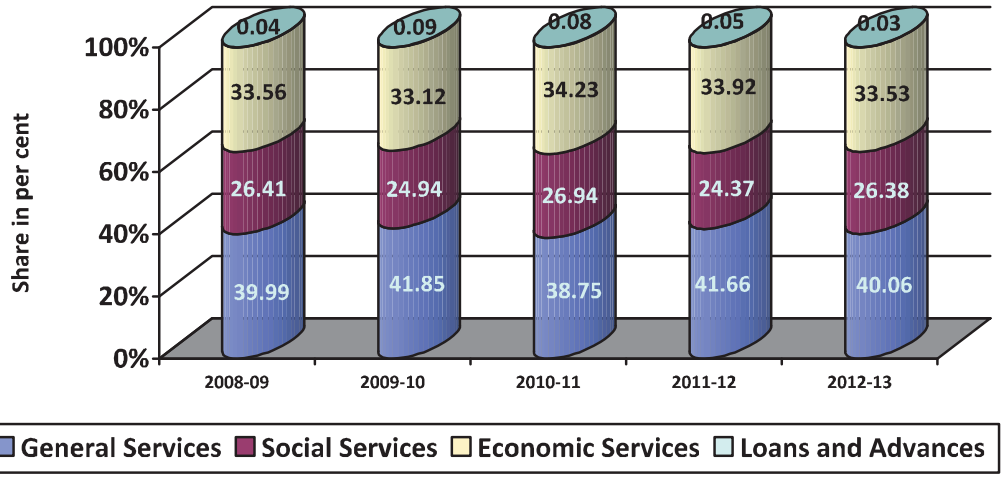


Chart 1.10: Total Expenditure: Trends by 'Activities'



The total expenditure, its annual growth rate, the ratio of expenditure to the GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.14**.

Table 1.14: Total expenditure-basic parameters

	2008-09	2009-10	2010-11	2011-12	2012-13
Total Expenditure (TE) (₹ in crore)	3742.99	4244.24	5313.37	6126.04	6856.77
Rate of growth of TE (*per cent)*	10.24	13.39	25.19	15.29	11.93
TE/GSDP ratio (*per cent)*	39.67	40.32	46.96	49.92	51.47
RR/TE (*per cent)*	90.83	87.61	94.07	91.16	90.46
Buoyancy of Total expenditure with reference to:					
GSDP (ratio)	0.61	1.16	3.36	1.81	1.40
Revenue Receipt (ratio)	0.76	1.43	0.73	1.30	1.08
GSDP (Rupees in crore)	9436.07	10526.77	11315.13	12272.15	13321.61
Rate of growth of GSDP (*per cent*)	16.85	11.56	7.49	8.46	8.55
Revenue Receipts (Rupees in crore)	3399.79	3718.48	4998.46	5584.62	6202.33
Rate of growth of RR (*per cent*)	13.51	9.37	34.42	11.73	11.06

During the current year, 90.46 *per cent* of the total expenditure was met from revenue receipts and the remaining from capital receipts and borrowed funds.

The General Service expenditure increased by ₹ 194.59 crore (7.62 *per cent*) from ₹ 2552.26 crore in 2011-12 to ₹ 2746.85 crore in 2012-13, Social Services expenditure increased by ₹ 315.70 crore (21.15 *per cent*) and Economic Services expenditure increased by ₹ 221.03 crore (10.64 *per cent*).

The pattern of total expenditure in the form of non-plan and plan expenditure during 2012-13 showed that they contributed 66.73 *per cent* (₹ 4575.71 crore) and 33.27 *per cent* (₹ 2281.06 crore) respectively. The non-plan expenditure increased by ₹ 523.03 crore as compared to the previous year due to increase in expenditure under General Services, Social Services and Economic Services by ₹ 225.78 crore, ₹ 172.29 crore, ₹ 124.95 crore respectively and Loan & Advances by ₹0.01 crore.

Plan expenditure increased by ₹ 207.70 crore as compared to the previous year due to increase in expenditure under Social Services by ₹ 143.41crore, Economic Services by ₹ 96.09 crore offset by decrease in expenditure under General Services by ₹ 31.20 crore and Loan & Advances by ₹ 0.60 crore.

1.6.2 Revenue Expenditure

Revenue expenditure had predominant share varying from 76.60 *per cent* to 81.66 *per cent* of the total expenditure of the State during 2008-13. 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.

The revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy is indicated in **Table 1.15.**

Table 1.15: Revenue expenditure-basic parameters

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Expenditure (RE), of which (*Rupees in crore*)	2888.44	3251.16	4186.31	4873.90	5599.43
Non-plan Revenue Expenditure (NPRE) (Rupees in crore)	2344.79	2662.61	3302.86	4052.32	4569.33
Plan Revenue Expenditure (PRE) (*Rupees in crore*)	543.65	588.55	883.45	821.58	1030.10
Rate of growth of RE (*per cent*)	12.33	12.56	28.75	16.42	14.89
Rate of growth of NPRE (*per cent*)	12.38	13.55	24.05	22.69	12.76
Rate of growth of PRE (*per cent*)	12.12	8.26	50.11	(-)7.00	25.38
RE as percentage to TE	77.17	76.60	78.79	79.56	81.66
NPRE/GSDP (*per cent*)	24.85	25.29	29.19	33.02	34.30
NPRE/TE (*per cent*)	62.64	62.73	62.16	66.15	66.64
NPRE/RR (*per cent*)	68.97	71.60	66.08	72.56	73.67
Buoyancy of RE with GSDP (*ratio*)	0.73	1.09	3.84	1.94	1.74
Buoyancy of RE with RR *(ratio)*	0.91	1.34	0.84	1.40	1.35

Revenue expenditure of the State had increased by ₹ 2710.99 crore (93.86 *per cent*) from ₹ 2888.44 crore in 2008-09 to ₹ 5599.43 crore in 2012-13 at a compound annual growth rate of 14.16 *per cent*. Both non plan revenue expenditure (NPRE) and plan revenue expenditure (PRE) had shown an increase over the period 2008-13. Of the total increase of ₹ 725.53 crore in revenue expenditure during 2012-13 over the previous year, increase in NPRE contributed 71.26 *per cent* (₹ 517.01 crore) and PRE accounted for 28.74 *per cent* (₹ 208.52 crore). The increase of ₹ 517.01 crore in NPRE during 2012-13 over the previous year was mainly due to increase in Education, Sports, Art & Culture ₹ 119.16 crore, Pensions & Miscellaneous General Services ₹ 89.90 crore, Administrative Service ₹ 81.23 crore, Energy ₹ 53.34 crore, Interest Payment & Servicing of Debt ₹ 35.25 crore, Transport ₹ 27.67 crore and Health & Family Welfare ₹ 25.72 crore. The PRE had increased by ₹ 208.52 crore in 2012-13 mainly due to increase in expenditure under Education, Sports, Art & Culture ₹ 74.68 crore, Agriculture and Allied Activities ₹ 36.90 crore, Rural Development ₹ 16.77 crore, Special Area Programmes ₹ 12.01 crore and Welfare of Schedule Castes, Scheduled Tribes and Other Backward Classes ₹ 9.83 crore offset by decrease in Irrigation and Flood Control ₹ 5.92 crore, Fiscal Services ₹ 5.11 crore, Energy ₹ 2.48 crore and Transport ₹ 2.05 crore.

The actual non-plan revenue expenditure vis-à-vis assessment made by XIII-FC and State Government are given below:-

Table 1.16: NPRE assessments made by XIII-FC and FCR

(Rupees in crore)

	Assessment made by XIII-FC	Assessment made by State Government in FCR	Actual
Non-Plan Revenue Expenditure	2985.27	4566.75	4569.33

The actual NPRE exceeded the normative assessment made by XIII-FC by ₹ 1584.06 crore (53.06 *per cent*) and also assessment made by the State in FCR by ₹ 2.58 crore (0.06 *per cent*).

1.6.3 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pension and subsidies. **Table 1.17** and **Chart 1.11** present the trends in the expenditure on these components during 2008-13.

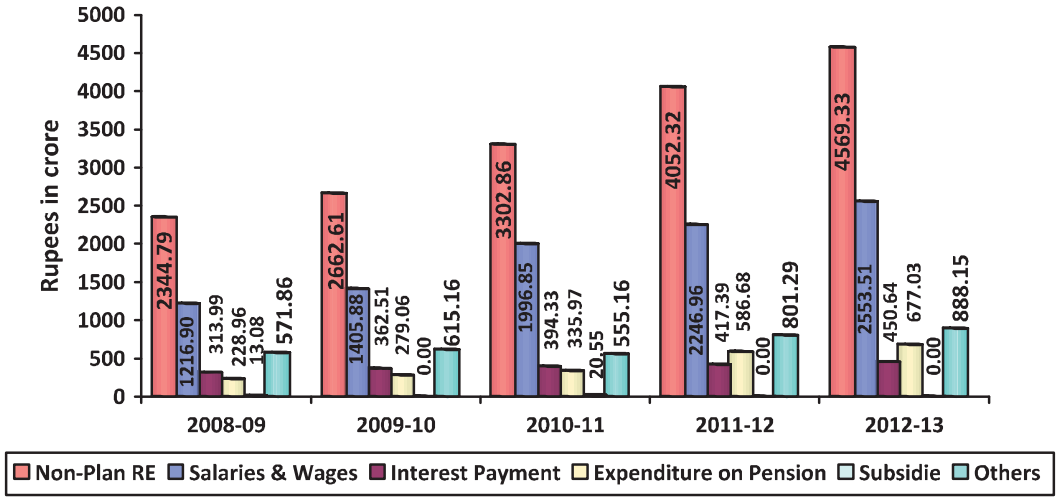
The committed expenditure (i.e., interest payment, pension, salaries and subsidies) of the State Government increased from ₹ 3287.82 crore in 2011-12 to ₹ 3731.54 crore in 2012-13. The overall percentage of committed expenditure to NPRE and Revenue Receipts was 81.66 *per cent* and 60.16 *per cent* respectively in 2012-13.

Table 1.17: Components of Committed Expenditure

(Rupees in crore)

	2008-09	2009-10	2010-11	2011-12	2012-13
Salaries & Wages, of which	1249.39	1442.85	2033.93	2283.75	2603.87
Non-plan	1216.90	1405.90	1996.85	2246.96	2553.51
Plan	32.49	36.95	37.08	36.79	50.36
Interest Payment	313.99	362.51	394.33	417.39	450.64
Expenditure on Pension	228.96	279.06	335.97	586.68	677.03
Subsidies	13.08	0.00	20.55	0.00	0.00
Other components	0.00	0.00	0.00	0.00	0.00
Total	**1805.42**	**2084.42**	**2784.78**	**3287.82**	**3731.54**
As *per cent* of RR					
Salaries & Wages	36.75	38.80	40.69	40.89	41.98
Interest Payment	9.24	7.50	7.89	7.47	7.27
Expenditure on pension	6.73	9.75	6.72	10.51	10.92
Subsidies	0.38	0.00	0.41	0.00	0.00

Chart 1.11: Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2008-13



Salaries & Wages:

Expenditure on salaries under Non-Plan and Plan during the current year was ₹ 2553.51 crore and ₹ 50.36 crore respectively. The expenditure on salaries increased by ₹ 1354.48 crore (108.41 *per cent*) from ₹ 1249.39 crore in 2008-09 to ₹ 2603.87 crore in 2012-13 and was ₹ 1095.23 crore more than the projection made in XIII-FC (₹ 1508.64 crore). Expenditure on salaries and wages increased by ₹ 320.12 crore (14.02 *per cent*) over the previous year mainly due to release of dearness allowance installments and incremental benefits. Salary and wages accounted for 41.98 *per cent* of the revenue receipts during 2012-13.

Pension Payment:

The expenditure on pension had increased by ₹ 90.35 crore (15.40 *per cent*) from ₹ 586.68 crore in 2011-12 to ₹ 677.03 crore in 2012-13. The pension payment were ₹ 201.56 crore more than the assessment made by XIII-FC (₹ 475.47 crore) and also ₹ 7.28 crore more than the assessment made by the State Government in its MTFPS (₹ 669.75 crore) for the year 2012-13.

Interest Payments:

Chart 1.12 : Components of Interest Payment during 2011-12

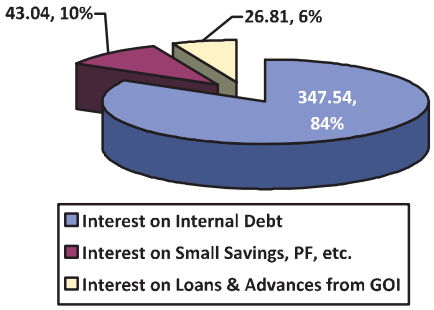
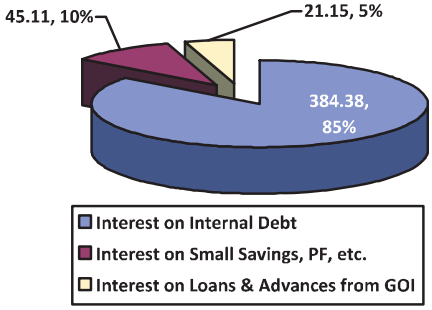


Chart 1.13 : Components of Interest Payment during 2012-13



Interest payment increased by ₹ 136.65 crore (43.52 *per cent*) from ₹ 313.99 crore in 2008-09 to ₹ 450.64 crore in 2012-13. The interest payment increased by ₹ 33.25 crore (7.97 *per cent*) during 2012-13 over the previous year due to increase in interest payment on Internal Debt (₹ 36.84 crore) and Small Savings, Provident Fund etc. (₹ 2.07 crore) offset by decrease in Interest on Loan and Advances from Central Government (₹ 5.66 crore).

The interest payment for the year 2012-13 was lower than the projection made by the State Government in MTFPS (₹ 493.02 crore) but higher than the projections made in XIII-FC (₹ 384.51 crore).

Subsidies:

In any welfare State, it is not uncommon to provide subsidies/subventions to the disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public service to the people. Budgetary support to financial institutions, inadequate returns on investments and poor recovery of user charges from social and economic services provided by the Government fall in the category of implicit subsidies. However, no subsidies were given by the State Government during the year 2011-12 and 2012-13.

1.6.4 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 1.18.**

Table 1.18: Financial Assistance to Local Bodies etc.

(Rupees in crore)

Financial Assistance to Institutions	2008-09	2009-10	2010-11	2011-12	2012-13
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	14.70	18.44	5.50	6.40	51.17
Co-Operation	0.00	0.07	3.44	6.55	8.40
Municipal councils	2.11	1.20	…	2.98	0.00
Development Agencies	40.34	62.20	26.56	28.29	29.04
Hospitals and Other Charitable Institutions	10.16	10.78	12.59	14.70	15.50
Panchayati Raj	0.00	0.00	0.00	0.55	16.62
Special Area Programme	0.00	0.00	0.00	4.75	0.00
Other Institutions	7.47	6.21	54.80	100.51	111.77
Total	**74.78**	**98.90**	**102.89**	**164.73**	**232.50**
Assistance as percentage of RE	2.20	2.66	2.46	3.38	4.15

The total assistance to local bodies etc. increased by ₹ 67.77 crore (41.14 *per cent*) from ₹ 164.73 crore in 2011-12 to ₹ 232.50 crore in 2012-13. **Table 1.18** shows that the assistance increased by ₹ 44.77 crore (699.53 *per cent)* from ₹ 6.40 crore in 2011-12 to ₹ 51.17 crore in 2012-13 in respect of Educational Institutions whereas, it declined by ₹ 4.75 crore (100.00 *per cent*) from ₹ 4.75 crore in 2011-12 to nil in 2012-13 in respect of Special Area Programme.

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 State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. **Table 1.19** analyses the fiscal priority given by the Nagaland Government to various expenditure heads in 2009-10 and the current year viz 2012-13 with regard to developmental expenditure, social sector expenditure and capital expenditure.

Table-1.19: Fiscal priority of the State in 2009-10 & 2012-13

Fiscal priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/AE
Nagaland 2009-10	40.32	58.15	24.94	23.31	12.03	4.18
Nagaland 2012-13	51.47	59.94	26.38	18.31	13.87	4.26

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 AE to GSDP ratio of the Government of Nagaland had increased by 11.15 *per cent* from 40.32 *per cent* in 2009-10 to 51.47 *per cent* in 2012-13. The DE to AE and SSE to AE marginally increased by 1.79 *per cent* and 1.44 *per cent* respectively whereas CE to

AE declined by 5.00 *per cent* as compared to 2009-10. Further, the expenditure on the education sector and health sector as proportion of Aggregate expenditure was 13.87 *per cent* and 4.26 *per cent* respectively in 2012-13 which is marginally higher as compared to 2009-10.

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 rationalisation measures and lay emphasis on provision of core public and merit goods[12]. Apart from improving the allocation towards developmental expenditure[13], 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 1.20** 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 1.21** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table-1.20: Developmental Expenditure

(Rupees in crore)

Components of Developmental Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13	
					BE	Actual
Developmental Expenditure (a to c)	2246.10 (60.01)	2467.96 (58.15)	3254.56 (61.25)	3573.79 (58.34)	3933.06	4109.92 (59.94)
a. Developmental Revenue Expenditure	1540.70 (41.16)	1668.46 (39.31)	2344.67 (44.13)	2557.39 (41.74)	2826.67	3063.59 (44.68)
b. Developmental Capital Expenditure	703.94 (18.81)	795.95 (18.75)	905.77 (17.05)	1013.64 (16.55)	1102.42	1044.17 (15.23)
c. Developmental Loans and Advances	1.46 (0.04)	3.55 (0.09)	4.12 (0.08)	2.76 (0.04)	3.97	2.16 (0.03)
Figures in parentheses indicate percentage to aggregate expenditure						

The developmental expenditure (₹ 4109.92 crore) exceeded the assessment made by the State Government in the budget by ₹ 176.86 crore. The developmental revenue and capital expenditure increased by ₹ 506.20 crore (19.79 *per cent*) and ₹ 30.53 crore (3.01 *per cent*) respectively over the previous year. The increase in developmental revenue expenditure was mainly under Education, Sports, Art & Culture (₹ 193.84 crore), Energy (₹ 50.86 crore), Agriculture & Allied Activities (₹ 47.07 crore), Social Welfare & Nutrition (₹ 46.01 crore), Rural Development (₹ 36.40 crore), Health & Family Welfare (₹ 34.19 crore) and Transport (₹ 25.62 crore).

[12] **As detailed in Appendix 1.1 C**

[13] **The 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 categorised 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 1.21 –Efficiency of Expenditure Use in Selected Social and Economic Services

(Rupees in crore)

Sector	2011-12			2012-13		
	Ratio of CE to TE	Revenue Expenditure		Ratio of CE to TE	Revenue Expenditure	
		Salaries & Wages	Operation & Maintenance		Salaries & Wages	Operation & Maintenance
Social Services (SS)						
Education, Sports, Art & Culture	13.41	578.21	97.93	8.51	702.95	167.03
Health and Family Welfare	14.86	203.39	33.69	7.08	229.48	41.81
WS, Sanitation, & HUD	76.85	52.93	(-)0.35	75.78	58.56	11.28
Others	8.76	62.78	125.54	9.59	68.93	181.74
Total (SS)	**22.69**	**897.31**	**256.81**	**19.18**	**1059.92**	**401.86**
Economic Services (ES)						
Agri & Allied Activities	17.90	183.60	180.19	19.40	192.37	218.49
Irrigation and Flood Control	0.35	16.40	115.54	1.03	17.99	109.82
Power & Energy	22.57	57.44	236.97	20.92	70.18	275.09
Transport	63.90	140.79	58.30	61.35	148.54	76.17
Others	27.47	116.33	297.71	23.22	129.43	363.73
Total (ES)	**32.47**	**514.56**	**888.71**	**30.33**	**558.51**	**1043.30**
Total (SS+ES)	**28.38**	**1411.87**	**1145.52**	**25.42**	**1618.43**	**1445.16**

Table 1.21 shows that the ratios of CE to TE under Education, Sports, Art & Culture, Health & Family Welfare and Water Supply, Sanitation, Housing & Urban Development decreased by 4.90 *per cent,* 7.78 *per cent* and 1.07 *per cent* respectively. The ratio of CE to TE under Social Services decreased from 22.69 *per cent* in 2011-12 to 19.18 *per cent* in 2012-13 and in respect of Economic Services also decreased from 32.47 *per cent* in 2011-12 to 30.33 *per cent* in 2012-13.

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 Financial result of Irrigation Projects

According to Para 7.46 of XIII Finance Commission Report, the cost recovery rate of the receipts from irrigation should be 45 *per cent* of Non-plan Revenue Expenditure for 2012-13 in order to ensure viability of Irrigation Projects.

There was no commercial irrigation project in Nagaland. However, 936 minor irrigation projects covering 38708 hectares involving a cost of ₹ 463.74 crore were taken up under Accelerated Irrigation Benefit Programme during 2000-2013.

Further, as mentioned in para 7.138 of XIII-FC report, the Controller General of Accounts (CGA) had issued instructions that the maintenance expenditure under the head Minor Irrigation should be divided into two sub heads - Work Charged Expenditure and Other Maintenance Expenditure. These changes should be brought into the State and Union Budget and Finance Accounts immediately. The State Government of Nagaland had not operated such sub-head till 2012-13. Due to non-operation of these sub-heads, the State was not able to provide budget provision for maintenance expenditure under the head Minor Irrigation. Against the XIII-FC projection of ₹ 12.21 crore for 2012-13 under minor irrigation projects, the State Government did not incur any maintenance expenditure. Thus, the viability of minor irrigation projects in the State remained un-assessed.

1.8.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2013 is given in **Table 1.22.**

Table 1.22: Department-wise Profile of Incomplete Projects

(Rupees in Crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Cost	Cumulative expenditure as on 31.3.2013
1	2	3	4	5
PHED	37	276.29	276.29	102.60
PWD (R&B)	26	432.53	445.49	370.68
Technical Education	3	3.00	3.00	1.20
Geology & Mining	1	26.54	53.95	26.02
Department of Under Developed Areas	7	21.00	21.00	13.37
SCERT	1	4.28	4.97	4.63
Transport	2	17.35	17.35	12.05
PWD (Housing)	6	115.05	115.05	53.78
Health & Family Welfare	2	26.82	26.82	4.00
Veterinary & Animal Husbandry	11	2.70	2.70	0.66
Urban Development	14	378.75	378.75	149.08
CAWD	9	30.02	30.02	19.30
Power	1	19.67	19.67	13.42
Police Engineering Project	6	443.99	443.99	145.19
Industries & Commerce	2	9.67	9.67	4.67
Evaluation	2	1.39	1.39	1.39
Youth Resources & Sports	4	174.59	168.81	79.78
School Education	1	2.51	2.51	0.85
Total	**135**	**1986.15**	**2021.43**	**1002.67**

Source: Finance Accounts and Departmental records

There were 135 incomplete projects (estimated cost ₹ 1986.15 crore and actual expenditure incurred was ₹ 1002.67 crore as of March 2013) pertaining to 18 departments. Out of the 135 incomplete projects 75 projects (estimated cost ₹ 1063.54 crore and actual expenditure ₹ 623.85 crore) were due to be completed by March 2013 but remained incomplete as of October 2013. Out of the 75 projects, the cost of three incomplete projects pertaining to Geology and Mining (₹ 27.41 crore), State Council of Educational Research and Training (₹ 0.69 crore) and Youth Resource and Sports (₹ 1.49 crore) had been revised and increased by ₹ 29.59 crore (86.24 *per cent).* The *e*stimated cost of the three projects was ₹ 34.31 crore which was revised to ₹ 63.90 crore. The completion in respect of 33 projects was not due as on 31 March 2013. The date of completion in respect of 27 projects could not be furnished by the departments. Hence, it could not be ascertained in audit as to whether the 27 projects were incomplete or were in progress.

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 agencies after completion. Besides, due to delay in completion of the projects, the intended benefits from those projects did not reach the beneficiaries in the State.

1.8.3 Investment and returns

As on 31 March 2013, Government had invested ₹ 242.65 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives **(Table 1.23)**. The average return on this investment was 'Nil' during the last five years while the Government paid an average interest rate of 6.34 *per cent* on its borrowings during 2012-13.

Table-1.23: Return on Investment

(Rupees in crore)

Investment/Return/Cost of Borrowings	2008-09	2009-10	2010-11	2011-12	2012-13
Investment at the end of the year (a-e) (₹ in crore)	164.94	192.09	213.41	228.01	242.65
(a) Joint Stock Companies	32.10	32.10	32.10	32.11	32.10
(b) Government Companies	100.76	127.91	145.60	160.19	168.69
(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	32.04	32.04	35.67	35.67	41.82
Return (₹ in crore)	0.00	0.00	0.00	0.00	0.00
Return *(per cent)*	0.00	0.00	0.00	0.00	0.00
Average rate of interest on Govt borrowing *(per cent)*	7.38	7.20	6.96	6.61	6.34
Difference between interest rate and return *(per cent)*	7.38	7.20	6.96	6.61	6.34

Out of the total Government investment of ₹ 242.65 crore at the close of the current year, ₹ 168.69 crore was invested in four Government companies (₹ 22.55 crore), Distillery Project (₹ 0.30 crore), Nagaland State Mineral Development Corporations (₹ 64.78 crore) and Public Sector & other Undertakings (₹ 81.06 crore). The remaining amount of ₹ 73.96 crore was invested in two Joint Stock Companies (₹ 32.10 crore) and Statutory Corporations, Co-operative Bank and Co-operative Societies etc. (₹ 41.86 crore). During the current year, the Government made additional investment of ₹ 14.64 crore in State

Mineral Development Corporations (₹ 5.50 crore), Public Sector and Other Undertakings (₹ 3.00 crore) and Other Co-operatives (₹ 6.14 crore).

Out of four Government companies in the State, one company *viz*., Nagaland Sugar Mills Ltd. (₹ 7.29 crore-investment upto 2001-02) was non-working whose accounts were in arrears for 35 years. The three working companies - 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. Except Nagaland Industrial Development Corporation Ltd. whose accounts were in arrears for one year, the accounts of the remaining two working Government Companies were in arrears for periods ranging between 3 and 10 years. Hence, the actual financial status of the companies as of March 2013 could not be assessed.

Effective steps should be taken by the Government to increase profitability in the Government Companies/Statutory Corporations. 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 see if high cost borrowings need to be invested in those Companies/Corporations. Besides, as no purpose is served by keeping the non-working company in existence, the Government may expedite closing down of the non-working company.

1.8.4 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/ organisations. **Table 1.24** presents the outstanding loans and advances as on 31 March 2013 and interest receipts vis-à-vis interest payments during the last three years.

Table-1.24: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

Quantum of loans/interest receipts/ cost of borrowings	2009-10	2010-11	2011-12	2012-13	
				BE	Actual
Opening Balance	24.64	23.99	25.80	26.11	26.11
Amount advanced during the year	3.55	4.12	2.75	3.97	2.16
Amount repaid during the year	4.20	2.31	2.44	3.82	0.85
Closing Balance	**23.99**	**25.80**	**26.11**	**26.26**	**27.42**
Net addition	-0.65	1.81	0.31	-	1.31
Interest Receipts	0.39	0.46	1.10	-	0.00
Interest receipts as *per cent* to outstanding loans and advances	1.60	1.85	4.24	-	0.00
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	7.20	6.96	6.61	-	6.34
Difference between interest payments and interest receipts (*per cent*)	5.60	5.11	2.37	-	6.34

At the end of March 2013, the Government had outstanding loans and advances of ₹ 27.42 crore. The amount of loans disbursed during the year decreased by ₹ 0.59 crore from ₹ 2.75 crore in 2011-12 to ₹ 2.16 crore in 2012-13. Out of the total amount of loans and advances of ₹ 27.42 crore as on 31 March 2013, ₹ 22.95 crore (83.70 *per cent)* were for Agriculture and Allied Activities, ₹ 2.17 crore (7.91 *per* cent) for Industry and Mineral, ₹ 2.27 crore

(8.28 *per cent*) to Government Servants and ₹ 0.03 crore (0.11 *per cent*) for Water Supply, Sanitation, Housing and Urban Development.

The recovery of loans and advances decreased by ₹ 1.59 crore (65.16 *per cent*) from ₹ 2.44 crore in 2011-12 to ₹ 0.85 crore in 2012-13. During 2011-12, 87.06 *per cent* (₹ 0.74) loans were repaid by Government Servants and remaining 12.94 *per cent* (₹ 0.11 crore) by Co-operatives. The interest receipts as a percentage of outstanding loans decreased from 4.24 *per cent* in 2011-12 to nil in 2012-13.

1.8.5 Cash Balances and Investment of Cash balances

A summary of the contents of appendix I of Finance Account are given below:

Table 1.25: Summary of contents of Appendix I of Finance Accounts

(Rupees in crore)

	Opening balance on 01.04.2012	Closing balance on 31.03.2013
(a) General Cash Balance		
Cash in treasuries	0.18	0.00
Deposits with Reserve Bank	(-)199.04	(-)297.88
Deposits with other Banks	0.00	0.00
Remittances in transit- Local	0.00	0.00
Total	**(-)198.86**	**(-)297.88**
Investments held in Cash Balance investment account	0.00	0.00
Total (a)	**(-)198.86**	**(-)297.88**
(b) Other Cash Balances and Investments		
Cash with departmental officers viz. Public Works Dept/ Officers, Forest department Officers, District Collectors	375.65	402.87
Permanent advances for contingent expenditure with departmental officers	0.00	0.00
Investment of earmarked funds	151.40	175.53
Total (b)	**527.05**	**578.40**
Total (a) + (b)	**328.19**	**280.52**

Perusal of the table above indicate that the cash with the departmental officers viz., public works departmental officers, forest department officers and district collectors had increased by ₹ 27.22 crore (7.25 *per cent*) from ₹ 375.65 crore in 2011-12 to ₹ 402.87 crore in 2012-13.

Outstanding balances under the head 'Cheques and Bills'

Major Head 8670 Cheques and Bills is an intermediary accounting head for initial record of transactions which are eventually to be cleared. There would normally be a credit balance outstanding under this head representing unencashed cheques. The accounts of the Government of Nagaland, however, show an outstanding debit balance of ₹ 0.13 crore as on 31 March 2013, which is to be reconciled by the State Government.

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 1.5** gives an abstract of such liabilities and the assets as on 31 March 2013, compared with the corresponding position on 31 March 2012. While the liabilities in the 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, 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 1.14** and **1.15.**

Chart 1.14: Composition of Outstanding Fiscal Liabilities as on 31.03.2012 (Rupees in crore)

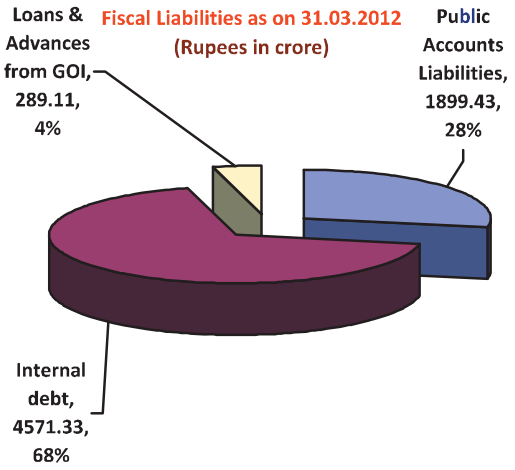
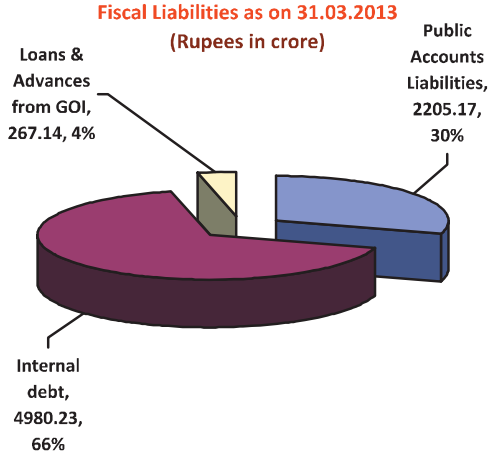


Chart 1.15: Composition of Outstanding Fiscal Liabilities as on 31.03.2013 (Rupees in crore)



The growth rate of fiscal liability was 10.25 *per cent* during 2012-13 over the previous year. Fiscal Liabilities of the State comprise Consolidated Fund Liabilities and Public Account Liabilities. The Consolidated Fund Liability (₹ 5247.37 crore) comprised market loan (₹ 3901.41 crore), loans from Government of India (₹ 267.14 crore) and other loans (₹ 1078.82 crore). The Public Account Liabilities (₹ 2205.17 crore) comprise Small Saving, Provident Fund (₹ 682.92 crore), interest bearing obligations (₹ 15.00 crore) and non-interest bearing obligations like deposits and other earmarked funds (₹ 1507.25 crore). The ratio of fiscal liabilities to GSDP had increased from 55.08 *per cent* in 2011-12 to 55.94 *per cent* in 2012-13. These fiscal liabilities stood at nearly 1.20 times the revenue receipts and 21.92 times of the State's own tax revenue at the end of 2012-13. The fiscal liabilities to GSDP (55.94 *per cent*) was 6.39 *per cent* more than the assessment made by the State Government in its Medium Term Fiscal Policy Statement (MTFPS) (49.55 *per cent*) and 1.04 *per cent* higher than the norm of 54.90 per cent recommended by the XIII-FC for the year 2012-13.

1.9.3 Transactions under Reserve fund

The Twelfth Finance Commission had recommended that States should set up (i) Sinking Funds for amortization of all loans including loans from banks, liabilities on account of National Small Savings Funds etc., which should not be used for any other purpose, except for redemption of loans and (ii) Guarentee Redemption Funds for discharge of the States' obligations on guarantees. Out of the 4 (four) funds operated by the State Government, Depreciation/Renewal Reserve Fund (₹ 0.07 crore) was dormant. The total accumulated balance at the end of 31 March 2013 in those funds was ₹ 320.23 crore, of which ₹ 175.53 crore (55 *per cent*) had been invested. Details of significant Reserve Funds of the Government of Nagaland are given below:

(a) Consolidated Sinking Fund (CSF)

In terms of the recommendations of the Twelfth Finance Commission, the State Government created a consolidated Sinking Fund in 2006-07, for amortization of liabilities, with an initial corpus of ₹ 12.17 crore. Though the State Government has not framed any rules regarding annual contributions to the Fund, in terms of the guidelines of the Reserve Bank of India which is responsible for management of the Fund, the State Government was required to contribute a minimum of 0.5 *per cent* of its outstanding liabilities (Internal Debt + Public Account) as at the end of the previous year. Against ₹ 31.79 crore (0.5 *per cent* of the outstanding liabilities of ₹ 6357.77 crore as on 31 March 2012) due from the State Government in 2012-13, the State Government contributed ₹ 30.00 crore, a shortfall of ₹ 1.79 crore in contribution, which resulted in overstatement of Revenue Surplus to this extent. The entire corpus of the Fund amounting to ₹ 154.09 crore as on 31 March 2013, was invested in Government of India Securities.

(b) Guarantee Redemption Fund (GRF):

The State Government constituted a Guarantee Redemption Fund in 2006-07 with an initial corpus of ₹4.00 crore determined on the basis of guarantees invoked during the preceding five years. In terms of the Guarantee Redemption Fund Scheme of the Government of

Nagaland, contributions shall be made to the Fund annually or at lesser intervals so as to reach the levels deemed sufficient to meet the amount of anticipated guarantees devolving on the Government as a result of the likely invocation of outstanding guarantees in the succeeding five years. No guarantees of the State Government were invoked from inception of the Scheme. During 2012-13, ₹1.00 crore was transferred by the State Government and the entire corpus of ₹6.00 crore as on 31 March 2013 was invested by the Reserve Bank of India in Government of India Securities.

(c) State Disaster Response Fund (SDRF):

The State Government commenced operation of the State Disaster Response Fund in 2010-11 as recommended by the Thirteenth Finance Commission. In terms of the guidelines applicable to special category States like Nagaland, the Central and State Governments are required to contribute to the fund in the proportion of 90:10. Following Government of India's release of ₹ 12.87 crore (which includes total allotment of ₹ 4.70 crore of 2011-12 along with the entire contribution of ₹ 4.93 crore of 2012-13 and additional amount towards capacity building), the State Government transferred ₹ 10.44 crore to SDRF, including State's share of ₹ 1.07 crore (₹ 0.55 crore of 2012-13 and ₹ 0.52 crore of 2011-12). Transfer of only ₹ 9.37crore out of the Central contribution of ₹ 12.87 crore resulted in overstatement of the Revenue Surplus of the State Government by ₹ 3.50 crore. During the year, the State Government adjusted expenditure of ₹ 3.57 crore on natural calamities against the Fund and invested ₹ 10.44 crore, leaving a balance of ₹ 0.72 crore in the Fund as on 31 March 2013.

1.9.4 Contingent liabilities

Status of Guarantees

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantees had been extended. As per NFRBM Act 2005, the State Government set up a guarantee redemption fund in 2006-07 and decided to charge guarantee fee at the rate of 1 *per cent* of GSDP to cover the risk in the guarantees. During the year 2012-13, the State had given guarantee of ₹ 5.00 crore but no guarantee fee was received.

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 **Table1.26.**

Table-1.26: Guarantees given by the Government of Nagaland

(Rupees in crore)

Guarantees	2009-10	2010-11	2011-12	2012-13
Total amount of guarantees given up to	53.72	55.22	65.22	70.22
Outstanding amount of guarantees at the end of the year	53.72	55.22	65.22	70.22
Percentage of maximum amount guaranteed to total revenue receipts	1.44	1.10	1.17	1.13
Outstanding amount of guarantee as percentage of GSDP	0.51	0.49	0.53	0.53

The outstanding guarantees increased by ₹ 5.00 crore (7.67 *per cent*) from ₹ 65.22 crore in 2011-12 to ₹ 70.22 crore in 2012-13. The outstanding guarantees of ₹ 70.22 crore mainly pertained to Nagaland Industrial Development Corporation 48.29 *per cent* (₹ 33.91 crore) for repayment of principal and payment of interest on loan obtained. The outstanding guarantees were 1.13 *per cent* of the revenue receipts of the Government.

Off-Budget Borrowings

The State Government had not resorted to any off-budget borrowings during the year. As per the recommendations of the XIII-FC, the State Government had set up a Sinking Fund for amortisation of market borrowings as well as other loans and debt obligations during 2011-12. Contribution to the Sinking Fund was ₹ 16.17 crore as of March 2013 and the entire amount of the fund was invested.

1.9.5 Analysis of Borrowings of Government

1.9.5.1 Introduction

At the beginning of every year, Government puts out a plan for its income and expenditure for the ensuing year as the Annual Budget. A budget is said to have a fiscal deficit[14] when the Government's expenditure exceeds its income. When it happens, the Government needs additional funds. Government can finance the fiscal deficit by increasing the amount of taxes collected by enhancing the tax rates/base, by borrowing the funds from open market and/or from Government of India. The borrowings are accounted for under the Consolidated Fund (Public Debt). The major divisions are Internal Debt of the State Government and Loans and Advances from the Central Government. The internal debt is further divided into Market Loans and Negotiated Loans. This review is on Market Borrowings and the Major and Minor Heads concerned are 6003-Internal Debt of the State Government-101 Market Loans with Sub-head, Detailed and Object heads concerned.

Market borrowings are controlled by the Central Government and managed by the Reserve Bank of India. States may not, without the consent of the Central Government, raise any

[14] **Total revenue and non-debt capital receipts i.e. (i) Revenue receipts (ii) Miscellaneous capital receipts and (iii) recoveries of loans and advances less Revenue expenditure plus capital expenditure plus disbursement of loans and advances**

loan if they are indebted to the Central Government (Article 293). The Reserve Bank of India manages the domestic borrowings of the State

The thirteenth finance commission (XIII –FC) has stated that in order to reduce the fiscal deficit, it is essential that States should follow the practice of borrowing on requirement rather than on availability. The issue of debt sustainability of the State Government is related to prudent and desirable debt practices such as setting of clear debt management objectives, duration and maturity of loans, debt expansion commensurate with capital expansion plans, investments in projects for durable assets with sustainable income generation capacity etc.

1.9.5.2 Organisational set-up

Finance Department of Government of Nagaland (GON) is responsible for proper fiscal management of the State resources/funds and is headed by Addl. Chief Secretary and Finance Commissioner who are assisted by three Advisors, three Officers on Special Duty, one Secretary, one Joint Secretary, three Deputy Secretaries, three Under Secretaries, one Consultant and other supporting staff. The Department comprises of 10 branches.

1.9.5.3 Scope of Audit

In-depth examination of Market Borrowings of the State Government covering the period 2008-09 to 2012-13 was carried out during April to May 2013 through test check of the records made available by the Finance Department and Finance and Appropriation Accounts of the Government of Nagaland.

1.9.5.4 Audit Objectives

The objectives of the review were to assess whether;

- The borrowing requirements of the State were need based and realistic;
- The system on which estimate of total borrowings was arrived at was in existence;
- The permission by the Government of India (GOI) for open market borrowings was accorded;
- The amount was used for creation of capital nature durable assets with sustainable income generation capacity;
- There was a mechanism for effective financial control and monitoring.

1.9.5.5 Audit Criteria

The objectives were bench marked against the criteria obtained from the following sources:

- Constitution of India;
- Medium Terms Fiscal Plans of the State Government formulated under FRBM Act;
- Orders and instructions issued by the GOI, Finance Commissions and Reserve Bank of India (RBI) from time to time;
- Report of the XII-FC and XIII-FC Finance Commissions;
- Market borrowing documents maintained by the Government;
- Finance Accounts and Appropriation Accounts of the Government of Nagaland; and
- Prescribed monitoring mechanism.

1.9.5.6 Audit Methodology

The review commenced with an entry conference on 12 April 2013 with the OSD, Finance Department and other departmental officers to discuss the audit objectives, audit criteria, audit scope and methodology. The audit methodology involved scrutiny of budget and revised estimates and supplementary budget for market borrowing, scrutiny of tenor and terms of instrument of borrowings and periodical appraisal through issue of questionnaire and audit queries to the Department. An exit conference was held on 19 November 2013 with the OSD, Finance Department.

1.9.5.7 Overall Position

The overall position of Debt sustainability indicators are detailed in the following table.

Table 1.27: Debt sustainability indicators

(Rupees in crore)

Sl. No	Description	2008-09	2009-10	2010-11	2011-12	2012-13
1	2	3	4	5	6	7
1	Total Liabilities (A+B)	4607.50	5460.99	5864.53	6759.87	7452.54
A	Public Debt (a+b)	3607.33	4137.97	4340.16	4860.44	5247.37
(a)	Internal debt (i+ii+iii)	3240.49	3808.49	4033.56	4571.33	4980.22
(i)	Market loans[15]	2437.95	2878.76	3106.90	3432.40	3901.41
(ii)	Special Securities issued to NSSF	102.04	105.04	122.38	124.92	122.71
(iii)	Loans from Banks and Financial Institutions	700.50	824.69	804.28	1014.01	956.10
(b)	Loans and Advances from Centre	366.84	329.48	306.60	289.11	267.15
B	Other liabilities including Public Account liabilities	1000.17	1323.02	1524.37	1899.43	2205.17
2	Percentage of Market loans to total liabilities	52.91	52.71	52.98	50.78	52.35
3	Percentage of Market loans to total Public Debts	67.58	69.57	71.58	70.62	74.35
4	Interest accrued on Market Loans	175.16	200.59	228.98	246.23	280.19
5	Weighted average Interest rate on market loans (For the year)	8.25	7.96	8.34	8.91	8.86
6	Interest Paid on market loans	175.16	200.59	228.98	246.23	280.19
7	GSDP (Amount)	9436.07	10526.77	11315.13	12272.15	13321.61
8	Growth rate of GSDP	16.85	11.56	7.49	8.46	8.55
9	Interest rate (Int. Accrued on CB of OMB)	7.18	6.97	7.37	7.17	7.18
10	GSDP Growth rate and weighted average interest rate ratio	2.04	1.45	0.90	0.95	0.97

[15] *Market Loans include tax free Government Special Bonds (Power Bonds whose balance as on April 2008 was ₹63.14 crore subsequently reduced to ₹23.68 crore @ ₹7.892 crore per annum) and not bearing interest amounting to ₹0.03 crore during 2008-13 which have been excluded in subsequent paragraphs.*

1	2	3	4	5	6	7
11	Gross interest payments	313.94	362.51	394.33	417.39	450.64
12	Revenue receipt	3399.79	3718.48	4998.46	5584.62	6202.33
13	Gross interest payments Revenue Receipt ratio	0.09	0.10	0.08	0.07	0.07
14	Primary Surplus (+)/ Deficit (-)	-26.64	-159.05	81.73	-121.59	-202.95
15	Revenue Surplus(+)/Deficit(-)	511.35	467.32	812.15	710.72	602.90
16	Fiscal Deficit (FD) (-)	-340.63	-521.56	-312.60	-538.98	-653.59
17	Percentage of FD to GSDP	-3.61	-4.95	-2.76	-4.39	-4.91
18	Percentage of total liabilities to GSDP	48.83	51.88	51.83	55.08	55.94
19	Percentage of Public Debt to GSDP	38.23	39.31	38.36	39.61	39.39
20	Outstanding Guarantees	26.96	53.72	55.22	65.22	70.22

The total outstanding Public Debt of GON as on 1 April 2008 was ₹ 3161.16 crore comprising market loans of ₹ 2072.45 crore, Negotiated Loans (₹ 596.20 crore), Central Government Loans (₹ 388.44 crore) and Loans from NSSF (₹ 104.07 crore).

The percentage of market loan to the Public debt of the State as on 1 April 2008 was 65.56 *per cent* which increased to 67.58 *per cent*, 69.57 *per cent*, and 71.58 *per cent* as on 31 March of 2009, 2010 and 2011 respectively. However, it registered a slight decline to 70.62 *per cent* as on 31 March 2012 but increased substantially to 74.35 *per cent* as on 31 March 2013.

Thus, State Government was substantially dependant on market loans. As a result, both the total debt and closing balance of market loans were on an increasing trend.

Revenue surplus represents the difference between revenue receipts and revenue expenditure. Revenue surplus helps to decrease borrowings.

The State continued to attain revenue surplus during all the years i.e., from 2008-09 to 2012-13 with fluctuating trends during the years. The State was able to attain revenue surplus due to the receipts of Grants-in-Aid from the GOI as the State's own revenue was meager compared with the revenue expenditure for the above period.

The fiscal deficit for the years during 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 stood at 3.61 *per cent*, 4.95 *per cent*, 2.76 *per cent,* 4.39 *per cent* and 4.91 *per cent* respectively of the GSDP for the years against the target of 3 *per cent* from 2008-09 to 2009-10 and 3.5 *per cent* from 2010-11 to 2012-13 as determined by XII-FC and XIII-FC respectively. Thus, excepting 2010-11, the fiscal deficit percentage to GSDP was higher than the sustainability target. Further, in order to restrict the fiscal deficit, it was imperative to bring down the interest obligation. But, on the contrary, it was seen that Government. of Nagaland resorted to borrowing more than the redemption of earlier loans during the years, resulting in increase in the interest obligation every year.

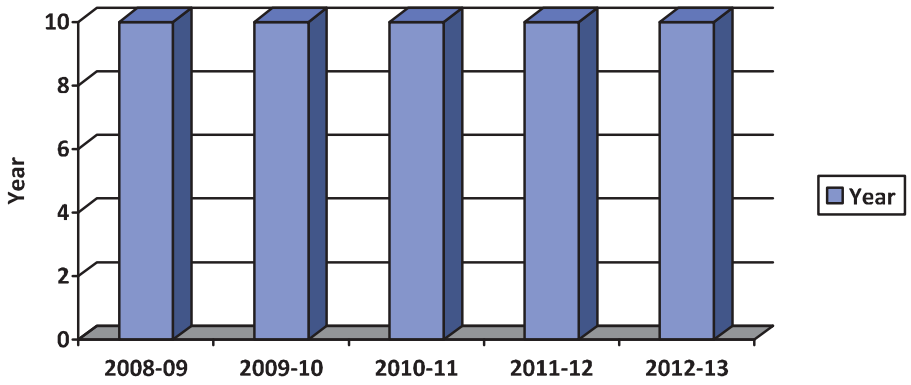
Further, the profile of market loans revealed that the Market Borrowings raised during the years 2008-13 ranges from 8.34 *per cent* to 18.83 *per cent* of the closing Debt Stock of that year. The profile of market loans is given in the table below:

Table 1.28: Profile of Market loans

Details	Amount of market loans raised (Rupees in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
< 7 years	-	-	-	-	-
> 7 Years	466.96	577.41	355.36	505.00	655.00
Total Loans raised during the year	466.96	577.41	355.36	505.00	655.00
Total outstanding on 31 March	2382.67	2831.38	3067.41	3400.80	3877.70
Percentage of loans raised during the year to total outstanding (*in per cent*)	18.58	18.83	8.34	10.87	14.02

It could be seen from the above table that the State had resorted to long term market borrowings as the loans raised for the review period 2008-13 had the maturity period of ten years as could be seen from the graph below:

Chart 1.16. : Maturity period of Market Loans



Further, details of market loans taken, discharged and outstanding during 2008-13 was as under:

Table 1.29: Profile of market loans taken, discharged and outstanding

(Rupees in crore)

Year	Opening balance	Additions during the year	Discharges during the year	Closing balance 31 March	Net increase (+)/ Decrease (-) in percentage
2008-09	2009.28	466.96	93.57	2382.67	18.58
2009-10	2382.67	577.41	128.71	2831.37	18.83
2010-11	2831.37	355.36	119.33	3067.40	8.34
2011-12	3067.40	505.00	171.60	3400.80	10.87
2012-13	3400.80	655.00	178.11	3877.70	14.02

Source: Finance Account and departmental figures

The outstanding market loans had increased by 62.75 *per cent* from ₹ 2382.67 crore in 2008-09 to ₹ 3877.70 crore in 2012-13. However, market loans raised during the year as a percentage of total outstanding had reduced from 18.58 *per cent* during 2008-09 to 14.02 *per cent* during 2012-13.

Details of individual loans: The details of individual loans during 2008-13 along with the weighted average of interest rates of market loans raised by the State Government was as under:

Table 1.30: Details of individual loans and weighted average interst rate

Year	Amount of Loan (₹*in crore*) (A)	Rate of interest (*in per cent*) (B)	Weight of the loan (AxB)
1	2	3	4
2008-09	160.00	8.58	1372.80
	100.00	7.40	740.00
	184.58	8.40	1550.47
	22.38	8.47	189.56
	466.96	**Weighted Average of interest for 2008-09 was 8.25**	**3852.83**
2009-10	260.00	7.58	1970.80
	89.00	8.10	720.90
	100.14	8.26	827.16
	100.00	8.39	839.00
	28.27	8.49	240.01
	577.41	**Weighted Average of interest for 2009-10 was 7.96**	**4597.87**
2010-11	100.00	8.07	807.00
	100.00	8.50	850.00
	55.36	8.39	464.47
	100.00	8.41	841.00
	355.36	**Weighted Average of interest for 2010-11 was 8.34**	**2962.47**
2011-12	100.00	8.60	860.00
	150.00	8.90	1335.00
	5.00	9.32	46.60
	250.00	9.04	2260.00
	505.00	**Weighted Average of interest for 2011-12 was 8.91**	**4501.60**
2012-13	250.00	8.97	2242.50
	200.00	8.98	1796.00
	195.00	8.62	1680.90
	10.00	8.55	85.50
	655.00	**Weighted Average of interest for 2012-13 was 8.86**	**5804.90**
Weighted average interest for the period 2008-2013	**2559.73**	**8.49**	**21719.67**

The weighted average interest of the market borrowings of the State Government for the period from 2008-09 to 2012-13 was 8.49 *per cent.*

Maturity trend: Analysis of redemption profile of the State was made to ascertain the redemption pressure on the State on account of market borrowings. Maturity trend of market loans of the State Government was as under:-

Table 1.31: Maturity Trend of Market Loans

(Rupees in crore)

Maturity Year	Maturity Amount	Outstanding balance of the previous years	As a percentage of outstanding market loans
2013-14	87.04	3877.70	2.24
2014-15	180.27	3790.66	4.76
2015-16	344.38	3610.39	9.54
2016-17	337.23	3266.01	10.33
2017-18	369.05	2928.78	12.60
2018-19	466.96	2559.73	18.24
2019-20	577.41	2092.77	27.59
2020-21	355.36	1515.36	23.45
2021-22	505.00	1160.00	43.53
2022-23	655.00	655.00	100.00

Source: Finance Accounts & Departmental Figures

It can be seen from the above table that ₹ 87.04 crore of market loans was required to be discharged during 2013-14 (2.24 *per cent* of total outstanding loans) which would increase to ₹ 655 crore during 2022-23.

Interest rate profile: An analysis was made to check the interest payment and average interest rate of market loans availed during 2008-09 to 2012-13. The interest rate profile is given below:

Table 1.32: Interest rate profile

Rate of Interest (*percent*)	Market Loans raised during the year (Rupees in crore)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Below 5	-	-	-	-	-
5-5.99	-	-	-	-	-
6-6.99	-	-	-	-	-
7-7.99	100.00	260.00	-	-	-
8-8.99	366.96	317.41	355.36	250.00	655.00
9-9.99	-	-	-	255.00	-
10-10.99	-	-	-	-	-
11 and above	-	-	-	-	-
Total	**466.96**	**577.41**	**355.36**	**505.00**	**655.00**
Average rate of interest	**8.25**	**7.96**	**8.34**	**8.91**	**8.86**

The average rate of interest is worked out by calculating the interest obligation on each tranche of market borrowing raised during the respective years as detailed in **Table 1.30**. The average rate of interest liability for the Open Market Borrowings (OMBs) raised during the respective years ranged between 7.96 *per cent* and 8.91 *per cent*.

Interest payment: Details of interest payment by the State Government during 2008-13 was as under:

Table 1.33: Interest Payments as a percentage of revenue receipts

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Interest Payments (₹ in crore)	175.16	200.59	228.98	246.23	280.19
Revenue Receipts (₹ in crore)	3399.79	3718.48	4998.46	5584.62	6202.33
Percentage of revenue receipts	5.15	5.39	4.58	4.41	4.52
Percentage of market loans to total liabilities	51.71	51.85	52.30	50.31	52.03

Source : Finance Accounts and departmental figures

It can be seen from the above table that the interest payments had increased from ₹ 175.16 crore in 2008-09 to ₹ 280.19 crore in 2012-13. The interest payment had increased by ₹ 105.03 crore (59.96 *per cent*) in 2012-13 over 2008-09 due to increase in outstanding market loan by 62.74 *per cent* during the review period though the percentage of market loans to total outstanding had decreased by 0.32 *per cent* during the review period. However, interest payment to the percentage of revenue receipts had decreased from 5.15 *per cent* during 2008-09 to 4.52 *per cent* during 2012-13.

1.9.5.8 Basis of borrowing

1.9.5.8.1 Borrowing requirements

Borrowing requirement of the State is determined through the scheme of financing (SOF), the Annual Plan for different years by planning and coordination Department of the State. The SOF is prepared indicating the total expenditure required for various sectors and the funding arrangement including Open Market Borrowing which is in turn submitted to the Planning Commission of India for according approval.

Table 1.34: OMB approved by Planning Commission vis-a-vis consented by GOI and OMB raised during the year

(Rupees in crore)

Year	Net OMB as per SOF	OMB Redeemed	Gross OMB	OMB consented by GOI	AOMB* Consented by GOI	Total Loan consented	Total amount raised
2008-09	279.13	101.46	380.59	309.65	157.31	466.96	466.96
2009-10	420.43	128.71	549.14	549.14	28.27	577.41	577.41
2010-11	310.70	119.32	430.02	255.36	100.00	355.36	355.36
2011-12	602.64	179.49	782.13	580.00	Nil	580.00	505.00
2012-13	642.79	178.10	820.89	655.00	Nil	655.00	655.00

(Source:- SOF of State Government)
**** Additional Open Market Borrowings***

1.9.5.8.1.1 Government of Nagaland prepares scheme of financing stating the source of finance for its annual plan. The source includes the net Market borrowing to be raised during the year. Further, the Government gets approval of its scheme of financing including the sectoral break-up by the Planning Commission of India. Moreover, the gross market borrowing limit is worked out by adding the earlier market borrowings matured during the year with the net market borrowing as envisaged in SOF. Subsequently, on the basis of Gross OMB, GoN seeks consent of GoI, Department of Expenditure, MOF under Article

293(3) for raising the same debt through RBI. GoI while according approval communicates the same to RBI for debt management. In turn RBI seeks the indicative calendar for raising OMB from the GoN which assess the time for raising OMB and communicates to RBI.

1.9.5.8.1.2 It was observed from notings of the relevant files of Finance Department that while assessing the times for raising the borrowing or preparing the indicative calendar, the Department takes care of the maturity date of earlier borrowings during the year. Thus, the fact remained that the State Government resorted to borrowing to finance the redemption of earlier borrowings.

1.9.5.8.2 Reduction of the borrowing requirements through augmentation of revenues

1.9.5.8.2.1 Disinvestments in the non-working companies

The State Government invested ₹ 7.29 crore (from 1976-1977 to 2001-02) in Nagaland Sugar Mills Co. Ltd. The said Company was closed down on 30 September 2001. Neither the company had ever paid any dividend nor could it serve any social purpose with the current status.

The terms of reference TOR (XII-FC) emphasised on the need to ensure commercial viability of public sector enterprises, including power projects, through means such as adjustment of user charges and relinquishing of non-priority enterprises through privatisation or disinvestment.

The thirteenth Finance commission also recommended for constitution of task force to design and oversee the process of restructuring, including disinvestment/privatisation. However, no such task force had been constituted by the State.

1.9.5.8.2.2 Non realisation of guarantee fees

In compliance with the recommendations of the XII-FC in its Para 12.60, the State Government had set up a guarantee redemption fund to which the State deposited a sum of ₹ 1.00 crore every year through budgetary allocation instead of funding through guarantee fees.

Thus, during five years from 2008-09 to 2012-13, the fiscal deficit as well as the borrowing requirement increased due to non-collection of guarantee fees.

1.9.5.8.2.3 Non realisation of the Government loss due to misappropriation and defalcation

It was noticed in audit that in 10 departments of the Government, 15 cases of theft/misappropriation of Government money/material are pending at different stages involving ₹ 67.49 crore upto 31 March 2013.

Had these cases been finalised, the funds could have been returned to Government exchequer. It was also seen that some cases were finalised but recovery orders had not been issued which indicated the callousness of the Government to recover the embezzled amount

which could have not only mitigated the fiscal crunch but also reduced the necessity of borrowing.

1.9.6 Application of borrowing

To address the fiscal deficit, State should not only remain confined to reduction of expenditure and augmentation of revenue but also to ensure the proper utilisation of the borrowed funds so that the ultimate objective of the expenditure is achieved.

1.9.6.1 Debt utilisation

During five years between 2008-09 and 2012-13, the Government of Nagaland had raised total market borrowing of ₹ 2,559.72 crore against repayment of ₹ 1,822.45 crore towards principal and interest thereon.

It was stated by the Finance Department of the Government in reply to an audit query that borrowing from open market was not made for any specific purpose. Hence, it could not be ascertained in audit as to the purpose for which the borrowed funds were actually utilised.

1.9.6.2 Transfers to Civil Deposit

Perusal of the Table below revealed that the State Government was transferring funds to 8443-Civil Deposits to avoid lapse of funds. At the end of March 2013, an amount of ₹ 1362.51 crore had accumulated in this head of account as compared to ₹ 287.43 crore on 31 March 2008. The increase in the civil deposit was to the extent of 374 *per cent.* By transferring funds to Civil Deposit head, Government was causing blockage of funds. Also, by operating civil deposit head, Government was overstating its Revenue/Capital Expenditure and basing on these overstated figures they were resorting to excess market borrowings.

On further analysis, it was noticed that the amount added to the civil deposits during the year was more than the subsequent year's (2009-10 & 2010-11) withdrawal. It indicates that even if the delayed receipt of borrowed funds i.e. in March, were parked in civil deposits, those were not withdrawn in subsequent years for utilisation.

Table 1.35: Detailed Transaction under head of account 8443-Civil Deposit

(Rupees in crore)

Year	Opening Balance	Addition	Withdrawal	Closing Balance	Net addition during the year
2008-09	287.43	357.53	143.90	501.06	213.63
2009-10	501.06	775.58	498.16	778.48	277.42
2010-11	778.48	528.00	447.91	858.57	80.09
2011-12	858.57	698.90	392.74	1164.73	306.16
2012-13	1164.73	898.34	700.56	1362.51	197.78

1.9.6.2.1 Non-performing assets

As on 31 March 2013, cumulative investment of GON stood at ₹ 242.65 crore in different Joint Stock Companies (₹ 32.11 crore), Government Companies (₹ 168.69 crore), Statutory Coorporations (₹ 0.03 crore) and co-operatives (₹ 41.82 crore).

In terms of the para 7.38 of the report of XIII-FC, dividends and profits from the investment of the Government was projected at 5 *per cent* of the investment. Since all the Companies were under perennial loss, the State could not receive the dividend receipt during the five years from 2008-09 to 2011-13 amounting to ₹ 52.05 crore.

1.9.6.3 Not availing relief recommended by different finance commissions

XII- FC recommended (para 12.42) for a debt relief to the State Governments and stipulates that the central loans to states contracted till 31.03.2004 and outstanding on 31.03.2005 may be consolidated and rescheduled for a fresh term of 20 years and interest thereon may be charged at 7.5 *per cent*. It further recommended (para 12.43) that repayment of the installments of rescheduled loans during the XII-FC be written off subject to certain terms and conditions linked with the fiscal performances.

XII-FC considered the relief like rescheduling, lowering of interest and waiver of repayment of loans (during the award period) sanctioned and disbursed by Government of India under DCRF (Debt Consolidation Relief Fund), which were administered by Ministry of Finance (para 12.42).

It did not consider the central loans to states for centrally sponsored schemes/ central plan schemes through ministries other than Ministry of Finance. Hence, XIII-FC recommended the debt relief vide its para 9.114 of its report, by writing off the central loans to states that are administered by central ministries other than Ministry of Finance outstanding at the end of 2009-10.

XII-FC recommended (para 9.106) that the loans from NSSF (National Small Saving Funds) contracted till 2006-07 and outstanding at the end of 2009-10 to be reset at common interest of 9 *per cent* p.a. in place of 10.5 *per cent* or 9.5 per cent keeping the repayment schedule unchanged.

1.9.6.3.1 Not availing Debt waiver recommended by XII-FC

Government of India sanctioned to write off the repayment during 2008-09 on account of principal of the consolidated loan, advanced by Government of India, Ministry of Finance to the Government of Nagaland for a sum of ₹ 15.87 crore[16].

The sanction was subject to fulfillment of certain conditions i.e. the ratio of FD to GSDP for 2008-09 should not be more than the ratio of FD to GSDP for 2004-05.

Fiscal Deficit for 2008-09 BE and Actual were ₹ 248.40 crore and ₹ 340.63 crore. The GSDP for the year 2008-09 was ₹ 9436.07 crore. Thus, the FD to GSDP (BE) and (Actuals) was 2.63 *per cent* and 3.61 *per cent* respectively. The actual fiscal deficit during the base year of 2004-05 was ₹ 218.39 crore. Thus, both BE and actual FD during the year 2008-09 was more and Government was not eligible to avail the benefit of debt relief amounting to ₹ 15.87 crore.

[16] **Communicated to the Government vide letter No. F/1/1/DCRF-Policy/2007-FRU Dated 20 March 2009**

As a result, the benefit of ₹ 15.87 crore which was sanctioned to the State Government in anticipation of the improvement was withdrawn in June 2009.

1.9.6.3.2 Not availing debt waiver recommended by XIII-FC

Recommendation for debt relief by XIII-FC (Para 9.114) was accepted by GOI, Ministry of Finance if the states enacted the FRBM Act. Government of Nagaland (GON) had already legislated the FRBM Act way back in the year 2005 and the pre condition for debt relief was fulfilled by GON.

It was seen in audit that the State Government had not filed any claim for such debt relief for reasons not recorded and GON had repaid the principal of loan during 2010-11, 2011-12 and 2012-13 of ₹ 2.35 crore, ₹ 2.04 crore and ₹ 1.39 crore respectively in addition to the payment of interest of ₹5.93 crore, ₹ 5.62 crore and ₹ 3.89 crore in that order.

Thus, despite the debt relief granted by GOI, GON could not avail the benefit but continued to create budgetary provision for repayment of principal and interest payment on which the Government had to incur an expenditure of ₹ 5.78 crore towards repayment of principal and ₹ 15.44 crore towards interest payment which could have been avoided and the fiscal deficit could have been reduced to that extent by claiming the debt relief.

1.9.6.3.3 Not availing interest relief on NSSF loans as recommended by XIII-FC

The NSSF Loans contracted till 2006-07 and outstanding on 31 March 2010 amounted to ₹ 102.95 crore on which interest obligation at pre reset rate was ₹ 10.10 crore, ₹ 9.61 crore, ₹ 9.04 crore, ₹ 8.48 crore and ₹ 7.92 crore respectively for the award period i.e. from 2010-11 to 2014-15.

On reset of the rate of interest, the obligation was reduced to ₹ 9.27 crore, ₹ 8.82 crore, ₹ 8.30 crore, ₹ 7.79 crore and ₹ 7.28 crore respectively for the years 2010-11 to 2014-15 resulting in interest relief of ₹0.83 crore, ₹ 0.79 crore, ₹ 0.74 crore, ₹ 0.69 crore and ₹ 0.64 crore in that order.

It was seen in audit that neither such relief was claimed by GON nor was it granted by MF, GOI. Further, no budgetary provision for such relief was created. Thus, due to non availing of such interest relief, Fiscal Deficit for 2010-11, 2011-12, 2012-13 could not be counter balanced by the interest relief of ₹2.36 crore.

1.9.7 Monitoring Committee

XI-FC recommended setting up of a monitoring agency to review the progress in the utilisation of grants. In terms of the guidelines issued by the Ministry of Finance, each State was expected to take effective steps for revenue augmentation and expenditure compression for improvement of the fiscal health of the State.

Similarly, XII-FC also recommended the constitution of High Level Monitoring Committee, headed by the chief secretary for review of the utilisation of grants on a quarterly basis and take corrective action as required to ensure proper utilisation of the funds. XIII-FC was also of the similar view that a high level Monitoring Committee should have been constituted to monitor proper utilisation of the grants recommended by the Commission.

It was seen in audit that despite the recommendation of all the previous three finance commissions, Government of Nagaland had not set up a Monitoring Committee till 31 March 2013. Absence of a Monitoring Committee was a serious lapse of internal control mechanism.

1.9.8. Conclusion

The funds kept idle under Civil Deposits were retained year after year. The funds could have been utilised before going for fresh borrowings. The Government was required to invest in the projects or schemes after careful consideration of the returns, in the absence of which almost all the investments turned out to be non-productive and non-performing. The State Government deposited funds into the guarantee redemption fund through budgetary allocation instead of funding through guarantee fees as recommended by the XII-FC. Despite different schemes for debt waiver, debt rescheduling and lowering of interest rate recommended by the FCs, GON did not avail such benefits. Despite the recommendation of all the previous three Finance Commissions, State Government had not set up a High Level Monitoring Committee.

1.9.9 Recommendations

On the basis of the findings of Audit, following recommendations are made:-

- The available funds may be utilised first before resorting to borrowings.
- Claims may be filed for availing the reliefs recommended by Finance Commissions.
- The system of collecting the guarantee fees should be introduced and the High Level Monitoring Committee may be constituted.

1.10 Debt Management

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation; sufficiency of non-debt receipts[17]; net availability of borrowed funds; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.36** analyses the debt sustainability of the State according to these indicators for a period of five years beginning from 2008-09.

During 2012-13, Government raised internal debt of ₹ 2730.12 crore. Government repaid internal debt of ₹ 2321.22 crore and GOI loans of ₹ 21.97 crore along with interest of ₹ 450.64 crore resulting in net decrease in debt receipts by ₹ 63.71 crore during the year.

[17] As detailed in Appendix-1.1 C

Table 1.36: Debt Sustainability: Indicators and Trends

(Rupees in crore)

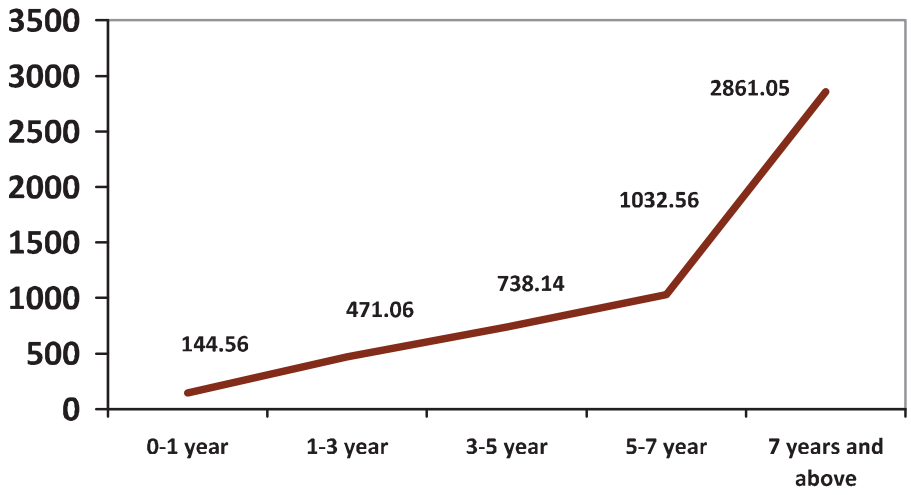
Indicators of Debt Sustainability	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
1	**2**	**3**	**4**	**5**	**6**
Debt Stabilization (Quantum Spread + Primary Deficit)	409.69	79.05	112.81	3.47	(-)38.25
Sufficiency of Non-debt Receipts (Resource Gap)	57	(-)182	209	(-)226	(-)114.61
Net Availability of Borrowed Funds	374.71	469.44	(-)18.58	279.93	265.84
Burden of Interest Payments (IP/RR Ratio) (in *per cent)*	9.23	9.75	7.89	7.47	7.27
Maturity Profile of State Debt (In Years)					
0 – 1	293.90(09)	274.60(6)	20.56(1)	193.31(4)	144.56(3)
1 – 3	317.86(10)	551.94(13)	392.43(9)	303.93(6)	471.06(9)
3 – 5	476.51(15)	303.74(7)	302.41(7)	617.90(13)	738.14(14)
5 – 7	296.00(09)	596.65(13)	617.36(14)	702.57(14)	1032.56(20)
7 and above	1870.95(57)	2685.62(61)	3007.40(69)	3042.73(63)	2861.05(54)
Total	**3255.22**	**4412.55**	**4340.16**	**4860.44**	**5247.37**

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 year 2012-13. The sum of quantum spread and primary deficit was ₹ 3.47 crore in 2011-12 against (-) ₹ 38.25 crore in 2012-13 which indicates that additional efforts are required by the State to stabilise the debt and then attain sustainability in the ensuing years.

The persistent negative non-debt receipts (Resource Gap) indicate the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. The resource gap which was negative during 2011-12 (₹ 226 crore) remained negative in 2012-13 (₹ 114.61 crore). This meant that the State depends on borrowed funds for meeting current revenue and capital expenditure.

Chart 1.17: Maturity profile of State Debt



As per data shown in **Table 1.36**, out of the total debt burden of ₹ 5247.37 crore, there will be a bunching of repayments in around 1-3 years time (₹ 471.06 crore) and 3-5 years time (₹ 738.14 crore) as well as 5-7 years time (₹ 1032.56 crore). A well thought out debt repayment strategy will ensure that no additional borrowings which mature in these critical years are undertaken.

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 2012-13.

1.11.1 Trends in Deficits

Charts 1.18 and 1.19 present the trends in deficit indicators over the period 2008-13.

Chart 1.18: Trends in Deficit Indicators

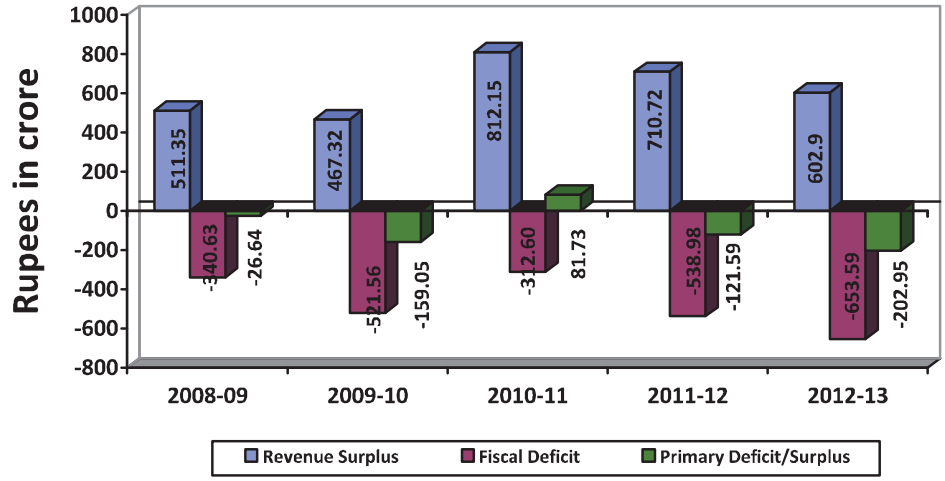


Chart 1.19: Trends in Deficit Indicators Relative to GSDP

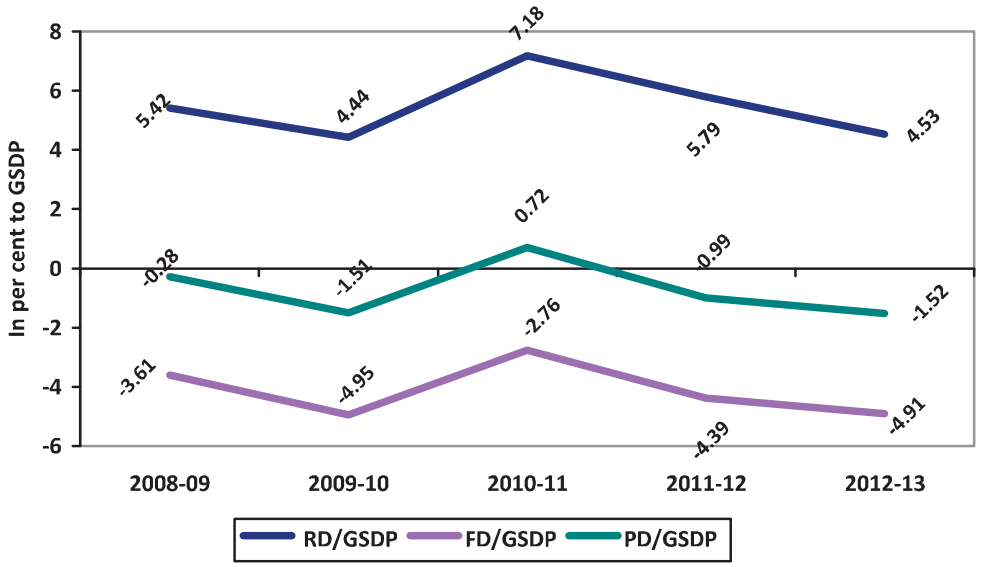


Chart 1.18 reveals that the revenue account experienced a surplus of ₹ 602.90 crore during 2012-13, an increase of ₹ 91.55 crore from ₹ 511.35 crore in 2008-09. However, the Revenue surplus decreased during the current year by ₹ 107.82 crore as compared to the previous year mainly on account of increase in revenue expenditure by ₹ 725.53 crore (14.89 *per cent*) against an increase of revenue receipts by ₹ 617.71 crore (11.06 *per cent*) over the previous year.

Due to the decrease in revenue surplus along with a marginal decrease of ₹ 1.59 crore in non-debt capital receipts accompanied by an increase of ₹ 5.79 crore in capital expenditure and decrease in loans & advances disbursement of ₹ 0.59 crore during 2012-13 over the previous year, the fiscal deficit increased by ₹ 114.61 crore during the current year from the level of ₹ 538.98 crore in 2011-12.

The primary deficit increased from ₹ 121.59 crore in 2011-12 to ₹ 202.95 crore in 2012-13. The increase in primary deficit was due to increase of fiscal deficit (₹ 114.61 crore) which was offset by increase in interest payment (₹ 33.25 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 1.37.**

Table1.37: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Components of Fiscal Deficit		**341 (3.61)**	**522 (4.96)**	**313 (2.77)**	**539 (4.39)**	**654 (4.91)**
1	Revenue Surplus	511	467	812	711	603
2	Net Capital Expenditure	853	990	1123	1249	1255
3	Net Loans and Advances	-1	-1	2	1	2
Financing Pattern of Fiscal Deficit						
1	Market Borrowings		568	236	325	469
2	Loans from GOI		-38	-23	-18	(-)22
3	Special Securities Issued to National Small Savings Fund		3	17	3	(-)2
4	Loans from Financial Institutions		178	-28	210	(-)58
5	Small Savings, PF etc		23	89	36	72
6	Deposits and Advances		277	80	310	209
7	Suspense and Miscellaneous		-147	41	35	18
8	Remittances		-350	-102	-134	(-)80
9	Increase (-) Decrease (+) in Cash Balances		8	3	-228	48

Figures in brackets indicate the per cent to GSDP.

Fiscal deficit is the total borrowing of the State and is the excess of revenue expenditure and capital expenditure including loans and advances over revenue and non-debt receipts. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-debt receipts.

It can be seen from **Table 1.37** that the revenue surplus decreased by ₹ 108 crore from ₹ 711 crore in 2011-12 to ₹ 603 crore in 2012-13. The increase in fiscal deficit was the combined effect of increase in capital expenditure and decrease in revenue surplus.

The fiscal deficit increased by ₹ 115 crore from ₹ 539 crore in 2011- 12 to ₹ 654 crore in 2012-13 mainly due to reduction in Revenue Surplus (₹ 108 crore) and increase in capital expenditure (₹ 6 crore). The increased fiscal deficit (₹ 115 crore) was financed through increase in Market Borrowings (₹ 144 crore), Small Savings & Provident Fund (₹ 36 crore), Remittances (₹ 54 crore) and cash balance (₹ 276 crore) offset by decrease in

Loans from GOI (₹ 4 crore), Special Securities Issued to National Small Savings Fund (₹ 5 crore), Loans from Financial Institutions (₹ 268 crore), Deposits and Advances (₹ 101 crore) and Suspense and Miscellaneous (₹ 17 crore).

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. The increase in capital expenditure indicated that borrowed funds were being allocated for productive use.

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 1.38)** would indicate the extent to which the deficit/surplus had been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.38: Primary deficit/surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary revenue[18] expenditure	Capital expenditure	Loans and Advances	Primary expenditure[19]	Primary revenue surplus	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2008-09	3402.36	2574.45	853.09	1.46	3429.00	827.91	(-)26.64
2009-10	3722.68	2888.65	989.53	3.55	3881.73	834.03	(-)159.05
2010-11	5000.77	3791.98	1122.94	4.12	4919.04	1208.79	81.73
2011-12	5587.06	4456.51	1249.39	2.75	5708.65	1130.55	(-)121.59
2012-13	6203.18	5148.79	1255.18	2.16	6406.13	1054.39	(-)202.95

The non-debt receipts of the State during 2008-13 were sufficient to meet the primary revenue expenditure. The non-debt receipts increased by 82.32 *per cent* from ₹ 3402.36 crore in 2008-09 to ₹ 6203.18 crore in 2012-13 while the primary revenue expenditure increased by 99.99 *per cent* from ₹ 2574.45 crore in 2008-09 to ₹ 5148.79 crore in 2012-13. During this period (2008-13) capital expenditure grew by 47.13 *per cent*. The State had a primary deficit during 2008-09 to 2012-13 except 2010-11.

[18] **Primary revenue expenditure is revenue expenditure net of the interest payments.**
[19] **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.**

1.12 Follow up

The preparation of Stand Alone Report of the State Finances had been started since 2008-09 onwards and no Report of the State Finances had been discussed by the Public Accounts Committee (PAC) so far and hence, no recommendation by the PAC/Finance Commission had been made on the Reports of the State Finances.

1.13 Conclusion and recommendations

The fiscal position of the State viewed in terms of the key fiscal parameters during 2012-13 revealed that the State's revenue surplus had declined by ₹ 107.82 crore while the fiscal deficit had increased by ₹ 114.61 crore and the primary deficit had increased by ₹ 81.36 crore in 2012-13 relative to the previous year.

During 2012-13, 91 *per cent* of the total revenue came from the Government of India as Central transfers (15 *per cent*) and grants-in-aid (76 *per cent*). The State achieved the total revenue collection targets fixed by the XIII-FC during 2012-13.

During 2012-13, non-plan revenue expenditure was ₹ 1584.06 crore (53.06 *per cent*) more than the XIII-FC normative assessment. The expenditure on salary was 58.23 *per cent* of revenue expenditure, net of interest payment and pension and 41.98 *per cent* of revenue receipts during the year.

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 2012-13, the non-debt receipts were not sufficient and therefore, the State recorded a negative resource gap of ₹ 114.61 crore.

The overall fiscal liabilities of the State increased at a compound annual growth rate of 10.36 *per cent* during 2008-13. The fiscal liabilities increased by ₹ 693 crore (10 *per cent*) from ₹ 6760 crore in 2011-12 to ₹ 7453 crore in 2012-13. The committed liabilities for the State projected by the XIII-FC was 54.90 *per cent* of GSDP for the year 2012-13. Against this, the committed liabilities of the State was 55.94 *per cent* which was 1.04 *per cent* above the projections.

The Government had invested ₹ 242.65 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives at the end of March 2013. The average return on this investment was NIL during the last five years.

The State Government's net cash balance at the end of 2012-13 was ₹ 280.52 crore which had decreased by ₹ 47.67 crore over the previous year. The State received ₹ 3.30 crore on investment of cash balance during 2012-13.

There were 135 incomplete projects (estimated cost ₹ 1986.15 crore and actual expenditure incurred ₹ 1002.67 crore as of March 2013) pertaining to 18 departments. Out of the 135 incomplete projects 75 projects (estimated cost ₹ 1063.54 crore and actual expenditure ₹ 623.85 crore) were due to be completed by March 2013 but remained incomplete as of October 2013. Out of the 75 projects, the cost of three incomplete projects was ₹ 34.31 crore which was revised to ₹ 63.90 crore. Delay in completion of works invites the risk of escalation in the cost of the works. Besides, due to delay in completion of the projects, the intended benefits from those projects did not reach the beneficiaries in the State.