STATE FINANCES IN INDIA WITH SPECIAL REFERENCE TO NAGALAND

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in partial fulfilment of the Requirements for Award of the Degree of

DOCTOR IN PHILOSOPHY IN ECONOMICS

By

MOAMEREN LONGCHAR

REGISTRATION NO.: 725/2016

DEPARTMENT OF ECONOMICS

NAGALAND UNIVERSITY

LUMAMI – 798627

2022

Dedicated to my loving parents,

HELEN AND TATONG

For their endless love, support and encouragement.

नागालैण्डविश्वविद्यालय

NAGALAND UNIVERSITY

(*संसदद्वारापारितअधिनियम 1989, क्रमांक35 केअंतर्गत स्थापितकेंद्रीयविश्वविद्यालय*)

(*A Central University Established by the Act of Parliament No.35 of 1989*)

मुख्यालय:लुमामी, ज़ुन्हेबोटो(नागालैण्ड),पिनकोड- 798627

Headquarter: Lumami, Dist.: Zunheboto, Nagaland, Pin Code- 798627

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This is to certify that the thesis entitled **"State Finances in India with Special Reference to Nagaland,"** submitted by **Mr. Moameren Longchar**, bearing **Registration No. 725/2016** dated **14/08/2015** embodies the results of investigations carried out by him under our supervision and guidance. Further, certified that this work has not been submitted for any degree elsewhere and that the candidate has fulfilled all conditions laid down by the University. Therefore, this thesis is forwarded for adjudication and consideration for the degree of Doctor of Philosophy in Economics under Nagaland University.

Date:

Place:

(Prof. B. Kilangla Jamir)
Head
Department of Economics

(Dr. Y. Temjenzulu Jamir)
Supervisor
Associate Professor
Department of Economics

(Prof. Mithilesh Kumar Sinha)
Co-Supervisor
Professor
Department of Economics

नागालैण्डविश्वविद्यालय
NAGALAND UNIVERSITY
(संसदद्वारापारितअधिनियम 1989, क्रमांक35 केअंतर्गत स्थापितकेंद्रीयविश्वविद्यालय)
(*A Central University Established by the Act of Parliament No.35 of 1989*)
मुख्यालय:लुमामी, ज़ुन्हेबोटो(नागालैण्ड),पिनकोड- 798627
Headquarter: Lumami, Dist.: Zunheboto, Nagaland, Pin Code- 798627

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(Moameren Longchar)
Scholar

(Prof. B. Kilangla Jamir)
Head
Department of Economics

(Dr. Y. Temjenzulu Jamir)
Supervisor
Associate Professor
Department of Economics

(Prof. Mithilesh Kumar Sinha)
Co-Supervisor
Professor
Department of Economics

नागालैण्डविश्वविद्यालय

NAGALAND UNIVERSITY

(*संसदद्वारापारितअधिनियम 1989, क्रमांक35 केअंतर्गत स्थापितकेंद्रीयविश्वविद्यालय*)

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मुख्यालय:लुमामी, ज़ुन्हेबोटो(नागालैण्ड),पिनकोड- 798627

Headquaters:Lumami, Dist: Zunheboto, Nagaland, Pin Code- 798627

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Name of Research Scholar	Moameren Longchar
Ph.D. Registration Number	725/2016 with effect from 14/08/2015
Title of Ph.D. thesis	"State Finances in India with Special Reference to Nagaland"
Name & Institutional Address of the Supervisor	**Y. Temjenzulu Jamir**, Supervisor Associate Professor Department of Economics **Mithilesh Kumar Sinha** Co-Supervisor Professor Department of Economics
Name of the Department and School	Department of Economics, School of Social Sciences
Date of Submission	
Date of Plagiarism Check	13th December 2022
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Date :

Place :

(Moameren Longchar)
Scholar

(Dr. Y. Temjenzulu Jamir)
Supervisor
Associate Professor
Department of Economics

(Prof. Mithilesh Kumar Sinha)
Co-Supervisor
Professor
Department of Economics

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ACRONYMS

CAG	Comptroller and Auditor General
CAGR	Compound Annual Growth Rate
FD	Fiscal Deficit
FRBM	Fiscal Responsibility and Budget Management Act
GDP	Gross Domestic Product
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
IMR	Infant Mortality Rate
MMR	Maternal Mortality Rate
MOU	Memorandum of Understating
MSME	Micro, Small and Medium Enterprises
NIPFP	National Institute of Public Finance and Policy
NNC	Naga National Council
OLS	Ordinary Lease Squares
PCI	Per Capita Income
PD	Primary Deficit
PPPs	Public-Private Partnerships
RBI	Reserve Bank of India
RD	Revenue Deficit
SEZ	Special Economic Zones
VAT	Value Added Tax

CHAPTER 1

INTRODUCTION

1.1 Introduction: Background and Context

India is a rapidly growing and developing Nation with a complex financial landscape. The efficient management of State Finances is critical to the overall economic development and social welfare of the Country. In the Indian federal system, Fiscal responsibilities are divided between the Central Government and the State Governments, each having distinct areas of jurisdiction. State Finances in India consist of various components, including Revenue, Expenditure, Debt, and Fiscal Policies. Each State has unique developmental challenges and socio-economic characteristics, so understanding State Finances in specific contexts is essential for formulating effective financial management strategies.

Nagaland, located in the Northeastern region of India, has a unique history and socio-political context. Historically, the region that now constitutes Nagaland has been inhabited by various Naga tribes, known for their distinct culture, traditions, and languages. The British colonial rule in India brought these tribes under a single administrative unit for the first time in the 19^{th} century. Post-independence, Nagaland faced a protracted insurgency seeking greater autonomy or even secession, which led to the formation of the State of Nagaland in 1963 as a political solution. Since then, the State has been on a path of political reconciliation and development.

As one of the smallest states in India, Nagaland faces several challenges in terms of economic development, infrastructure, and social indicators. The State has been grappling with issues such as geographical isolation, limited resource base, insurgency, and a highly dependent population on the Government for employment and welfare services. For this reason, State Finances in Nagaland play a critical role in shaping the State's economic trajectory and addressing its developmental challenges.

A combination of progress and ongoing challenges marks Nagaland's current State of affairs. On the one hand, the State has made significant strides in improving literacy rates, reducing poverty levels, and enhancing access to basic amenities such as electricity and clean drinking water. On the other hand, Nagaland continues to face infrastructure deficits, particularly in transportation, healthcare, and education. Moreover, the State has a narrow revenue base, relying heavily on Central Government transfers and grants. This financial dependence limits Nagaland's ability to invest in critical development and service delivery areas.

In addition, the unresolved political issues and periodic incidents of violence have hindered investment, economic growth, and social cohesion in the State. The peace process, which began in the 1990s, has brought about a significant reduction in violence. However, a comprehensive resolution to the long-standing demands of the Naga people is yet to be achieved. This ongoing political uncertainty affects the State's financial management and overall development prospects.

Understanding the historical and socio-political context of Nagaland is crucial for analyzing its State Finances and the unique challenges the State faces in managing its financial resources. This study aims to provide a comprehensive analysis of State Finances in India, with particular emphasis on Nagaland, exploring the impact of its history and current State of affairs on the State's fiscal performance and development trajectory.

1.2 Statement of the Problem

Nagaland's finances are characterized by substantial Fiscal Deficits fueled by high Revenue Expenditures, insufficient Revenue mobilization, Revenue shortfalls, high debt, and low Capital investment. Bajpai and Sachs (1999) identified the growth of Non-Development Expenditure as the primary weakness of the Indian States and several structural imbalances, such as significant Revenue Deficits, a growing burden of Interest Payments, distortions in Expenditure Patterns, and sluggish growth in Non-Tax Revenues. As a consequence of this situation, the State of Nagaland is in a very vulnerable position. It has limited resources to support Capital Expenditures, and its cash situation is worsening, which forces it to revert to the easiest but costliest choice of borrowing. Therefore, it is essential to investigate the State's Revenue growth rate by investigating the Revenue trend and providing a comparative picture of its effectiveness in generating funds and resources. Consequently, the analysis of Revenue performance through the estimation of Revenue growth rates will be the primary focus of this study.

The financial management challenges faced by Nagaland are multifaceted and complex, posing a significant impediment to the State's development and growth. The study aims to provide a comprehensive understanding of the primary issues that contribute to the difficulties in managing Nagaland's State finances. The key challenges include Fiscal imbalances, limited Revenue generation capacity, over-dependency on

Central transfers, and the implementation of Centrally Sponsored Schemes. The impact of these issues on the overall development of Nagaland is also discussed.

1.2.1 Fiscal Imbalances

One of the foremost challenges faced by Nagaland is the persistent Fiscal imbalances. This is attributed to a combination of factors such as high Revenue Expenditure, low Capital Expenditure, and the inefficient allocation of resources. The high Revenue Expenditure is primarily driven by a large and inefficient public sector, resulting in substantial expenditure on salaries, pensions, and interest payments. On the other hand, low Capital Expenditure curtails investments in infrastructure, which is crucial for the State's long-term growth and development. Batabyal (2000) emphasized the need for better management and control of Public Expenditure in India. The author's finding also applies to Nagaland, as efficient utilization of funds is crucial for its financial stability.

1.2.2 Limited Revenue Generation Capacity

Nagaland's limited Revenue generation capacity is another critical issue. The State's Revenue sources are constrained by a narrow Tax base and inadequate exploitation of its natural resources. The agriculture-based economy, coupled with the underdeveloped industrial sector, further aggravates the problem. The limited Revenue generation has led to an over-reliance on Central Government transfers, making it difficult for the State to fund its developmental needs independently. Pattnaik et al., (2012) suggested State should reply on greater mobilization of Revenue Receipts rather than curtailing development expenditure

1.2.3 Dependency on Central Transfers

The State's heavy dependency on Central transfers for financing its expenditure poses a significant challenge. While Central transfers are crucial for augmenting the State's resources, excessive reliance on them undermines fiscal autonomy and creates uncertainties in long-term financial planning. Furthermore, this dependency often leads to a mismatch between the State's Expenditure and Revenue, causing an unsustainable Fiscal Deficit.

1.2.4 Implementation of Centrally Sponsored Schemes

Another significant issue faced by Nagaland is the implementation of Centrally Sponsored Schemes. Despite the availability of funds, the State struggles to execute these schemes effectively due to inadequate capacity, weak governance, and systemic inefficiencies. This results in sub-optimal utilization of funds, delayed project completion, and limited impact on the intended beneficiaries.

1.2.5 Impact on Overall Development

The above-discussed challenges have far-reaching implications on Nagaland's overall development. The Fiscal imbalances, limited Revenue generation, and dependency on Central transfers constrain the State's ability to invest in crucial sectors such as education, healthcare, infrastructure, and social welfare. The inefficient implementation of Centrally Sponsored Schemes further undermines the State's development potential. Consequently, these financial management issues contribute to slow economic growth, high poverty levels, and a lower quality of life for the people of Nagaland.

1.3 Research Questions

The objectives of the study will address a series of research questions to provide a comprehensive understanding of State finances in India, particularly focusing on the case of Nagaland. The research questions are as follows:

1. What is the historical evolution of State finances in India and Nagaland, and how do they compare in terms of Revenue generation, Expenditure patterns and Fiscal policies?
2. What are the primary revenue sources for Nagaland, and how do the different revenue sources (such as Tax Revenue, Non-Tax Revenue, Grants-in-Aid, and borrowings) contribute to the overall State Finance in Nagaland, and how do they compare with other Indian states?
3. How have Public Expenditures on infrastructure, education, health and other social services been allocated in Nagaland and what has been their impact?
4. What are the major challenges faced by the State in terms of Fiscal management and how have they been addressed?
5. What is the role of the State government in promoting Fiscal discipline and transparency, and how effective have these efforts been?

1.4 Aims and Objectives

The primary aim is to provide a comprehensive understanding of the financial structure, sources of revenue, expenditure patterns and fiscal challenges faced by the Government of Nagaland. Identify the main obstacles and opportunities that the Government of Nagaland must overcome to effectively manage its finances, with a particular emphasis on raising revenue, expenditures rationalization, and the role of external assistance in supporting the State's financial position. In order to improve fiscal management, financial sustainability, and overall development outcomes in Nagaland, policy recommendations will be developed using the knowledge gathered through an analysis of the State's financial structure, revenue sources, and spending habits. The following points have been outlined in order to accomplish these aims and objectives:

Objective 1: To examine the trends in the overall budgetary position of the State Finance in Nagaland.

Objective 2: To examine the Revenue structure and resources of Nagaland, including Tax and Non-Tax Revenue sources, analyze their trends over time and assess the State's dependency on Central Government transfers.

Objective 3: To investigate the Public Expenditure pattern of the State and analyze the implications of these patterns on the overall socio-economic development of the State.

Objective 4: To evaluate the Fiscal sustainability of Nagaland by examining its Fiscal Deficit and its impact on Gross State Domestic Product.

Objective 5: To study the impact of the Nagaland Fiscal Responsibility and Budget Management Act (2005) on Fiscal Balance in the State.

1.5 Hypothesis

1. Nagaland's reliance on Central government transfers has increased over time.

2. Public Expenditure on Economic Services is positively associated with higher GSDP growth rate.

3. The State Government of Nagaland has an increasing trend of Revenue Deficit and Fiscal Deficit.

4. Fiscal Deficit have a significant impact on the growth of GSDP in Nagaland.

1.6 Significance of Study

The present study aims to investigate the State Finances of India with a special focus on Nagaland, one of the seven Northeastern States of the Country. The significance of this study lies in several aspects.

Firstly, State Finances are a critical component of public policy and governance in any country. In India, the State Governments are responsible for a wide range of functions such as education, healthcare, infrastructure development, social welfare, and law and order, among others. To carry out these functions, the State Governments need adequate financial resources, which come from various sources such as taxes, grants, loans, and other receipts. Therefore, understanding the nature, structure, and performance of State Finances is crucial for assessing the overall economic and social development of the Country.

Secondly, Nagaland is a unique case among the Indian States in terms of its geography, demography, and history. The State is located in a remote and hilly region of the Country, with a predominantly tribal population and a complex social and political landscape. Nagaland has also faced several challenges related to insurgency, violence, and conflict, which have affected its economic and social development. Therefore, studying the State finances of Nagaland can provide valuable insights into the Fiscal and developmental challenges faced by the State and the strategies adopted by the Government to address them.

Thirdly, the study is expected to contribute to the existing literature on State Finances in India, which has been limited in scope and depth, particularly with respect to the Northeastern states. While there have been some studies on the finances of individual States, there has been a lack of comprehensive and comparative analyses that cover multiple states and examine their similarities and differences. Therefore, the present study seeks to fill this gap by providing a detailed analysis of the finances of Nagaland and comparing them with those of other States in India. The study has been undertaken to examine the extent and causes of Fiscal stress in Nagaland. Hence, the present study will help suggest the policy implications to reduce Nagaland's mounting Revenue and Fiscal Deficit.

For these reasons, the study on "State Finances in India with special reference to Nagaland" is significant in terms of its relevance to public policy and governance, its focus on a unique case study, and its contribution to the existing literature. The findings of this study are expected to be of interest to policymakers, researchers, and other stakeholders who are concerned with the economic and social development of India and its States. A thorough investigation of the Government's management of its Fiscal resources is provided through the analysis of Revenue Receipts and Expenditures. The study has focused on conducting a research inquiry about Revenue Receipts and Revenue Expenditures incurred by the Government of Nagaland from 1995–1996 to 2019–20.

1.7 Scope and Limitations

The study encompasses a comprehensive examination of the Fiscal landscape in India, with a specific focus on Nagaland. The study aims to provide a deep understanding of the Fiscal federalism framework, Revenue mobilization, Public Expenditure patterns, Fiscal management practices, and the overall sustainability of State Finance in Nagaland. It involves an exploration of relevant literature, analysis of financial data, and an assessment of policy measures. By focusing on Nagaland, the study aims to highlight the unique challenges and opportunities faced by the State in managing its finances within the broader Indian fiscal context.

However, it is important to acknowledge certain limitations inherent in this research. First, the study's findings and conclusions are based on the available data and information up until the research's cut-off date. Changes in Fiscal policies, economic conditions, or political dynamics beyond that point may not be fully captured. Second, the thesis primarily relies on secondary data sources, such as government reports, financial statements, and existing studies. This reliance on available data may limit the depth of analysis or hinder the exploration of certain aspects of State Finances. Additionally, the researcher's access to certain confidential or restricted information may be limited, which can impact the completeness of the analysis. Lastly, while the thesis provides insights into Nagaland's State Finances, it may not extensively cover the interplay between State and Central finances at the National level. Nonetheless, despite these limitations, the thesis contributes to the understanding of State Finances in India and provides valuable insights for policymakers, researchers, and stakeholders interested in fiscal management in Nagaland.

1.8 Data Source and Methodology Approach

The present study spans more than two decades, from 1995-96 to 2019-20. Data and other relevant materials for the study have been obtained chiefly from the State Government's budgetary documents, the Central Government's various publications, and Reserve Bank of India bulletins and Reports of the National Institute of Public Finance and Policy (NIPFP) and the World Bank have also been used. Data on population and related indicators, viz., density, and urbanization, were obtained from various issues of the Economic Survey published by the Government of Nagaland. Data on Gross State Domestic Product and Sectoral Income were obtained from the State Finances: A Study of Budgets annual publication by Reserve Bank of India and the relevant Statistical Abstracts of the Government of Nagaland.

The study and interpretation of the data used various statistical methods, such as percentages, averages, charts, yearly growth rate, and compound annual growth rate, amongst others. In addition, the Compound Annual Growth Rate (CAGR) is computed to estimate the growth rate of various components of Revenue Receipts and Revenue Expenditure throughout the research period to facilitate growth comparisons across different periods. To estimate the growth rate over a period of time, the compound growth rate is calculated. It gives the average rate of growth per annum. The regression technique is used with the support of SPSS (16.0) and E-views (8) software.

Compound Annual Growth Rate (CAGR)

The compound annual growth rate (CAGR) is estimated by fitting a semi-log model and applying the method of ordinary least square (OLS) as explained below:

$$\mathbf{Y = \alpha\, \beta^{t}} \qquad \dots \text{(i)}$$

$$\mathbf{Log\ Y = \log \alpha + t \log \beta} \qquad \dots \text{(ii)}$$

Where,

Y = Revenue component

α = Constant coefficient

β = Regression coefficient

t = Time in year

By applying Ordinary Least Square (OLS) method, the compound annual growth rate was estimated using the following equation:

$$\textbf{CAGR} = [\text{antilog } b - 1] * 100 \qquad \dots \text{(iii)}$$

1.9 Chapter Scheme

The entire research work will run into eight chapters.

The **First Chapter** is introductory in nature dealing with meaning and definition of public finance, statement of the research problem, significance of the study, research objectives, hypothesis, source of data and methodology approaches.

The **Chapter Two** reviews previous studies on State Finances and related concept used in this study.

The **Chapter Three** delves into the intricacies of Fiscal Federalism in India, highlighting the distribution of Fiscal powers and responsibilities between the Central and State Governments. It explores the constitutional provisions, financial arrangements, and mechanisms that govern the fiscal relations in the country. The chapter examines the revenue-sharing mechanisms, grants-in-aid, and other Fiscal transfers from the Central government to the States. This chapter also focuses on providing a comprehensive overview of Nagaland's economy. It explores the state's key economic sectors, such as agriculture, tourism, industries, and services. The researcher examines the strengths, challenges, and unique features of Nagaland's economy, considering factors such as geographical location, natural resources, infrastructure, and human capital.

The **Chapter Four** investigates the sources of State Revenue and analyses the growth pattern. This chapter also examines the growth of individual States' Revenue Receipts during the period 1995-96 to 2019-20.

The **Chapter Five** examines the patterns and priorities of Public Expenditure in Nagaland. The researcher analyzes the State's Budgetary allocation and Expenditure patterns in various sectors like education, healthcare, infrastructure, and social welfare. The chapter may also explore the effectiveness and efficiency of Public Expenditure and assess whether the allocation aligns with the State's development goals.

The **Chapter Six** analyses and discuses on Fiscal Deficit. The impact of Fiscal Deficit on GSDP is thoroughly presented in this chapter. This chapter also examine the

State's debt situation and measures taken for fiscal sustainability, such as Fiscal consolidation efforts and debt management strategies.

The **Chapter Seven** synthesizes the findings from the previous chapters and provides a coherent conclusion to the thesis. The researcher summarizes the key insights, highlights the main findings, and discusses their implications. The chapter also offer recommendations for improving the State Finances in Nagaland, considering the research outcomes and the specific challenges identified throughout the study.

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CHAPTER 2

REVIEW OF LITERATURE

2.1 Introduction

The realm of State Finances in India is a complex mosaic that intricately weaves together the economic, political, and social dynamics of the Country. The Fiscal architecture of India, with its dual structure of Central and State Governments, engenders a compelling need to understand the financial health and Fiscal practices of individual States. This is vital not only for their own socioeconomic development, but also for their contribution to the Nation's overall financial landscape. This importance is further magnified when examining States like Nagaland, where unique cultural and geographical attributes shape a distinct Fiscal narrative.

The focus of this literature review, is to investigate into the existing scholarly discourse around three pivotal components of State finances – the overall financial health of States in India, the Revenue generation mechanisms, and the expenditure practices. The objective is to provide a comprehensive understanding of the current knowledge, identify gaps in the literature, and frame the context for the subsequent investigation into Nagaland's specific Fiscal dynamics.

The review will be organized into three primary sub-chapters, each addressing one of the key aspects of State finances. The first sub-chapter will evaluate the literature on the financial health of States in India, emphasizing Fiscal autonomy, Fiscal responsibility laws, and the influence of Central Fiscal transfers. The second will concentrate on Revenue-related aspects, studying the Tax capacity, Tax efforts, and Revenue mobilization strategies of Indian States. The third sub-chapter will focus on the expenditure practices of States, exploring the patterns, determinants, and impacts of State spending.

Through this comprehensive review, the aim is to offer a foundation upon which the specific case of Nagaland can be analyzed and understood, ultimately contributing to the wider discourse on State finances in India.

2.2 State Finances in India: An Overview of Fiscal Policies and Performance

India's Fiscal landscape is characterized by a complex interplay of Fiscal policies and performance at both the Central and State levels. In recent years, India has witnessed significant transformations in its economic and political spheres, necessitating a closer examination of the State finances. This chapter provides an overview of the Fiscal policies and performance of Indian State’s, shedding light on the intricacies of Revenue mobilization, expenditure patterns, and Fiscal sustainability. Through a comprehensive analysis of the Fiscal indicators, this chapter aims to enhance the understanding of the roles and responsibilities of the Central and State governments in the financial management of the country. Furthermore, it delves into the challenges and opportunities facing the States in their pursuit of achieving balanced budgets, enhancing public service delivery, and promoting economic growth. By offering insights into the State finances, this chapter sets the stage for a deeper exploration of expenditure patterns and priorities in Indian States, as discussed in the subsequent chapters.

Bird (1993) identified a key issue in the Indian financial system - it’s complicated and challenging Tax system and argued that for an effective Tax structure to emerge, significant reform is needed. However, they also noted that political forces could act as a barrier to the development of the Tax system. The authors' findings provide a crucial insight into the inherent issues within the Indian Tax system, which could be particularly relevant when considering State finances in Nagaland, given the potential impact of inefficient Tax systems on State Revenues.

Rao and Singh (1998) further explored the complexities of India's Fiscal system, focusing on the problem of Tax and expenditure assignments in a federal system. They highlighted several distortions, such as internal trade barriers, inter-State Tax exportation, and Tax sharing arrangements. This centripetal bias in India's federal Fiscal arrangements, as noted by the authors, indirectly influences State’s' expenditure decisions and creates a vertical Fiscal imbalance. The implications of these findings suggest the need for a comprehensive examination of Nagaland's State finances, especially regarding how Taxes and expenditures are assigned.

Bajpai and Sachs (1999) addressed the State of State Government Finances in India, attributing the fundamental weaknesses to increases in non-developmental expenditure. Their work revealed several structural imbalances, including large Revenue deficits, rising interest burden, increasing distortions in the expenditure pattern, and very slow-growing Non-Tax Revenues. Their findings underscore the importance of examining the allocation of expenditure in Nagaland, particularly regarding developmental and non-developmental spending.

K. and M. (1999) addressed the impact of federal Fiscal transfers on State budgets in India. Their research, based on panel data, showed that federal transfers have had a dampening effect on the Tax efforts of State’s. These findings provide a critical perspective on the relationship between federal Fiscal policy and the Fiscal autonomy of individual State’s in India. The case of Nagaland would be interesting to analyze in this context, as this insight could help understand the State's Taxation policies and their effectiveness.

Batabyal (2000) contributed to the discourse with a focus on Fiscal reform and policy relevance in India. He emphasized the need for better management and control of public expenditure, improved performance of direct Taxes, and addressing Fiscal federalism. These aspects are particularly relevant to a detailed examination of Nagaland's State finances, as they could provide an understanding of how the State is managing its public expenditure and the performance of its direct Taxes.

Rao (2000) in his exploration of the evolution of the Tax system in India since the early 1990s, discussed the introduction of new Taxes, their Revenue and equity implications, and the successes and challenges of their implementation. The insights from his research offer a comprehensive view of India's Tax reform process and its impact on State finances. Considering these developments could provide valuable context when analyzing the financial situation in Nagaland, particularly regarding the role and effectiveness of the Tax reforms in shaping the State's financial landscape.

Rao and Singh (2001) focused on the political economy of Center-State Fiscal transfers in India, examining how the economic and political importance of State’s influences these transfers. Their findings highlight that State’s with greater economic and political significance receive larger per capita transfers, with population also playing a role as a measure of political importance. This observation underlines the intersection of economics and politics in shaping State finances in India. When considering the case of Nagaland, it's crucial to assess its economic and political importance within the Indian federation and how this impacts the Fiscal transfers it receives from the center.

In another study, (Rao and Singh, 2001) further investigated India's federal system, its reforms, and the nature of center-State transfers. Their work underscores how India's political economy has influenced the practical workings of the transfer mechanisms, leading to widening inter-State economic disparities. The authors also discussed recent and potential reforms of the center-State transfer system. These findings are particularly significant for understanding the Fiscal dynamics in Nagaland. The State's position within the federal system, its role in the political economy, and the impact of reforms on center-State transfers would be key areas of focus in assessing its financial condition.

Rao (2002) analyzed the deteriorating State finances in India, attributing the decline to low buoyancy of Central transfers and the spillover of Central pay revisions. Rao proposed focusing on Fiscal reforms to improve Revenue productivity and prioritize and compress unproductive expenditures. The proposed reforms are crucial for any analysis of Nagaland's State finances, as they can provide a framework for understanding potential areas for improvement and intervention.

Khemani (2002) also explored the predictions of the common-pool game in federations, finding that subnational governments affiliated with the Central government's political party have lower spending and deficits, while those more dependent on intergovernmental transfers have higher spending and deficits. These findings emphasize the role of political affiliations and intergovernmental transfers in shaping a State's Fiscal situation. When examining Nagaland's State finances, it is vital to consider the State's political alignment with the Central government and its reliance on intergovernmental transfers.

Singh and Vasishtha (2004) used panel data to study the influence of States' economic and political importance on center-State transfers, as well as the differences in temporal patterns of Planning Commission and Finance Commission transfers. They found that State’s with greater bargaining power receive larger per capita transfers and that there is a greater temporal variation in Planning Commission transfers. These insights offer valuable context when analyzing Nagaland's financial situation, particularly regarding the State's economic and political influence on center-State Fiscal transfers.

Singh and Srinivasan (2004) assessed India's current Fiscal situation, likely future evolution, and impacts on the economy, highlighting the unsustainability of the current Fiscal situation and the need for reforms. They also discussed the political feasibility of potential reforms. These findings are particularly relevant for understanding Nagaland's Fiscal situation, as they provide a broader context for the challenges facing the Indian economy and the potential solutions to address them.

Rao (2005) focused on the evolution of the Tax system and its reform in India, analyzing its efficiency and equity implications. They pointed out the stagnation of Tax

Revenues at both Central and State levels, which has implications for efficiency and equity. This study offers significant insights into Tax reform, which can be a critical element in understanding and improving Nagaland's Fiscal situation. It emphasizes the importance of calibrating Tax system reforms to best practice approaches.

Singh (2006) provided an overview of the problems faced by State finances in India. The author reviewed the current situation of State government finances and the various developments that have shaped States' Fiscal situation. The study emphasized the importance of Fiscal discipline at the margins of Revenue and expenditure and proposed reforms to the institutions of Fiscal federalism, borrowing mechanisms for the States, and governance. These insights can guide the investigation into Nagaland's Fiscal situation, as they highlight potential areas for reform and the importance of Fiscal discipline.

Rao and Chakraborty (2006) examined the Fiscal impact of structural adjustment loans (SAL) in Indian State's. They found mixed results in terms of Fiscal consolidation, with evidence of both softening of the budget constraints and greater reduction in Fiscal imbalances in SAL States than non-SAL States. Interestingly, the Fiscal gains were largely due to improved Revenue productivity of the Tax system and not through expenditure restructuring. This indicates that loans can potentially aid in financial recovery, but the approach to utilizing these loans is crucial. This finding might be significant in the context of Nagaland, especially when considering potential avenues for Fiscal recovery.

Singh (2007) surveyed the State of Fiscal federalism in India, in the broader context of decentralization. He discussed the role of political institutions, legislative and budgetary autonomy, assignments of expenditure responsibility and Revenue authority, Revenue collection mechanisms, and intergovernmental transfers. The study highlighted the implications of decentralization for the cooperation of subnational governments and the quality of service delivery. This study provides useful insights into the broader context within which Nagaland's Fiscal situation can be understood. The key lessons here pertain to the importance of understanding the role of various Fiscal and political institutions and the implications of decentralization.

Panda (2009) applied fixed and random effect panel regression models to study the incentive effects of federal transfers on State's Own-Revenue in India. It was found that Central transfers have a dampening effect on State's Own-Revenue. This suggests that the current transfer mechanism may not be encouraging States to improve their own Revenue generation capabilities. For Nagaland, it might imply that the State may need to explore mechanisms to boost its own Revenue generation, beyond relying on Central transfers.

Simone and Topalova (2009) examined India's experience with Fiscal rules and proposed a framework that focuses on debt sustainability and annual nominal expenditure growth rules. They found that India's experience with Fiscal rules has been mixed, with the Fiscal Responsibility and Budget Management Act (FRBMA) needing more success in achieving its objectives. The authors suggested structural reform measures for both Revenues and expenditures supported by numerical targets, and the expansion of the coverage of the Fiscal rules. This is relevant to Nagaland as it points to the need for a more comprehensive approach to Fiscal management, beyond just implementing Fiscal rules.

Nepram (2011) studied the impact of Value Added Tax (VAT) on State Revenue in India using panel data analysis. The author found that VAT has been a good source of Revenue for the States. This indicates the potential importance of VAT as a Revenue source for Nagaland. However, the specific impact of VAT on Nagaland's Fiscal situation would require more detailed analysis, taking into account the State's unique economic and social context.

Mundle et al. (2012) discussed the quality of governance in Indian States. The authors found that Indian States have generally performed well in terms of quality of governance, with some States performing better than others. The level of economic development and deCentralization were found to be significant determinants of the quality of governance. For Nagaland, improving the State's economic development and promoting deCentralization might enhance the quality of governance, thereby potentially affecting Fiscal management and public service delivery.

Panda and Nirmala (2013) examined the incentive effects of federal Fiscal transfers on States' spending in India using a panel data set for 22 States for the period 1980-81 to 2004-05. The results indicated that Central transfers have a stimulatory effect on States' spending but also have disincentives on expenditure economy of States. This implies that while Central transfers can positively impact States pending, they may also discourage efficient allocation of resources. For Nagaland, this highlights the importance of ensuring that Fiscal transfers are used efficiently and effectively, while also considering ways to improve the State's Own Revenue generation capacity to reduce dependence on Central transfers.

Dutta and Dutta (2015) analyzed the Revenue mobilization efforts of the Government of Assam from 1991 to 2010. They found that the State government's Revenue efforts were low, based on secondary data analysis and time series regression analysis. This finding underscores the importance of enhancing Revenue mobilization efforts for States like Nagaland, as a low-Revenue effort can limit the resources available for public services and investment.

Panda (2016) examined the economic and political determinants of Central Fiscal transfers in India. The study found that political factors, alongside economic-demographic variables, significantly influenced all categories of Central transfers. State's with partisan alignment with the Centre and greater political bargaining power were found to receive larger per capita Central transfers. This suggests that political factors can have a substantial impact on Fiscal transfers, which is an important consideration for Nagaland.

Badaik, (2017) evaluated the impact of Fiscal Responsibility Legislations (FRLs) on State finances in India using panel data for 28 States. The results indicated that FRLs are effective in reducing the gross Fiscal deficit and Revenue deficit and have a positive effect on State Revenue receipts. This highlights the potential value of FRLs in promoting Fiscal discipline and improving State finances, which could be relevant for Nagaland.

Chakraborty and Dash (2017) examined the impacts of Fiscal rule on Fiscal balance in India. They found that the introduction of Fiscal rule resulted in a reduction in Fiscal imbalance. However, to comply with the deficit targets set by the Fiscal rule, States resorted to spending cuts, primarily the discretionary development expenditures. This indicates that while Fiscal rules can be an effective tool for Fiscal control in India, they can also potentially limit development spending.

Garg et al. (2017) used Stochastic Frontier Analysis to study the Tax capacity and Tax effort of 14 major Indian State's from 1991-92 to 2010-11. They found a large variation in the Tax effort index across State's, which appeared to be increasing over time. Economic and structural variables were found to have a significant impact on the Tax capacity of Indian States. Moreover, the enactment of the Fiscal Responsibility and Budget Management Act and higher political competition were associated with improved

Tax efficiency. This study provides insights into the factors influencing Tax effort and capacity in Indian States, which could be relevant for understanding the Fiscal situation in Nagaland. They found a positive association between per capita gross State domestic product, literacy rate, and labor force participation and Tax capacity. The enactment of the Fiscal Responsibility and Budget Management Act was associated with improvement in States’ Tax effort.

Panda (2018) examined the impacts of federal transfers on State Tax efforts and expenditure in India using panel data from 22 Indian States. The study found that federal transfers have an adverse effect on States' ability to mobilize their own Tax resources and regulate expenditure. This suggests that federal transfers can lead to a dependency which may hinder States from effectively mobilizing their own resources. Panda also found that federal transfers increase all categories of State expenditure, with a greater impact on Revenue expenditure than capital disbursements. Based on these findings, Panda recommended a review of the design of federal transfers to address these adverse budgetary incentives.

Karnik and Lalvani (2018) investigated the extent to which States have tried to improve their Fiscal health in the post-Fiscal Responsibility Legislation (FRL) period, using data from 15 Indian States. They found that the FRL has had limited success in improving the Fiscal health of Indian States. Instead, federal transfers have likely played a much more important role in restoring States Fiscal health than States' own efforts. This suggests that federal transfers are crucial in restoring the Fiscal health of States, but it also underlines the need for States to improve their own Revenue collection efforts. Karnik and Lalvani hence recommended a re-look at the quantum and design of intergovernmental transfers to encourage States to boost their own-Revenue collection efforts.

Walling and Humtsoe (2021) discuss the political economy of development in the Indian State of Nagaland. The authors note the conflict between an attempt to establish a modern market-based economy and a tribal-community based economy, suggesting that this duality leads to contradictions and conflicts. They argue that neoliberal narratives of development economics and policy prescriptions need to be addressed to the State's economic issues. As a result, the authors propose that the State government should provide a mechanism for resolving these economic questions and facilitating development, while also preserving the rights of the indigenous people.

Borkakati and Gyanendra (2021) examine the relationship between Fiscal responsibility law and subnational finance in India, with a specific focus on Assam's Fiscal scenario. They highlight the role of Fiscal responsibility laws, which have been adopted by many countries as an important Fiscal reform measure. These laws, referred to as Fiscal rules, are designed to place constraints on government Fiscal policy, such as setting limits on the ratio of debt to GDP and the Fiscal deficit. Their analysis of Assam's Fiscal scenario suggests that Fiscal responsibility laws have had a positive impact on the State's Fiscal stability and have helped to reduce the Fiscal deficit.

Nepram and Konsam (2021) discuss the substantial benefits accrued by the Northeastern States of India due to the introduction of the Goods and Services Tax (GST). They highlight that the shift from an origin-based levy to a destination-based Tax, along with the inherent value-added nature of GST, has significantly increased Tax collections in these States. The authors also credit the efforts of the Central and State governments in disseminating information about the new Tax system for this increase in Tax compliance. Their findings suggest that GST is likely to continue to be a potent source of Revenue for the region in the future.

Lakshmanasamy (2022) investigates the impact of Central transfers on the Tax Revenue generated by State’s. Using panel data from 15 major States from 1980-81 to 2019-20, the author finds a negative relationship between Central transfers and the States' own Tax efforts, indicating a Revenue substitution effect. The analysis also reveals a strong positive relationship between Net State Domestic Product (NSDP) per capita and State Tax Revenue, indicating the high Tax potential of the States. The author concludes that Central transfers have failed to induce the desired positive Revenue generation in States.

2.3 Revenue Generation in Indian States: Tax Efforts, Central Transfers, and Fiscal Capacity

The financial backbone of any State is its ability to generate Revenue, which in turn enables governments to invest in public services, infrastructure, and welfare programs. In the context of Indian States, the Revenue generation process is a complex interplay of Tax efforts, Central transfers, and Fiscal capacity. This chapter aims to provide an overview of these key components and their role in shaping the Revenue landscape of Indian States.

Tax efforts represent the endeavors of State governments to mobilize resources through the imposition and collection of various Taxes. The efficiency of these efforts is influenced by factors such as the Tax base, administrative capabilities, and overall compliance. Central transfers, on the other hand, refer to the allocation of financial resources from the Central government to the States. These transfers play a vital role in addressing Fiscal disparities and ensuring a more equitable distribution of resources across States. Lastly, Fiscal capacity embodies the inherent Revenue-generating potential of a State, which is determined by its economic structure, resources, and demographics.

This chapter, will delve into each of these Revenue sources, exploring their implications on the Fiscal health and capacity of Indian States. Through a thorough examination of Tax efforts, Central transfers, and Fiscal capacity, this chapter aims to provide valuable insights into the challenges and opportunities that Indian States face in their pursuit of enhanced Revenue generation and Fiscal sustainability.

Bhat et al. (1993), investigated the relationship between Tax Revenue and expenditure in Indian State's. They found that deficit budgeting is a key tool for financing economic development in both developing and developed countries. The researchers noted that rising budget deficits have sparked concern among economists and policy makers, emphasizing the importance of the budget presentation for all classes of people. These findings highlight the significance of deficit budgeting in economic development and the need to address concerns over increasing deficits.

Cashin and Sahay, (1996), utilized the Solow-Swan neoclassical growth model to examine the growth experience of 20 Indian State's between 1961 and 1991. Their study revealed evidence of absolute convergence, with initially poor State's growing at a faster rate than initially rich State's. They also found that dispersion of real per capita State incomes widened over the same period and that State's with greater needs received relatively more grants. The findings suggest that, despite significant barriers to population flows, there is potential for economic growth in the States of India through absolute convergence and Central-State grants.

Coondoo et al. (2001), examined the relative Tax performances of selected Indian State's using annual data on State Tax Revenue and applying quantile regression. Their analysis, covering the period from 1986-87 to 1996-97, revealed that States with higher Taxable capacity collected more Tax Revenue relative to their Taxable capacity, even after controlling for other factors. This study underscores the importance of a State's Taxable capacity in Revenue generation.

Dhanasekaran (2001), analyzed the dynamics of the causal relationship between Revenue and expenditure in India, employing Geweke's test and Granger's causality test. The results showed no evidence of a stable long-run relationship between government Tax Revenue and expenditure. While Geweke's test indicated bi-directional causality when Tax Revenue was the dependent variable and no causal relationship when government expenditure was the dependent variable, Granger's test suggested unidirectional causality flowing from government expenditure to Revenue.

Sachs et al. (2002), studied per capita incomes in Indian State’s between 1980 and 1998 using two measures of convergence. Their findings showed that India experienced overall divergence during this time, with richer States demonstrating a degree of convergence in the post-reform period, while poorer States did not. The researchers found urbanization to be the most significant factor in explaining cross-State variation in growth, highlighting the importance of addressing regional disparities to promote balanced economic development.

Mohan and Shyjan (2007), argued that limited Taxing powers of the States, particularly in Kerala, constrained the growth of the State domestic product (SDP). They observed that the growing SDP of Kerala since the latter half of the 1980s did not result in a larger resource base for the State, and concluded that the power to Tax services should be devolved from the Centre to the State’s to address this issue and enhance Revenue generation.

Ghosh (2008), studied the long-run growth performance and regional divergence in per capita income across 15 major Indian States, finding that the divergence had increased in the post-reform period. The author identified economic reforms as a driving factor behind increased growth and regional income disparities in India. The paper further pointed out that variations in production structures, human capital, and infrastructure were responsible for the divergence. To improve overall growth performance and reduce regional imbalances, the study recommended larger public investment in human capital and infrastructure for States with lower steady-State levels.

Pandey and Dixit (2009) examined the cointegration between Non-Tax Revenue (NTR) and State Domestic Product (SDP) of 20 States in India, finding a two-way causality with a positive direction in the long run. In the short run, enhancement in NTR led to enhancement in SDP and vice-versa for Jammu and Kashmir, Kerala, Madhya Pradesh, Maharashtra, and Orissa.

Panda (2009) used fixed and random effect panel regression models to study the incentive effects of federal transfers on States' Own-Revenue in India. The paper found that Central transfers had a dampening effect on States' Revenue efforts. The study suggested that the incentive criterion for Tax effort used in the Finance Commission devolutions and the Gadgil formula used by the Planning Commission needed to be reflected in the system. The author recommended assigning a higher weight to Tax effort in the devolution formula and improving coordination among different channels in designing criteria and incentives.

Baxi (2009) examined the growth of Non-Tax Revenue of 16 major Indian States over 18 years, using panel data analysis with a Fixed Effect Model (FEM). The study concluded that differences in socioeconomic activities of individual States significantly influenced the generation of Non-Tax Revenue for the State.

Shyjan and Mohan (2009) analyzed the impact of devolution of Taxes and distribution grants by the Centre to the States in India, finding that formula-based Tax devolution was more equalizing than grants. The authors also suggested the need to explore alternative mechanisms for better distribution, as the inter-State distribution of Central grants and Taxes affected the fourteen major States studied for the time period 1980-81 to 2006-07.

Udhayakumar and Sivakumaresan (2010) analyzed Tax performance across various Taxes in Tamil Nadu. Their findings revealed that the upper middle-income and high-income groups had higher Tax bases for increasing Revenue during the study period. The percentage contribution of State own Tax receipts to the State domestic product (SDP) at current prices of the Tamil Nadu government from 1990-91 to 2005-06 was high, and Taxes had a Tax effort index above unity for these two groups compared to others, emphasizing the importance of targeting these income groups for Revenue generation.

Nepram (2011) used panel data analysis to study the impact of value added Tax (VAT) on State Revenue in India. The study found that VAT has been a good source of

Revenue, despite the drawbacks of the sales Tax, which was the most important State Tax in India and contributed a significant proportion of their receipts.

Panagariya et al. (2014) discussed growth at the State level in India, arguing that State governments could shape the fortunes of their citizens through State-level policy reforms. Consequently, every Indian State experienced accelerated growth. However, regional inequality on a per capita basis grew, and reforms in State-controlled sectors such as agriculture, industry, healthcare, and education have yet to advance as far as some analysts previously predicted.

Karnik & Raju (2015) used stochastic frontier analysis to study the Tax effort of 17 Indian States, finding that there is a large budgetary room that States potentially enjoy for raising Revenues from existing Taxes. The study revealed that technical inefficiency is the primary reason for States being unable to achieve their potential for Revenue collection, and the average Tax effort is declining over time.

Mukherjee (2017) focused on measuring Tax effort and identifying factors that explain variations in the Tax effort across States. The study looked at Revenue collection under Value Added Tax of general category States for the period 2001-02 to 2013-14. The main findings indicate that the Tax effort of Indian States increased significantly during the period. Tax administration, economic growth, population, and per capita income were found to be significant factors in determining a State's Tax capacity and Tax effort.

Mukherjee (2019) discussed the State of public finance and Fiscal management in India during 2001-16. The paper highlights significant changes in both Revenue mobilization and controlling expenditures. Two significant shocks to Indian public finances during this period were the introduction of pay revision for the union and State government employees and the global financial crisis (2008-09). Different States adopted various measures to combat Fiscal shocks, with some of these measures having inter-temporal implications. The introduction of Value Added Tax (VAT) and the Fiscal Responsibility Budget Management (FRBM) Act helped States improve their public finances during 2001-16.

Lankapotu (2020) examined the growth of States' Revenue from their own sources in both Non-Special Category States (NSCS) (18) and Special Category States (SCS) (11) in India during the period 1990-91 to 2018-19. The study found that the performance of

NSCS is significantly higher than the SCS in generating Revenue from their own sources. However, the growth of total Revenue of the NSCS is comparatively lower than the SCS. Telangana has recorded the highest State Own Tax Revenue (SOTR) and State Own Non-Tax Revenue (SONTR) on average compared to other Southern States during the period considered for the analysis.

2.4 Expenditure Patterns and Priorities in Indian States: Assessing Development and Fiscal Sustainability

A critical aspect of State finances is the allocation and management of expenditures, which directly impact the quality and reach of public services, infrastructure, and development initiatives. The expenditure patterns and priorities of Indian State’s provide crucial insights into their approach towards fostering economic growth, promoting social welfare, and ensuring Fiscal sustainability. This chapter aims to shed light on the complexities of expenditure management in Indian States, with a focus on their implications for development and Fiscal stability.

The analysis of expenditure patterns encompasses the examination of sectoral allocations, such as health, education, and infrastructure, as well as the balance between capital and recurrent expenditures. A thorough understanding of these allocations is essential for evaluating State governments’ effectiveness in addressing their populations’ diverse needs and fostering inclusive development. Furthermore, by assessing the Fiscal priorities of Indian States, the study can gain insights into their commitment to Fiscal responsibility and long-term sustainability.

This chapter explores the various dimensions of expenditure patterns and priorities in Indian States, scrutinizing their impact on development outcomes and Fiscal sustainability. By examining the relationship between public spending and key indicators of development, the study aims to identify potential areas for improvement and provide recommendations for more effective and sustainable Fiscal management in the Indian context.

Bhat et al. (1993) examines the relationship between Tax Revenue and expenditure of Indian States, highlighting deficit budgeting as a means of financing economic development in both developing and developed countries. The main findings suggest that deficit budgeting plays a crucial role in economic development, and the rising budget deficits have caused concern among economists and policymakers. Additionally, the presentation of a budget is an event eagerly anticipated by all classes of people.

Dhanasekaran (2001) analyzed the dynamics of the causal relationship between Revenue and expenditure using Geweke's test and Granger's causality test. The results indicate that there is no evidence of a stable long-run relationship between government Tax Revenue and expenditure. Geweke's test reveals bi-directional causality when Tax Revenue was the dependent variable and no causal relationship when government expenditure was the dependent variable. However, Granger's test suggests unidirectional causality flowing from government expenditure to Revenue.

Ramesh and Nishant (2004) utilizes State -level public health expenditure data to examine public expenditures on health in India. The main findings reveal that State governments aim to allocate only about 0.43 percent of the State gross domestic product (SGDP) to health and medical care, making the goal of spending 2 to 3 percent of GDP on health appear highly ambitious. Additionally, the research shows that a 1 percent increase in State per capita income results in a 0.68 percent increase in per capita public healthcare expenditure.

Tulsidharan (2006) investigates the relationship between government expenditure and economic growth in India. The main findings reveal that higher economic growth is accompanied by an increase in government expenditure, and government final consumption expenditure has a positive effect on economic growth in India. The causal relationship between government final consumption expenditure and economic growth in India is examined using the Test of Integration, Cointegration, and Error Correction Mechanism.

Pattnaik et al. (2012) documented the development of Fiscal policy, with a focus on public expenditure in India since the 1980s. After a period of mounting Fiscal deficits, the government implemented a strategy of Fiscal consolidation in the early 1990s, primarily focusing on expenditure compression. This led to a reduction in the Fiscal deficit to 6.4 percent of GDP in 1996-97. The authors argue that, considering the evidence of a stable long-run relationship between public sector expenditure and National Income in India, this trend must be reversed in the future. They conclude that the majority of Fiscal adjustments should rely on greater mobilization of Revenue receipts rather than curtailing developmental expenditure.

Agarwal (2015) assessed the effectiveness of public expenditure policy from a human development perspective by conducting a regression analysis of the Human Development Index (HDI) on per capita real income and social sector expenditure at the State level. The main findings indicate that per capita real income is a significant determinant of HDI, and the share of social sector expenditure in development expenditure is also a significant determinant of HDI, but to a lesser extent. The study suggests that an increase in government spending increases real incomes, which could be partially subsuming the impact of government spending on social sectors such as health and education.

Lahirushan and Gunasekara (2015) aimed to identify the impact of government expenditure on economic growth in Asian countries using a quantitative methodology and secondary data from 1970 to 2013. The main findings reveal that government expenditure has a significant positive impact on Gross Domestic Production in the Asian region, and there is a unidirectional causality from economic growth to government expenditure and government expenditure to economic growth in Asian countries. The results show a long-run relationship between government expenditure and economic growth in the region.

Lhoungu et al. (2016) employed time-series econometrics to examine the relationship between public expenditure and Gross State Domestic Product (GSDP) in Nagaland. The main findings indicate that there is a strong causality from public expenditure to GSDP, while Granger's causality test shows a weak causality from GSDP to public expenditure. The study uses tools from time-series econometrics such as the Augmented Dickey-Fuller Test for Unit-root, Co-integration Test, and Error-Correction Models.

Mohanty and Mishra (2017) examined the Johansen-Juselius cointegration methodology to investigate the nexus between Tax Revenue and public expenditure in India. The main findings reveal that there is a long-run relationship between the two and that the Tax-spend hypothesis is supported. Cointegration between public expenditure and Tax Revenue is established, and Vector Error Correction Models show one-way causality running from Tax Revenue to expenditure in both the short-run and long-run. The reverse-causality is not found in the analysis either for the short or long-run.

Mohanty and Bhanumurthy (2018) studied the outlays-outcome framework to measure the efficiency of government expenditures on the social sector, especially health and education, among the Indian State's using various DEA approaches. The study also examines the role of economic growth and quality of governance on public expenditure efficiency. The main findings show that there is a large variation in the efficiency of public spending among Indian State's, with State's spending their resources more efficiently on education than on health and overall social sector spending. Quality of governance has a larger effect on the efficiency of education, health, and the social sector than economic growth.

Chattopadhyay (2017) analyzed the trend and pattern of social sector expenditure in India in the 2000s. The main findings reveal that successive Indian governments have not backed up their rhetorical commitment to inclusive social development and poverty alleviation with adequate financial allocations, resulting in a status quo on social sector spending. The new pattern of Tax shares between the Centre and State's has resulted in higher inflow of 'untied fund' from the Central government accompanied by lower allocations of 'tied fund'. Additionally, States have not used their newly accrued Fiscal autonomy to prioritize social sector expenditure.

Yadava and Neog (2019) analyzed public spending of 19 Indian States on the basis of their performance. It uses Public Sector Performance (PSP) scores, which are divided into two parts, to compute States efficiency using Data Envelopment Analysis (DEA) and rank the States according to their efficiency. The output-oriented DEA models conclude that State governments would have potential to increase the efficiency by 14.16 percent without compromising public spending. The main findings include the computation of PSP scores for 19 Indian States for the period of 2006-2015, the use of DEA to measure the efficiency of the States and rank them accordingly, and the revelation that States should have decreased public spending by 57.88 percent in the input-oriented DEA analysis, while the output-oriented DEA models concluded that State governments would have potential to increase efficiency by 14.16 percent without compromising public spending.

Hazarika (2020) examined the trend of social sector expenditure and gross State domestic product in Assam. The main findings reveal that expenditure on social sectors and Gross State Domestic Product of Assam have both been increasing since 1990-91. The Granger Causality test reveals that expenditure on Social Sectors has a positive impact on Gross State Domestic Product. However, the Johansen Cointegration test reveals that there is no integration between the two variables in the long run.

Ranjan and Panda (2021) explored the pattern and impact of development spending on human development index and gross State domestic product in low-income States in India. The main findings reveal that development spending in low-income States is higher than in major States. Additionally, development spending has a significant and positive influence on gross State domestic product in the long run, but not on the human development index. Furthermore, increased health spending is associated with better health outcomes.

2.5 Conclusion

The analysis of State Finances in India, including Revenue generation and Expenditure patterns, is vital to comprehend the overall Fiscal health and development trajectory of the country. The review of Fiscal Policies, performance, and Revenue generation mechanisms highlights the importance of Tax efforts, Central transfers, and Fiscal capacity in shaping the financial landscape of Indian States. The examination of Expenditure patterns and priorities reveals the critical role played by State governments in addressing diverse developmental needs and ensuring Fiscal sustainability.

The findings of this analysis underline the need for a more efficient Revenue generation system and a well-balanced allocation of resources to bolster inclusive growth and improve the quality of public services. By prioritizing investments in key sectors such as health, education, and infrastructure, Indian States can foster long-term development and enhance overall living standards for their citizens. Moreover, the adoption of responsible Fiscal management strategies and a focus on Fiscal sustainability is essential to mitigate the risks associated with mounting public debt and maintain a stable macroeconomic environment.

Therefore, policymakers must engage in continuous evaluation and fine-tuning of Fiscal policies to adapt to the ever-changing economic landscape. By adopting a proactive approach, Indian States can ensure the efficient utilization of resources, optimize Revenue generation, and prioritize expenditures to achieve sustainable development and improved quality of life for their citizens.

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CHAPTER 3

FISCAL FEDERALISM AND STATE FINANCES IN INDIA

3.1 Overview of State Finances in India

State finances in India play a critical role in determining the fiscal health and development priorities of individual States. Before delving into the specific case of Nagaland, it is essential to understand the broader context of State finances in India. This section provides an overview of the key components of State finances, including revenue receipts, public expenditure, and fiscal deficit, as well as the implications of fiscal federalism for Indian States.

Indian Constitutional law carries enormous historical, pragmatic, and conceptual importance. A defining characteristic of a federal constitution, which is widely recognized, is the presence of two tiers of government: a central government for the entire nation and two or more regional governments for distinct areas within the country (Choudhry et al., 2016). This chapter discusses the crucial and intricate subject of State finances in India, which falls under the larger umbrella of public finance. India's Constitution establishes a federal system where states have significant duties and obligations in diverse economic and social domains, beyond their specific governmental functions. States have considerable revenue sources, such as taxes they levy and a portion of specific taxes gathered by the central government. Moreover, their revenues are supplemented by different transfers from the central government (Bagchi et al., 1992). The Indian Constitution delegates essential duties to the States in various areas, including infrastructure development, poverty reduction, water supply, irrigation, public order, public health, and sanitation. In order to accelerate and maintain growth and development, States are crucial.

The Government of India Act of 1935 marked a turning point in the development of Center-State financial ties. This Act granted provincial autonomy. This Act established a clear division between federal and provincial sources of funding. The Act of 1935 split the sources of funding into three groups: federal, provincial, and jointly federal and provincial. According to the Act, certain taxes and duties for category (c) were to be collected only by the federal government, and the proceeds were to be distributed to the provincial governments. Land revenue, irrigation fees, excise taxes on alcoholic beverages, opium, Indian hemp, and narcotic medicines, taxes on agricultural income, stamps, and registration were the provinces' primary sources of revenue. Corporate taxes, money, coinage, customs taxes, mail and telegraph, railroads, broadcasting, and military income are the Central Sources of Income (Parkash, 2011). The Act also authorized the

Centre to award grants-in-aid to the provinces in need. According to the clause, even if a public purpose was not one over which the Central legislative or a provincial legislature may pass legislation, the Central Government or an interim government might give grants for that reason. The Act of 1935 increased the provincial governments' borrowing authority. Under section 163 of the Act, provincial administrations were permitted to borrow against the security of provincial revenue with the Central government's consent. To ensure optimum operational effectiveness, the Constitution carefully pays attention to every detail while determining how to divide functions and resources (Parkash, 1994).

In the Union List, the functions of the Union Government encompass nearly 97 subjects, including defense, foreign affix, international economic relations, atomic energy, aviation; shipping, posts and telecommunications; highways, banking, and insurance; oil, petroleum, and petroleum products, specific industries under the jurisdiction of the Centre; and numerous other activities.

In the State List, the functions of the State Government consisting of approximately 66 items, the most prominent of which are public order; police; prison; local governments; irrigation, agriculture, and related activities; land; public health; and industries other than those under the jurisdiction of the Central Government; as well as inter-state trade and commerce. The Concurrent List has an additional 57 areas where both the federal and State governments can act. It consists of economic and social planning, forestry, electricity, education, labour, conflicts, and social security (Parkash, 1994).

It has been acknowledged that the State's financial resources are insufficient for welfare, maintenance, and development operations. Given this issue, the founders of the Indian Constitution did establish detailed, if intricate, provisions for the movement of finances from the Centre to the States. The imbalance between the expanding functional duties of the States and their resources is rectified via three primary Central transfer mechanisms.

1. Statutory transfers through the Finance Commission.
2. Plan transfers through the Planning Commission.
3. Discretionary transfers for Centrally sponsored schemes, relief from natural calamities, and relief and rehabilitation of displaced persons.

Aside from these transfers, resources move indirectly to the States through the establishment/expansion of public sector firms, subsidized lending by banking and financial institutions, and subsidized borrowing by the States from the Central Government and the banking system (Parkash, 2011).

There is a separation of legislative, executive, and financial authority between the federal and State governments. Lists I, II, and III of the seventh schedule of the constitution expound on them. The Union List, list I, outlines the duties and authority of the Union Government. The roles and authority of State governments are mentioned in List II (State List). List III (concurrent list) outlines the topics on which federal and State governments may legislate. Article 254 of the Indian Constitution States that if any State law provision conflicts with a Central law, the Central law shall take precedence, and the State legislation shall be null and invalid to the extent of the conflict.

It is pointed out that the distribution of the financial powers and functions between the Centre and the States provided in the Indian constitution has been responsible for the sufferings of the States:

1. The constitution assigns broad responsibilities to the States, like building up social and industrial infrastructure, rural development, education, medical and public health, and welfare of scheduled castes and scheduled Tribes.
2. These social and economic services expand over time. This means that the States' need for more and more resources also increases.
3. The resources available to the States are few and less elastic.
4. More Buoyant taxes like customs duties and corporation taxes should be shared. Even in the case of shareable taxes, the Centre has the right to impose surcharges and earmark cesses, which are exclusively used by it.
5. The Finance Commission has no authority to enlarge the size of the divisible pool of shareable taxes.
6. The Centre is in a much better position because it can resort to deficit financing and borrow from the Reserve Bank of India.

National and foreign financial institutions collect savings and deposits from within the economy in different forms. In Short, the States are in a weak position. Consequently, the States have become dependent on the Centre for financial resources. This dependence has progressively eroded the States' jurisdiction, authority, and initiative. The Centre has also been complaining about the inadequacy of resources because the defense, interest payments, and subsidies consume a significant portion of its resources. So, friction in the Center-State financial relations continues (Hajela, 2004).

Revenue receipts in Indian States comprise tax and non-tax revenues. Tax revenues, the primary source of State revenue, include taxes such as the Goods and Services Tax (GST) on intra-State transactions, State excise duties, stamp duties, and land revenue. Non-tax revenues consist of various sources like fees, fines, dividends, and interest receipts. The revenue receipts of Indian States vary widely due to differences in economic development, resource endowments, and tax administration efficiency.

Public Expenditure in Indian States is broadly classified into revenue and capital expenditure. Revenue expenditure covers spending on the day-to-day operations of government, salaries, pensions, subsidies, and interest payments, while capital expenditure is directed towards the creation of assets and infrastructure development. States are responsible for providing various public goods and services, such as education, healthcare, social welfare, and rural and urban development. Consequently, the allocation and efficiency of public expenditure in Indian States differ significantly due to variations in development priorities, governance quality, and fiscal constraints.

Fiscal deficit, the difference between Total Revenue Receipts And Total Expenditure, is a crucial indicator of a State's fiscal health. Fiscal deficits occur when a State's expenditures exceed its revenue receipts, necessitating borrowing to finance the shortfall. While moderate fiscal deficits can be beneficial for stimulating economic growth and meeting development needs, persistent or excessive deficits can have adverse implications for a State's financial stability, debt sustainability, and economic prospects.

Fiscal federalism plays a vital role in shaping State finances in India, as it outlines the financial powers and responsibilities of both the Central and State governments. Intergovernmental fiscal transfers, such as the sharing of Central tax revenue and grants-in-aid, aim to address vertical and horizontal fiscal imbalances and promote fiscal equity among States. Fiscal federalism also seeks to balance fiscal autonomy and accountability for State governments, ensuring that they have the necessary resources and institutional oversight to fulfill their responsibilities effectively.

3.2 Constitutional Provisions

Fiscal federalism in India is deeply rooted in the country's Constitution, which outlines the financial powers and responsibilities of the Central and State governments. This section examines the key constitutional provisions that shape State finances in India, with a special focus on their implications for Nagaland.

Division of taxing powers: The Constitution of India, under its Seventh Schedule, divides taxing powers between the Central and State governments through three lists: The Union List, the State List, and the Concurrent List. The Union List contains items on which only the Central government can levy taxes, while the State List enumerates items that fall under the jurisdiction of State governments. The Concurrent List includes items where both the Central and State governments can impose taxes, subject to certain conditions. This division of taxing powers seeks to balance fiscal autonomy and coordination between different levels of government.

Goods and Services Tax (GST): The Constitution (One Hundred and First Amendment) Act, 2016, introduced the GST, a comprehensive indirect tax system that subsumed various Central and State taxes, such as excise duties, service tax, and value-added tax. The GST is levied on the supply of goods and services and is collected at each stage of the value chain, with a provision for input tax credit. The GST Council, comprising representatives from the Central and State governments, has been constituted to determine tax rates, exemptions, and other related matters. The implementation of GST has significant implications for State finances, including Nagaland, by streamlining the tax system, improving compliance, and enhancing revenue buoyancy.

Finance Commission: Article 280 of the Indian Constitution mandates the establishment of the Finance Commission, an independent body that is appointed every five years to recommend the distribution of Central tax revenue between the Central and State governments, as well as among States. The Finance Commission also suggests principles governing the provision of grants-in-aid to States and measures to augment the resources of States to meet their expenditure requirements. The recommendations of the Finance Commission play a crucial role in ensuring fiscal equity and addressing vertical and horizontal fiscal imbalances among States, including Nagaland.

Borrowing powers: The Constitution of India, under Article 293, grants State governments the power to borrow funds, subject to certain conditions. State governments can borrow funds from the market or financial institutions to finance their development needs and meet any temporary revenue shortfalls. However, the borrowing powers of States are subject to limits prescribed by the Central government in consultation with the Finance Commission, which ensures fiscal discipline and debt sustainability at the State level.

Special provisions for Northeastern States: The Indian Constitution contains special provisions for the northeastern States, including Nagaland, under Article 371A and other related articles. These provisions grant certain autonomy and special status to these States, recognizing their unique socio-cultural and geographical context. The fiscal implications of these provisions include the allocation of additional Central funds, the formulation of State-specific development schemes, and preferential treatment in intergovernmental fiscal transfers.

3.3 Role of the Finance Commission

The Finance Commission, established under Article 280 of the Indian Constitution, plays a critical role in shaping fiscal federalism and State finances in India, including Nagaland. This section discusses the role of the Finance Commission, its key functions, and the implications of its recommendations for Nagaland by highlighting the contributions of some past and present Finance Commissions.

The Finance Commission has four main functions:

Distribution of Central tax revenue: The Finance Commission recommends the division of Central tax revenue between the Central and State governments, as well as among States. These recommendations seek to balance the fiscal needs and capacities of different levels of government and ensure equitable resource allocation across States.

Grants-in-aid: The Finance Commission suggests principles governing the provision of grants-in-aid to States from the Consolidated Fund of India. These grants help States meet their expenditure requirements, particularly in sectors where they face revenue shortfalls or additional spending pressures, such as social welfare, disaster management, or infrastructure development.

Measures to augment State resources: The Finance Commission identifies measures that States can undertake to enhance their revenue generation capacity and meet their expenditure commitments. These measures may include tax reforms, improvements in tax administration, or the adoption of best practices in public financial management.

Borrowing limits: The Finance Commission, in consultation with the Central government, prescribes limits on State government borrowings to ensure fiscal discipline and debt sustainability at the State level.

While the recommendations Finance Commissions focused on the broader aspects of fiscal federalism and resource distribution among Indian States, they also had significant implications for Nagaland's State finances:

10th Finance Commission (1995-2000):

Tax devolution: The 10th Finance Commission recommended a 29 percent share of Central tax revenue for States. This had implications for Nagaland, as it affected the State's share in Central tax transfers and its overall revenue receipts.

Calamity relief: The Commission introduced a new scheme, the Calamity Relief Fund, to help States cope with natural disasters. Nagaland, being a region prone to natural calamities such as landslides and floods, benefited from this fund.

Grants-in-aid: The 10th Finance Commission continued the practice of providing grants-in-aid for specific purposes, such as education, healthcare, and infrastructure development. This helped Nagaland in addressing its development needs and bridging resource gaps in critical sectors.

11th Finance Commission (2000-2005):

Tax devolution: The 11th Finance Commission increased the share of States in Central tax revenue to 29.5 percent. This change influenced Nagaland's share in Central tax transfers and impacted its revenue receipts.

Grants-in-aid: The Commission recommended grants-in-aid for various sectors, including primary education, primary healthcare, and road maintenance. These grants were essential for Nagaland in meeting its expenditure requirements in these sectors and improving its overall development indicators.

Performance-based incentives: The 11th Finance Commission introduced performance-based incentives to encourage fiscal discipline and good governance among States. States like Nagaland were encouraged to adopt fiscal reforms, improve tax administration, and enhance the efficiency of public spending to avail of these incentives.

12th Finance Commission (2005-2010):

Tax devolution: The 12th Finance Commission increased the share of States in Central tax revenue to 30.5 percent. This affected Nagaland's share in Central tax transfers and influenced its overall revenue receipts.

Debt relief: The Commission introduced a debt relief package for States, including a Debt Consolidation and Relief Facility, to help them reduce their debt burden and improve their fiscal health. Nagaland benefited from this initiative, as it helped the State manage its debt and maintain fiscal sustainability.

Grants-in-aid: The 12th Finance Commission recommended grants-in-aid for various sectors, such as education, healthcare, and infrastructure, with a focus on rural development. This provided Nagaland with the necessary resources to address its development challenges in these areas and enhance its socio-economic indicators.

13th Finance Commission (2010-2015):

Tax devolution: The 13th Finance Commission increased the share of States in Central tax revenue to 32 percent. This affected Nagaland's share in Central tax transfers and influenced its overall revenue receipts.

Grants-in-aid: The Commission recommended grants-in-aid for various sectors, such as environment, disaster management, and maintenance of public infrastructure. These grants helped Nagaland address its development needs and resource gaps in these critical sectors.

Performance-based incentives: The 13th Finance Commission emphasized performance-based incentives for States to encourage fiscal discipline, transparency, and efficiency in public spending. States like Nagaland were incentivized to adopt fiscal reforms, improve tax administration, and enhance the efficiency of public expenditure to avail these incentives.

14th Finance Commission (2015-2020):

Tax devolution: The 14th Finance Commission significantly increased the share of States in Central tax revenue to 42 percent. This change greatly impacted Nagaland's share in Central tax transfers and its overall revenue receipts, providing the State with additional resources to address its development needs and fiscal challenges.

Grants-in-aid: The Commission recommended grants-in-aid for local bodies and various sectors, including health, education, and infrastructure. These grants helped Nagaland meet its expenditure requirements in these sectors and improve its overall development indicators.

Revenue deficit grants: The 14th Finance Commission introduced revenue deficit grants for States that were unable to meet their revenue expenditure requirements with their own resources and Central tax transfers. Nagaland was one of the States that received revenue deficit grants, which helped the State manage its fiscal deficit and maintain fiscal sustainability.

15th Finance Commission (2021-2026):

Tax devolution: The 15th Finance Commission maintained the share of States in Central tax revenue at 41 percent, considering the reorganization of the State of Jammu and Kashmir. This decision continues to influence Nagaland's share in Central tax transfers and its overall revenue receipts.

Grants-in-aid: The Commission recommended grants-in-aid for various sectors, including health, education, and infrastructure, with a focus on rural development and local governance. These grants provide Nagaland with the necessary resources to address its development challenges in these areas and enhance its socio-economic indicators.

Fiscal consolidation: The 15th Finance Commission emphasized the importance of fiscal consolidation for States and the need to maintain prudent fiscal management practices. Nagaland, like other States, is encouraged to undertake fiscal reforms, improve tax administration, and enhance the efficiency of public expenditure to maintain fiscal sustainability and ensure sustainable debt levels.

The recommendations of the 13th, 14th and 15th Finance Commissions have had significant implications for Nagaland's State finances by influencing its share in Central tax transfers, grants-in-aid allocations, and fiscal management practices. These Finance Commissions have contributed to shaping Nagaland's revenue receipts, public expenditure, and fiscal health during their respective periods.

3.4 Revenue and Expenditure Sharing Mechanisms

The Revenue and Expenditure sharing mechanisms between the Central and State governments in India play a crucial role in shaping the fiscal landscape, including that of

Nagaland. This section discusses these mechanisms, highlighting their implications for Nagaland's State finances.

Tax sharing: Under the Indian Constitution, the Finance Commission recommends the distribution of Central tax revenue among States. This includes both vertical devolution, which determines the share of Central taxes allocated to State governments, and horizontal devolution, which decides the distribution of tax revenue among States based on criteria such as population, income, area, and fiscal capacity. Nagaland's share in Central tax transfers depends on these devolution mechanisms, which directly affect the State's revenue receipts and fiscal autonomy.

Goods and Services Tax (GST): The GST, a comprehensive indirect tax system, has streamlined taxation and improved revenue mobilization across States. The GST is collected and shared between the Central and State governments, based on the destination principle, meaning that taxes are allocated to the State where the goods or services are consumed. This system has implications for Nagaland's revenue generation, as it influences the State's share in GST revenue and its overall tax receipts.

Grants-in-aid: Grants-in-aid from the Central government to States, recommended by the Finance Commission, help States meet their expenditure requirements and bridge revenue gaps in critical sectors such as education, health, and infrastructure. Nagaland, like other States, relies on grants-in-aid to finance its development needs and address fiscal imbalances. Over the years, different Finance Commissions have recommended various types of grants-in-aid for Nagaland, including special category grants, performance-based grants, and revenue deficit grants.

Centrally Sponsored Schemes (CSS): Centrally Sponsored Schemes are development programs funded by the Central government and implemented by State governments. These schemes cover various sectors, such as agriculture, health, education, and rural development. While CSS provide financial resources to States, including Nagaland, for developmental purposes, they can also influence States' expenditure priorities and fiscal autonomy, as the Central government often determines the sectoral allocation and implementation guidelines for these schemes.

State-level taxes and non-tax revenue: In addition to Central tax transfers, grants-in-aid, and CSS funding, Nagaland, like other States, generates revenue from State-level taxes and non-tax sources. State-level taxes include those on items specified in the State

List of the Indian Constitution, such as land revenue, stamp duties, and excise duties on alcoholic beverages. Non-tax revenue sources include fees, fines, and royalties from the exploitation of natural resources. These revenue sources are crucial for Nagaland's fiscal autonomy, as they allow the State to address its development needs and expenditure requirements independently.

3.5 Grants-In-Aid and Other Transfers

Grants-in-aid and other transfers from the Central government play a vital role in supporting State finances in India, including Nagaland. This section discusses the different types of grants-in-aid and transfers, highlighting their implications for Nagaland's State finances.

Finance Commission grants: As per the recommendations of the Finance Commission, grants-in-aid are provided to States to help them meet their expenditure requirements and bridge revenue gaps in critical sectors such as education, health, and infrastructure. Over the years, different Finance Commissions have recommended various types of grants-in-aid for Nagaland, including special category grants, performance-based grants, and revenue deficit grants. These grants are essential for addressing Nagaland's development needs and maintaining fiscal sustainability.

Centrally Sponsored Schemes (CSS): Centrally Sponsored Schemes are development programs funded by the Central government and implemented by State governments. These schemes cover various sectors, such as agriculture, health, education, and rural development. CSS provide financial resources to States like Nagaland for developmental purposes, but they can also influence States' expenditure priorities and fiscal autonomy, as the Central government often determines the sectoral allocation and implementation guidelines for these schemes.

Special Category Status: Some States in India, including Nagaland and other northeastern States, have been granted Special Category Status. This status entitles them to preferential treatment in Central transfers and higher grants for developmental activities. Special Category States receive additional grants to address their unique challenges and development needs, such as infrastructure development, disaster management, and poverty alleviation.

Non-plan grants: Non-plan grants are provided to States for specific purposes, such as maintenance of assets, disaster relief, and other contingencies. These grants help

States like Nagaland manage their non-plan expenditure requirements and address unforeseen fiscal challenges.

Externally aided projects: States in India, including Nagaland, can also receive financial assistance through externally aided projects, funded by international organizations like the World Bank, Asian Development Bank, and United Nations agencies. These projects focus on various sectors, such as infrastructure, health, education, and environment, and provide States with additional resources for their development initiatives.

3.6 Trends in Revenue Receipts

Revenue receipts form a significant part of the State finances in India, including Nagaland. This section discusses the trends in revenue receipts for Nagaland, covering various sources such as tax revenue, non-tax revenue, and Central transfers.

Tax revenue: Tax revenue constitutes a significant portion of Nagaland's revenue receipts. Over the years, the State's tax revenue has witnessed changes due to factors such as economic growth, tax reforms, and changes in the tax-sharing mechanism between the Central and State governments. The introduction of the Goods and Services Tax (GST) has had a significant impact on Nagaland's tax revenue, streamlining the indirect tax system and improving revenue mobilization. Furthermore, changes in Nagaland's share in Central tax transfers, as recommended by different Finance Commissions, have influenced the State's overall tax revenue receipts.

Non-tax revenue: Non-tax revenue is another essential component of Nagaland's revenue receipt. These revenues are generated from various sources such as fees, fines, and royalties from the exploitation of natural resources. Over time, the State has made efforts to diversify its non-tax revenue base and improve revenue collection from these sources. The performance of non-tax revenue sources depends on factors such as administrative efficiency, economic activity, and natural resource management.

Central transfers: Central transfers, including tax devolution and grants-in-aid, form a crucial part of Nagaland's revenue receipts. Over the years, the State has received significant Central transfers to finance its development needs and address fiscal imbalances. The recommendations of different Finance Commissions have influenced Nagaland's share in Central tax transfers and grants-in-aid allocations, affecting the State's overall revenue receipts. Additionally, Nagaland's Special Category Status has entitled the State to preferential treatment in Central transfers and higher grants for developmental activities.

Externally aided projects: Nagaland has also received financial assistance through externally aided projects funded by international organizations such as the World Bank, Asian Development Bank, and United Nations agencies. These projects focus on various sectors, such as infrastructure, health, education, and environment, providing the State with additional resources for its development initiatives. The inflow of funds from externally aided projects has played a role in shaping Nagaland's revenue receipts and financial capacity to address its development needs.

3.7 Composition of Public Expenditure

Public expenditure plays a vital role in shaping the development landscape of Indian States, including Nagaland. This section discusses the composition of public expenditure in Nagaland, highlighting various expenditure components such as developmental and non-developmental spending, and sectoral allocations.

Developmental and non-developmental expenditure: Public expenditure in Nagaland can be broadly classified into developmental and non-developmental spending. Developmental expenditure focuses on promoting socio-economic development through investments in sectors such as education, health, infrastructure, and social welfare. Non-developmental expenditure includes spending on administrative functions, interest payments, and subsidies. The balance between developmental and non-developmental expenditure is crucial for ensuring effective resource allocation and addressing the State's development needs.

Plan and non-plan expenditure: Another classification of public expenditure in Nagaland is based on plan and non-plan spending. Plan expenditure refers to spending on projects and programs outlined in the State's Five-Year Plans or Annual Plans, focusing on socio-economic development. Non-plan expenditure covers spending on items not included in the plans, such as salaries, pensions, and interest payments. The distribution of resources between plan and non-plan expenditure influences Nagaland's ability to address its development priorities and manage its fiscal obligations.

Sectoral allocations: The composition of public expenditure in Nagaland is also characterized by sectoral allocations, which determine the resources allocated to various sectors such as education, health, infrastructure, agriculture, and social welfare. These allocations are crucial for addressing the State's development needs and achieving its socio-economic objectives. Over the years, the sectoral allocation of resources in Nagaland has been influenced by factors such as the State's development priorities, Central transfers, and the availability of financial resources.

Centrally Sponsored Schemes (CSS): Centrally Sponsored Schemes play a significant role in shaping Nagaland's public expenditure, as they provide financial resources for developmental activities in various sectors. While CSS funding supports Nagaland's development initiatives, it can also influence the State's expenditure priorities and fiscal autonomy, as the Central government often determines the sectoral allocation and implementation guidelines for these schemes.

Debt servicing and interest payments: A substantial portion of Nagaland's public expenditure is dedicated to debt servicing and interest payments. The State's fiscal health and debt management practices influence its expenditure composition, as higher debt servicing costs can constrain the resources available for developmental spending.

3.8 Fiscal Deficit: Causes and Consequences

Fiscal deficit is a critical indicator of a State's fiscal health, including Nagaland. This section discusses the causes and consequences of fiscal deficit, highlighting their implications for Nagaland's State finances.

Causes of Fiscal Deficit:

Revenue shortfall: One of the primary causes of fiscal deficit is a shortfall in revenue receipts, which can arise from factors such as economic slowdown, tax evasion, and inefficient tax administration. For Nagaland, fluctuations in tax revenue and non-tax revenue, as well as changes in Central transfers, can impact the State's revenue receipts and contribute to fiscal deficit.

High public expenditure: Another significant cause of fiscal deficit is high public expenditure. This can result from increased spending on development projects, social welfare schemes, and administrative expenses. In Nagaland, factors such as the implementation of Centrally Sponsored Schemes, rising salary and pension costs, and increased spending on infrastructure development can contribute to higher public expenditure and fiscal deficit.

Debt servicing and interest payments: Nagaland's fiscal deficit can also be influenced by its debt servicing and interest payment obligations. A rising debt burden can lead to higher interest payments and debt servicing costs, straining the State's fiscal resources and contributing to fiscal deficit.

Consequences of Fiscal Deficit:

Borrowing and debt accumulation: To finance a fiscal deficit, States often resort to borrowing, which can lead to the accumulation of debt. In Nagaland, persistent fiscal deficits can result in a rising debt burden, constraining the State's fiscal space and limiting its ability to invest in development projects and social welfare schemes.

Inflationary pressures: Fiscal deficits can also contribute to inflationary pressures, as increased government borrowing and spending can lead to a rise in aggregate demand and higher inflation. This can have negative consequences for Nagaland's economy, affecting the purchasing power of its residents and potentially slowing down economic growth.

Crowding out of private investment: High fiscal deficits can result in the crowding out of private investment, as government borrowing can increase interest rates and reduce the availability of funds for the private sector. This can hinder economic growth and job creation in Nagaland, as the private sector plays a crucial role in driving development and generating employment opportunities.

Fiscal sustainability: Persistent fiscal deficits can raise concerns about a State's fiscal sustainability, as high debt levels and interest payments can strain the State's financial resources and hinder its ability to meet its development objectives. For Nagaland, maintaining fiscal sustainability is crucial to ensure that the State can continue to invest in essential sectors and address its unique development challenges.

3.9 Intergovernmental Fiscal Transfers and Fiscal Autonomy

Intergovernmental fiscal transfers and fiscal autonomy are essential aspects of fiscal federalism in India, including Nagaland. This section discusses the relationship between intergovernmental fiscal transfers and fiscal autonomy, highlighting their implications for Nagaland's State finances.

Intergovernmental fiscal transfers: Intergovernmental fiscal transfers are the financial resources transferred from the Central government to State governments to finance their expenditure requirements and address fiscal imbalances. These transfers include tax devolution, grants-in-aid, and funding for Centrally Sponsored Schemes (CSS). In Nagaland, intergovernmental fiscal transfers play a crucial role in supporting the State's finances, particularly due to its Special Category Status, which entitles the State to preferential treatment in Central transfers and higher grants for developmental activities.

Fiscal autonomy: Fiscal autonomy refers to the ability of a State government to make independent decisions regarding its revenue generation and expenditure policies. Fiscal autonomy is an essential aspect of federalism, as it allows State governments to design and implement policies tailored to their unique needs and development priorities. However, the degree of fiscal autonomy in Indian States, including Nagaland, can be constrained by factors such as Central transfers, tax-sharing mechanisms, and the implementation of Centrally Sponsored Schemes.

Intergovernmental fiscal transfers and fiscal autonomy: While intergovernmental fiscal transfers are crucial for supporting Nagaland's State finances and addressing its development needs, they can also influence the State's fiscal autonomy. For instance, the allocation of Central transfers and the implementation of Centrally Sponsored Schemes can impact Nagaland's expenditure priorities, as the Central government often determines the sectoral allocation and implementation guidelines for these schemes. Additionally, changes in the tax-sharing mechanism between the Central and State governments, as recommended by different Finance Commissions, can affect Nagaland's share in Central tax transfers and influence its revenue generation capacity.

Balancing fiscal transfers and autonomy: Achieving a balance between intergovernmental fiscal transfers and fiscal autonomy is crucial for ensuring effective resource allocation and promoting sustainable development in Nagaland. This balance can be achieved by designing appropriate fiscal policies and intergovernmental transfer mechanisms that provide adequate financial resources to the State while allowing it the flexibility to make independent decisions regarding its revenue and expenditure priorities.

The relationship between intergovernmental fiscal transfers and fiscal autonomy is a critical aspect of fiscal federalism in India, with significant implications for Nagaland's State finances. Understanding this relationship is essential for comprehending the fiscal landscape and policy priorities in Nagaland, as it provides insights into the

State's resource allocation and development strategy. This knowledge can help policymakers design effective fiscal policies and intergovernmental transfer mechanisms that strike the right balance between fiscal transfers and autonomy, promoting sustainable growth and socio-economic development in the State.

3.10 Historical Background and Socio-Economic Profile of Nagaland

The historical background and socio-economic profile of Nagaland provide a rich and diverse context for understanding the intricacies of the State's economy. The landlocked State is situated in the Northeastern part of India. The Nagas are an Indigenous people whose ancestral territory extends across Indian States of Assam, Arunachal Pradesh, Manipur, and shares its international border with Myanmar. Historically, the region was inhabited by a multitude of tribal communities, each with its own unique customs, traditions, and languages. Before the arrival of the British in the 1830s, the Nagas had limited external interactions, except for cultural exchanges with the ruling Ahom dynasty in Assam. The British entered the Naga Hills following the signing the Treaty of Yandabo with Myanmar (Burma) in 1826, which brought Manipur, Assam, and the Jaintia Hills under British India's jurisdiction. In response to continuous raids by Naga groups on Assamese villages and tea plantations in 1851, the British carried out retaliatory actions, eventually gaining control over Naga territories. In 1918, the Nagas established the Naga Club, marking the emergence of their first political organization. In 1929, the club submitted a memorandum to the Simon Commission, requesting that the Nagas remain under British control and be excluded from proposed changes to the Indian Constitution. By 1946, the Naga resistance movement had evolved into the Naga National Council (NNC), demanding independence based on their unique history, cultural practices, and values. However, the Indian government, inheriting the colonial power of the British, rejected Naga's plea. The demand for a sovereign Naga homeland intensified after the Indian government initiated military operations in the early 1950s. Finally, in 1963, Nagaland was declared the 16th state of the Indian Union. In 1963, Nagaland was carved out of the Naga Hills areas of Assam and the North Eastern Frontier Agency (NEFA), becoming the 16th state of the Indian Union (Nagaland State Human Development Report 2016). The State comprises of 16 administrative districts, namely Chumukidema, Dimapur, Kiphire, Kohima, Longleng, Mokokchung, Mon, Niuland, Noklak, Peren, Phek, Shamator, Tseminyu, Tuensang, Wokha, and Zunheboto, with a total of 144 sub-divisions, 26 towns, and 1,428 villages according to the 2011 Census.

The Nagas belong to various multi-ethnic groups and sub-groups, each with its distinct language and clearly defined ethnic territory. Although they do not share a common language or dialect, they share similar cultures and traditions. Nagaland is a mountainous state located between 25°10’ N and 27°4’ N latitude and 93°20’ E and 95°15’ E longitude, characterized by the Barail and Patkai hill ranges. In Nagaland, there are 17 Naga tribes, namely Angami, Ao, Chakhesang, Chang, Kachari, Khiamniungan, Konyak, Kuki, Lotha, Phom, Pochury, Rengma, Sangtam, Sumi, Tikhir, Yimkhiung, Zeliang, and numerous sub-tribes (People & Culture, Government of Nagaland). Agriculture plays a central role in Naga life, with their rituals, ceremonies, and festivals closely associated with different aspects of farming. Each Naga individual has the potential for artistic expression, with men focusing on activities such as house construction, metalwork, basketry, and woodcarving. At the same time, women excel in tattooing, pottery, and textile weaving. Skilled artisans are called upon to create intricate textile designs, craft weapons and ornaments, and undertake large-scale village tasks such as building Morungs (men's dormitories), village gates, and carving log drums.

A political pact between the Centre and the Naga leaders resulted in Nagaland becoming the 16th State of the India Union in 1963. As a result, the State is now included in a distinct and special category under Article 371 of the Indian Constitution (A). This is being done to protect the Nagas' culture, heritage, and way of life. The State has a unique personality that can be seen in its social makeup and its growth history. Despite possessing a wealth of natural resources, the area lags behind other sections of the nation regarding economic and industrial development. A lack of investments in direct economic activity and infrastructure mainly causes this.

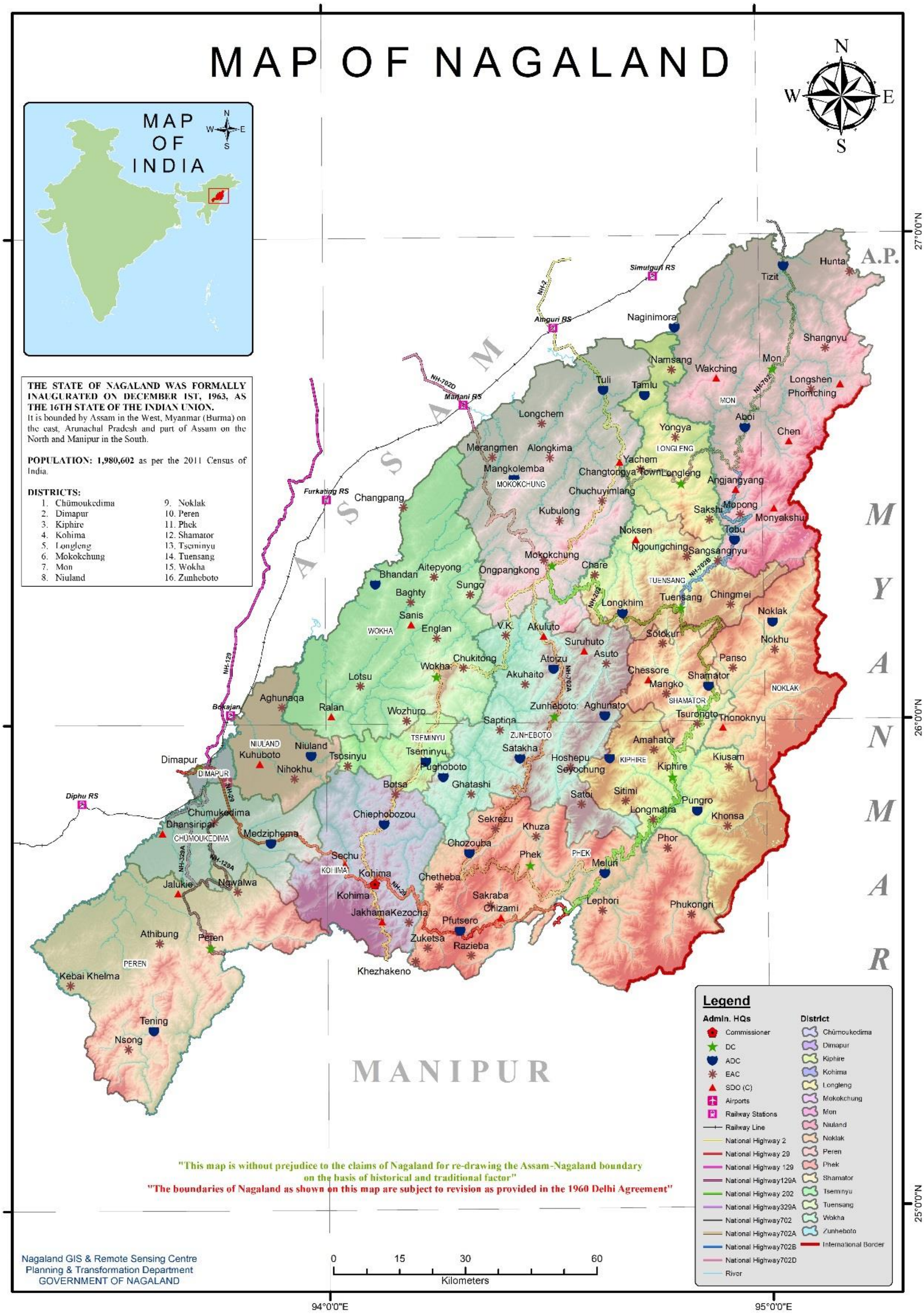
Any State's financial situation is influenced by its structural complexity and level of development. The State finances of Nagaland reflect its relative backwardness among Indian States to a large extent. One of the poorest States in India is Nagaland. Except for Rajasthan and Bihar, the State's per capita income in 1994–1995 was ₹ 5157, the lowest of all the central Indian States. Rural areas are home to a substantial portion of the State's inhabitants, who mainly depend on agricultural pursuits. The agricultural sector provides a living for more than 70 percent of the people. Although the State relies heavily on agriculture, this industry is undeveloped. Nagaland's agriculture is undeveloped for several reasons, including inadequate irrigation systems, poor fertilizer, and other input use, a lack of institutional assistance, and, most importantly, traditional farming. Due to the State's severe employment and industrialization gaps, many workers migrate to other industrial regions.

Nagaland is abundant in productive elements and resources and has a large area of agriculture. The State's intrinsic structural backwardness reflects the cohabitation of abundant resources and persistent poverty. The structural limits that impede development are especially obvious in the State's budgetary policies. In this context, examining Nagaland's State finances is necessary to comprehend the budgetary shortcomings. As previously Stated, the sovereignty of Indian States regarding earning income and borrowing capabilities is limited. Because Nagaland is a low-income State, its place in India's federal system is of great interest. How progressive are the Central transfers to Nagaland? It is necessary to assess if such resource transfers have aided the State's growth. Another aspect of Nagaland's State finances that requires examination is the degree of Revenue mobilization.

People in the State are more dependent on public services of a fundamental character due to the low level of per capita income in the State. Therefore, the structure of expenditures must be skewed toward spending more on social sectors. Government spending in the productive sectors is also crucial for expanding the State economy, even if spending in the social sectors is equally crucial. An impoverished State like Nagaland needs enough money to invest in economic areas and offer public services. For a considerable time, Nagaland's State finances could have been better. The State's fiscal policies have led to expanding deficits and significant debt.

To properly comprehend Nagaland's State finances, it is necessary to investigate and analyze broad budgetary characteristics such as tax and non-tax income, State borrowings from various sources, and expenditure patterns. Nagaland is one of India's poorest States, with a particular inherent difficulty in earning appropriate tax and non-tax income. Earlier studies suggest that the State's tax effort is among the lowest among Indian States. A study of tax efforts must include a look at the State's taxes and their associated bases. It is also vital to examine if the buoyancy and elasticity of individual taxes align with the recent growth in the State's GSDP. Nagaland, like other Indian States, used discretionary techniques to raise more funds.

Figure 3.1: Map of Nagaland



In terms of expenditure patterns, the State's expenditure has been expanding substantially faster since 1990-91, resulting in mounting financial deficits. It is necessary to investigate how well the State's financial resources sustain the recent increases in government spending. Such an examination would shed light on the State's reliance on central transfers and rising borrowings. There is also a necessity to comprehend the budget's capital account transfer. As in other States, Nagaland's public investment in critical areas of the State's economy has been dropping for quite some time. The State's debt situation is critical because interest payments take Centre stage in the revenue account of the State's budget. The more the debt, the less freedom the State has in managing its budget.

In the current study, an effort is made to assess Nagaland's State finances in terms of the State's income resources, expenditure pattern and fiscal deficit. During the period of 1995-96 to 2019-20, the socio-economic dynamics of Nagaland witnessed considerable transformations. The State's population, according to the 2011 census, stands at 19.8 lakh, with a decadal growth rate of 13.79 percent from 2001 to 2011. Nagaland's population is predominantly rural, with 71.14 percent residing in rural areas. The State's literacy rate of 80.11 percent (2011 census) surpasses the national average, reflecting the emphasis placed on education as a means of social and economic development.

Agriculture is the mainstay of Nagaland's economy, employing approximately 70 percent of the workforce. The State's unique topography, characterized by hilly terrain and narrow valleys, leads to predominantly subsistence agriculture, with shifting cultivation (also known as Jhum) practiced by a majority of the rural population. Over the years, the State government has implemented various initiatives to promote sustainable agricultural practices and enhance productivity. Some key crops grown in the region include rice, maize, millet, pulses, and oilseeds.

The industrial sector in Nagaland is relatively underdeveloped due to factors such as limited infrastructure, poor connectivity, and a lack of skilled labor. However, efforts have been made to encourage the growth of micro, small, and medium enterprises (MSMEs), particularly in the areas of food processing, handloom, handicrafts, and tourism. The State's rich cultural heritage, coupled with its scenic beauty, offers immense potential for the development of a thriving tourism industry.

Between 1995-96 and 2019-20, Nagaland experienced varying degrees of economic growth, with real Gross State Domestic Product (GSDP) growth rates ranging from 3.3 percent in 1995-96 to 15.3 percent in 2007-08. The State's economy is largely dependent on financial transfers from the central government, with own tax and non-tax revenues contributing a relatively small proportion to the State's total revenue.

Thus, the historical background and socio-economic profile of Nagaland provide crucial insights into the unique challenges and opportunities faced by the State. The reliance on agriculture, limited industrial development, and financial dependency on the central government necessitate a thorough examination of State finances and the formulation of effective strategies for sustainable economic growth in the region.

3.11 Demographic and Social Indicators

Demographic and social indicators are crucial for understanding the socio-economic landscape of a region, as they provide insights into the population's size, structure, and well-being. This section delves into some of the key demographic and social indicators of Nagaland, offering a comprehensive overview of the State's socio-economic profile.

Population: As per the 2011 Census, Nagaland's population stood at 19.8 lakh, making it one of the smallest States in India by population, where 71.14 percent reside in rural areas and 28.86 percent in urban areas. The State experienced a decadal growth rate of 13.79 percent from 2001 to 2011, which is lower than the national average of 17.64 percent during the same period.

Sex Ratio: The sex ratio in Nagaland is 931 females per 1,000 males, according to the 2011 Census. This figure is lower than the national average of 943 females per 1,000 males, indicating a gender disparity in the State.

Age Structure: Nagaland has a relatively young population, with around 37.8 percent of the population under the age of 15, as per the 2011 Census. This demographic structure has significant implications for the State's economy, particularly in terms of labor force participation and social services demand.

Literacy Rate: The literacy rate in Nagaland is 79.55 percent (2011 Census), which is higher than the National average of 72.98 percent. This indicates the State's emphasis on education as a means of social and economic development. The male literacy rate is 82.75 percent, while the female literacy rate is 76.11 percent. However, there are still disparities among districts, with Mokokchung district recording the highest literacy rate at 91.62 percent and Mon district having a rate of 56.99 percent, showing a limited increase over the decade.

Table 3.1: Demographic Profile of Nagaland

Particulars	**2011**
Total Population	1978502
Male	1024649
Female	953853
Rural Population (%)	71.14
Urban Population (%)	28.86
Sex Ration (female per 1000 males)	931
Density of Population (per sq. km)	119
Literacy Rate (%)	79.55
Literacy Rate: Male (%)	82.75
Literacy Rate: Female (%)	76.11
Percentage of Workers (5)	49.24

Source: Statistical Handbook, Directorate of Economics and Statistics, Nagaland.

Health: The State has made considerable strides in improving its health indicators. As per the National Family Health Survey-4 (2015-16), Nagaland's infant mortality rate (IMR) is 12 per 1,000 live births, which is lower than the national average of 41. The maternal mortality ratio (MMR) is 179 per 100,000 live births, which is slightly higher than the national average of 178.

Poverty: Nagaland has made significant progress in poverty reduction over the years. As per the Planning Commission's data, the poverty headcount ratio for the State declined from 32.67 percent in 2004-05 to 18.88 percent in 2011-12. Despite this progress, the State still faces challenges in terms of income distribution and economic opportunities.

Social Infrastructure: Access to essential services, such as education and healthcare, is vital for human development. In Nagaland, the government has invested in the development of social infrastructure, including the establishment of schools, colleges, and hospitals. However, the State still faces challenges in terms of access to quality healthcare services, particularly in rural areas, where a majority of the population resides.

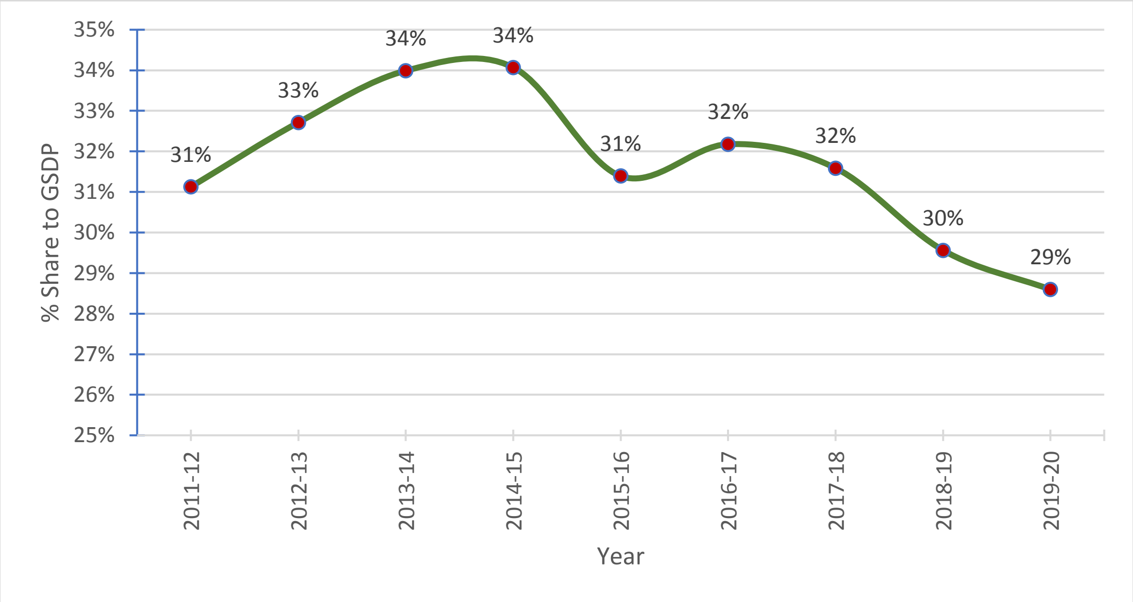
The demographic and social indicators of Nagaland highlight the State's strengths and challenges in terms of population dynamics, education, health, and social infrastructure. A better understanding of these factors is essential for designing effective policies and strategies to foster inclusive and sustainable development in the State.

3.12 Economic Structure and Growth Trends

The economic structure of Nagaland and its growth trends over the period from 2011-12 to 2019-20 reflect the State's evolving economic landscape, which has been shaped by various factors such as geographical constraints, the predominance of agriculture, and reliance on central government financial support. This section presents an overview of the key components of Nagaland's economy and the growth trends observed during the specified period.

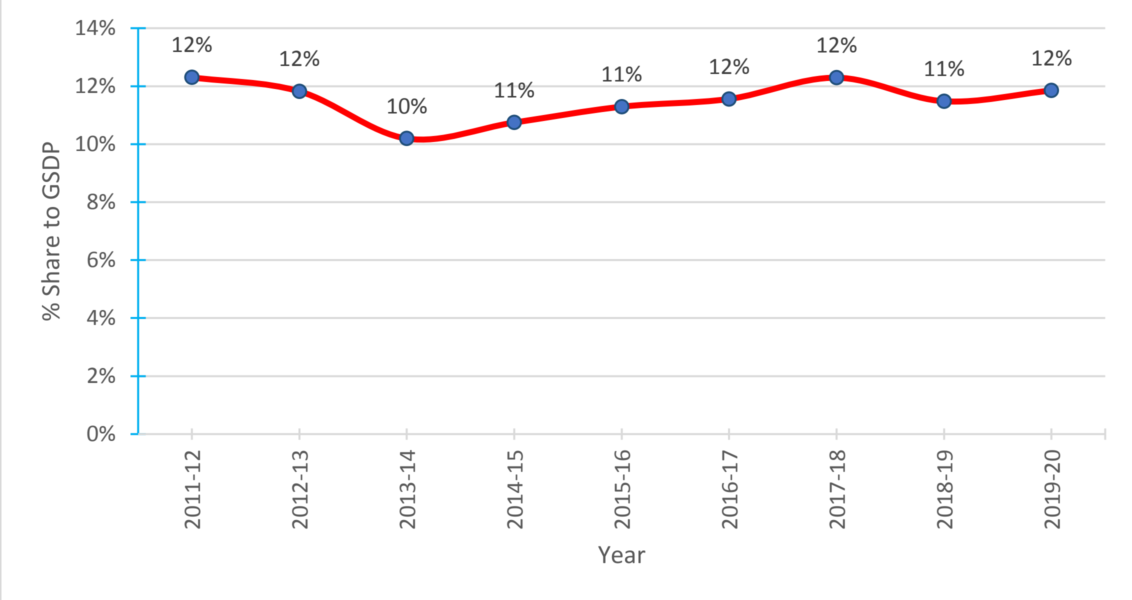
Primary Sector: The primary sector, comprising agriculture, forestry, and fishing, has been the backbone of Nagaland's economy. As of 2019-20, it accounted for approximately 30 percent of the State's Gross State Domestic Product (GSDP) at constant prices. Agriculture is the principal occupation, employing around 70 percent of the workforce, with the majority engaged in subsistence farming and shifting cultivation. Over the years, the State has taken measures to promote sustainable agricultural practices, diversify crop production, and enhance productivity.

Figure 3.2: Percentage share of Primary Sector to GSDP



Secondary Sector: The secondary sector, which includes industries, manufacturing, construction, and utilities, has historically been underdeveloped in Nagaland, due to factors such as limited infrastructure, poor connectivity, and a lack of skilled labor. However, the State has made efforts to promote micro, small, and medium enterprises (MSMEs) in niche areas such as food processing, handloom, handicrafts, and tourism. As of 2019-20, the secondary sector contributed approximately 17 percent to the State's GSDP at constant prices.

Figure 3.3: Percentage share of Secondary Sector to GSDP

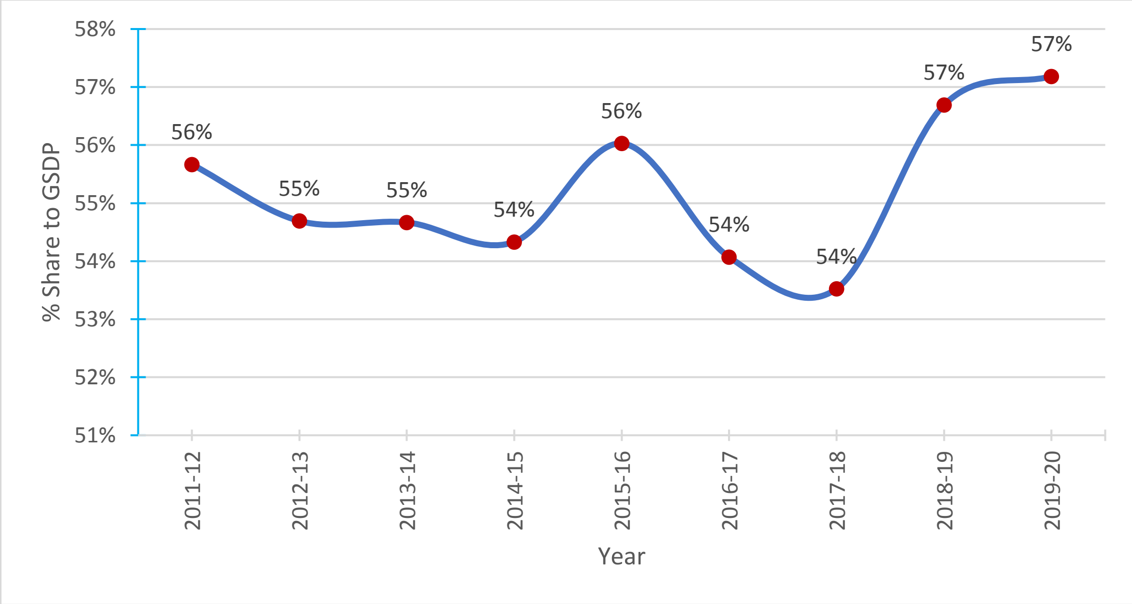


Tertiary Sector: The tertiary or service sector has emerged as the fastest-growing sector in Nagaland's economy, accounting for around 53 percent of the GSDP at constant prices in 2019-20. This sector includes activities such as trade, transport, financial services, real estate, public administration, and other services. The growth of the service sector can be attributed to the expansion of government services, the rise in tourism, and the increasing demand for professional and financial services.

Growth Trends: Over the period from 2011-12 to 2019-20, Nagaland experienced varying degrees of economic growth. The State's economy has demonstrated a structural shift, with the service sector emerging as the largest contributor to GSDP, followed by the primary and secondary sectors. However, Nagaland's growth has been largely dependent on Central government transfers, with own-tax and non-tax revenues contributing a relatively small proportion to the State's total revenue.

The economic structure and growth trends of Nagaland reveal the opportunities and challenges faced by the State in its quest for sustainable economic development. To foster growth and reduce dependency on central government finances, the State must focus on leveraging its strengths, such as its rich cultural heritage, natural resources, and skilled workforce, while addressing the constraints posed by its geographical location, limited infrastructure, and underdeveloped industrial base.

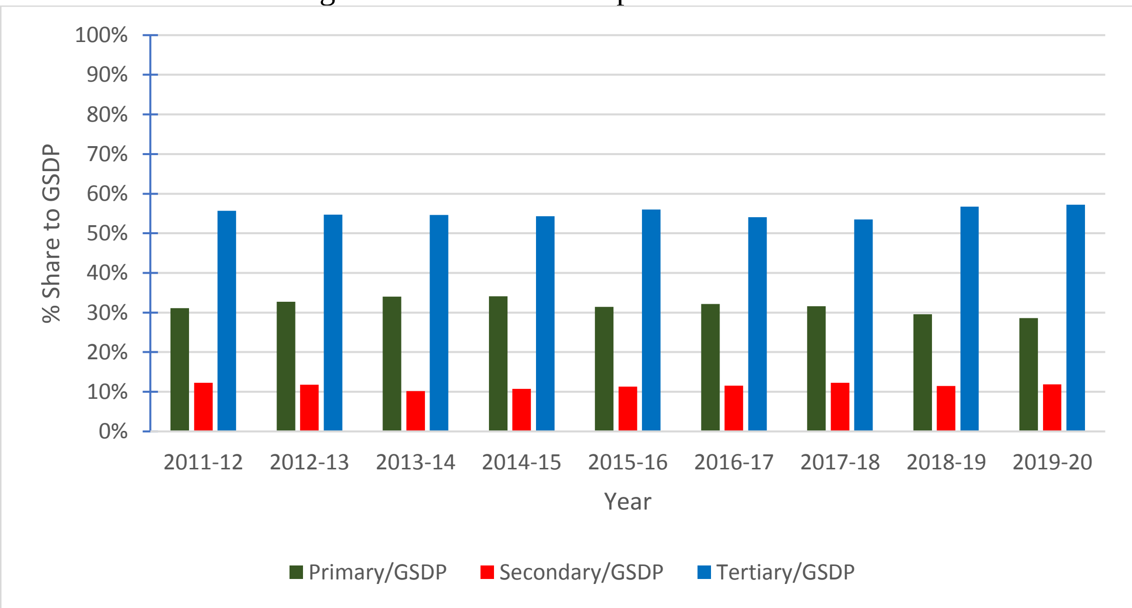
Figure 3.4: Percentage share of Tertiary Sector to GSDP



3.13 Sectoral Composition

An analysis of the sectoral composition of Nagaland's economy provides insights into the relative contributions of different sectors to the Gross State Domestic Product (GSDP) and their roles in driving economic growth. The following sections present an overview of the sectoral composition of Nagaland's economy, highlighting the primary, secondary, and tertiary sectors' contributions during the period from 1995-96 to 2019-20.

Figure 3.5: Sectoral Composition to GSDP



Primary Sector: The primary sector, which encompasses agriculture, forestry, and fishing, has been the mainstay of Nagaland's economy. Although its share in the GSDP has been gradually declining, it still accounted for about 30 percent of the State's GSDP at current prices in 2019-20. The majority of Nagaland's population relies on this sector for their livelihood, with subsistence farming and shifting cultivation being the predominant agricultural practices. Efforts have been made to modernize agriculture and promote sustainable practices to increase productivity and income generation in the sector.

Secondary Sector: The secondary sector, comprising industries, manufacturing, construction, and utilities, has historically lagged behind in Nagaland. Hindered by factors such as poor infrastructure, inadequate connectivity, and a shortage of skilled labor, this sector accounted for around 12 percent of the GSDP at current prices in 2019-20. The State has initiated measures to promote micro, small, and medium enterprises (MSMEs) in specialized areas like food processing, handloom, handicrafts, and tourism. The development of this sector is crucial for generating employment opportunities and promoting economic diversification.

Tertiary Sector: The tertiary or service sector has experienced substantial growth in Nagaland and emerged as the largest contributor to the State's GSDP. In 2019-20, this sector contributed approximately 57 percent to the GSDP at current prices. The growth of the tertiary sector can be attributed to various factors such as the expansion of government services, increased tourism, and a rising demand for professional and financial services. Key sub-sectors within this category include trade, transport, financial services, real estate, public administration, and other services. The service sector's growth has the potential to boost overall economic growth and create employment opportunities, thus enhancing the State's human development outcomes.

The sectoral composition of Nagaland's economy has evolved over the years, with the tertiary sector emerging as the primary driver of economic growth. While the primary sector remains crucial for livelihoods, its relative contribution to GSDP has been declining. The secondary sector presents significant potential for growth, provided that the necessary infrastructure and skill development initiatives are undertaken. A balanced growth strategy that capitalizes on the strengths of each sector and addresses their unique challenges is vital for ensuring inclusive and sustainable development in Nagaland.

3.14 Development Challenges and Opportunities

Nagaland, despite its potential and strengths, faces several development challenges that must be addressed to ensure sustainable and inclusive growth. Conversely, the State also possesses numerous opportunities that can be harnessed for economic development. This section outlines some of the key challenges and opportunities faced by Nagaland during the period from 1995-96 to 2019-20.

Challenges:

Geographical Constraints: The hilly terrain and remote location of Nagaland pose significant challenges to infrastructural development, connectivity, and accessibility to markets. This results in higher transportation costs, limited industrial growth, and restricted economic opportunities.

Agriculture Dependence: With around 70 percent of the workforce engaged in agriculture, the State's economy is heavily dependent on this sector. Shifting cultivation and subsistence farming practices have led to low productivity, land degradation, and environmental challenges.

Limited Industrial Development: Nagaland's industrial sector is underdeveloped, primarily due to inadequate infrastructure, poor connectivity, and a shortage of skilled labor. This limits the State's ability to create employment opportunities, diversify its economy, and enhance its revenue generation capabilities.

Financial Dependency: The State's economy relies heavily on financial transfers from the central government, with its own tax and non-tax revenues contributing a relatively small proportion to the State's total revenue. This dependency can impede the State's ability to make autonomous decisions on resource allocation and development priorities.

Social Infrastructure: Despite progress in education and healthcare, Nagaland still faces challenges in providing equitable access to quality services, particularly in rural areas. Improving social infrastructure is crucial for enhancing human development outcomes and fostering inclusive growth.

Opportunities:

Cultural Heritage and Tourism: Nagaland's rich cultural heritage, coupled with its scenic beauty, presents a significant opportunity for developing a thriving tourism industry. By investing in tourism infrastructure and promoting the State's unique attractions, Nagaland can create employment opportunities, generate revenue, and spur economic growth.

Sustainable Agriculture and Horticulture: The State has the potential to enhance agricultural productivity by adopting sustainable practices, diversifying crop production, and promoting the cultivation of high-value crops like spices, fruits, and medicinal plants. This could improve farmers' income, conserve the environment, and ensure food security.

Skill Development and Entrepreneurship: Focusing on skill development and promoting entrepreneurship can help create employment opportunities and reduce the State's reliance on agriculture. By capitalizing on local resources and skills, Nagaland can foster the growth of MSMEs in sectors like handicrafts, handloom, and food processing.

Infrastructure Development: Investing in infrastructure, including roads, power, and connectivity, can create a conducive environment for industrial growth and economic diversification. This would facilitate access to markets, attract private investment, and improve the State's overall competitiveness.

Leveraging Information Technology (IT) and Digital Connectivity: Developing the IT sector and enhancing digital connectivity can help Nagaland overcome its geographical constraints, create job opportunities, and improve the delivery of public services.

Addressing the development challenges and capitalizing on the opportunities available in Nagaland requires concerted efforts from the State and central governments, as well as the private sector and local communities. A balanced, inclusive, and sustainable development strategy that takes into account the unique socio-economic and cultural context of the State is crucial for fostering growth and improving the quality of life for its residents.

3.15 Major Fiscal Policy Reforms and Their Impact

Over the years, Nagaland has undertaken several fiscal policy reforms to enhance revenue mobilization, streamline expenditure management, and improve overall fiscal health. This section highlights some of the major fiscal policy reforms implemented during the period from 1995-96 to 2019-20 and discusses their impact on the State's finances.

Value Added Tax (VAT): In 2005, Nagaland, along with other Indian States, introduced the Value Added Tax (VAT) to replace the sales tax system. VAT aimed to streamline the tax regime, reduce tax evasion, and improve revenue collection. The implementation of VAT led to a significant increase in the State's tax revenue and enhanced the efficiency of the tax administration.

Fiscal Responsibility and Budget Management (FRBM) Act: Nagaland adopted the FRBM Act in 2005, which mandated the State government to maintain fiscal discipline by setting targets for deficit reduction, revenue generation, and expenditure management. The Act has contributed to improved fiscal management in the State, leading to a reduction in fiscal deficits and a more prudent allocation of resources.

Goods and Services Tax (GST): Implemented in 2017, GST replaced multiple indirect taxes, including VAT, with a single, unified tax system. This reform aimed to simplify the tax structure, reduce the cascading effect of taxes, and improve tax compliance. The introduction of GST led to an increase in Nagaland's tax revenue and eased the tax compliance burden for businesses. However, the State faced some challenges in the initial stages of implementation, such as technical glitches, and a decline in revenue collection from certain sectors.

Central Finance Commissions: The recommendations of the successive Finance Commissions, particularly the 13th, 14th, and 15th Finance Commissions, have had a significant impact on the fiscal landscape of Nagaland. These commissions have increased the devolution of central taxes to States, enabling Nagaland to receive a higher share of central tax revenues. Additionally, they have provided grants for local bodies, disaster management, and various development projects, thereby augmenting the State's finances.

Public Financial Management Reforms: Nagaland has undertaken various public financial management reforms to enhance transparency, accountability, and efficiency in the management of public finances. These include the adoption of a Medium-Term Fiscal Framework (MTFF), performance-based budgeting, and the implementation of an Integrated Financial Management System (IFMS). These reforms have contributed to better fiscal planning, improved expenditure control, and more effective allocation of resources.

The impact of these fiscal policy reforms on Nagaland's finances has been substantial, leading to improved revenue mobilization, enhanced fiscal discipline, and more efficient allocation of resources. However, the State still faces challenges in terms of fiscal sustainability, particularly due to its reliance on central government transfers and the limited scope for expanding its own revenue base. Addressing these challenges and further strengthening fiscal management will be crucial for ensuring the State's long-term financial stability and fostering inclusive and sustainable economic growth.

3.16 Comparison with Other Indian States

A comparative analysis of Nagaland's economic performance, development indicators, and fiscal situation with other Indian States provides valuable insights into the State's relative strengths and weaknesses. The following sections briefly discuss some key parameters on which Nagaland can be compared to other States in India.

Economic Growth: Nagaland's growth performance has been quite varied during the period from 1995-96 to 2019-20, with real GSDP growth rates ranging from 3.5 percent to 24.0 percent. While the State has experienced phases of high growth, its overall performance has been relatively lower compared to other fast-growing States like Gujarat, Maharashtra, and Tamil Nadu. Moreover, Nagaland's growth has been largely driven by Central government transfers rather than internally generated revenue.

Per Capita Income: Nagaland's per capita income has improved over the years, but it still remains lower than the National average. As of 2019-20, the State's per capita GSDP at current prices was considerably lower than that of States like Haryana, Kerala, and Punjab, which boast some of the highest per capita incomes in India. This disparity indicates that there is substantial scope for improvement in the State's economic performance and living standards.

Human Development Indicators: Nagaland has made significant strides in improving its human development indicators, such as literacy rate and life expectancy, which are comparable to or even better than the national average. However, the State lags behind in other indicators like access to quality healthcare and education, particularly in rural areas, when compared to States like Kerala and Himachal Pradesh, which have excelled in social development.

Fiscal Situation: Nagaland's fiscal situation is characterized by its heavy reliance on Central government transfers, with its Own-Tax and Non-Tax revenues contributing a relatively small proportion to the State's total revenue. This dependency is higher compared to more fiscally self-reliant States like Maharashtra, Tamil Nadu, and Karnataka. Additionally, the State's fiscal deficits have been relatively higher than the prescribed targets under the FRBM Act, indicating a need for improved fiscal discipline.

When compared to other Indian States, Nagaland faces several challenges in terms of economic growth, per capita income, and fiscal sustainability. However, the State also demonstrates strengths in some areas of human development. Addressing the existing challenges and building on its strengths will be crucial for Nagaland to enhance its relative performance and achieve inclusive and sustainable development. A comprehensive and targeted development strategy that considers the State's unique socio-economic context is essential to overcome these challenges and fully realize its potential.

3.17 Conclusion

This chapter has provided a comprehensive overview of Nagaland's economy during the period from 1995-96 to 2019-20, examining its historical background, socio-economic profile, demographic and social indicators, economic structure, growth trends, sectoral composition, development challenges and opportunities, fiscal policy reforms, and comparison with other Indian States.

The historical and socio-economic context of Nagaland highlights the unique challenges faced by the State, particularly those stemming from its geographical constraints, political history, and cultural diversity. The demographic and social indicators reveal progress in areas such as literacy rate and life expectancy; however, there is still room for improvement in access to quality healthcare and education, especially in rural areas.

An analysis of Nagaland's economic structure and growth trends emphasizes the importance of the primary sector, particularly agriculture, while also highlighting the growing prominence of the tertiary sector. Although the secondary sector remains underdeveloped, it presents significant potential for growth and diversification. The sectoral composition of Nagaland's economy reflects the ongoing structural shift, with the service sector emerging as the largest contributor to GSDP, followed by the primary and secondary sectors.

Nagaland's development challenges include geographical constraints, agriculture dependence, limited industrial development, financial dependency, and inadequate social infrastructure. However, the State also possesses several opportunities, such as its rich cultural heritage, potential for sustainable agriculture and horticulture, skill development and entrepreneurship, infrastructure development, and leveraging information technology.

Fiscal policy reforms, such as the introduction of VAT, the FRBM Act, GST, recommendations of Central Finance Commissions, and public financial management reforms, have significantly impacted Nagaland's finances, leading to improved revenue mobilization, enhanced fiscal discipline, and more efficient allocation of resources. Nonetheless, the State continues to face challenges in terms of fiscal sustainability due to its reliance on central government transfers and limited scope for expanding its own revenue base.

Comparing Nagaland's performance with other Indian States reveals disparities in economic growth, per capita income, human development indicators, and fiscal situation. While the State has made considerable progress in some areas, there is a need for a more comprehensive and targeted development strategy that addresses its unique socio-economic context and builds on its strengths.

In conclusion, fostering sustainable and inclusive growth in Nagaland requires a multifaceted approach that addresses the State's specific challenges and capitalizes on its unique opportunities. This includes promoting economic diversification, enhancing social infrastructure, strengthening fiscal management, and creating a conducive environment for private investment and entrepreneurship. By adopting a comprehensive and context-sensitive development strategy, Nagaland can work towards achieving its full potential and improving the quality of life for its residents.

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CHAPTER 4

REVENUE MOBILIZATION IN NAGALAND

4.1 Introduction

Revenue generation is of paramount importance to the State, as it is essential to finance the development of the State's infrastructure, healthcare, education, and social welfare programs. It is a key indicator of the economic health of a State, as it reflects the ability of the State to mobilize its resources and effectively manage its finances. A strong revenue base is critical for economic development and poverty reduction, as it enables the State to finance its public services and invest in social and economic infrastructure (World Development Report, 2019). Over the years, the State has witnessed significant changes in its economic structure and revenue sources, which have played a crucial role in determining the overall economic growth of the State. Dutta and Dutta (2015) emphasized on the Government of Assam's attempts to raise revenue from 1991 to 2010. Their study concluded that the State Government's revenue efforts were low based on secondary data and time series regression analysis. Their conclusion emphasizes the importance of strengthening efforts to mobilize revenue for states like Nagaland. The availability of resources for public services and investments can be maintained with a minimal level of revenue effort. Therefore, States must secure appropriate finance for various developmental activities and prioritize and improve their income mobilization tactics. Coondoo et al., (2001) used quantile regression analysis to analyze the tax performance of a few Indian States. Even after accounting for other characteristics, the study, which covered the years 1986–1987 to 1996–1997, showed that States with higher taxable capacity displayed a more remarkable ability to collect tax income proportional to their taxable capacity. In order to generate revenue, their study emphasized the role that a State's taxable capacity plays. Their study revealed that States increase tax revenue if their taxable capacities increase. The results emphasize the importance of concentrating on tactics to increase a State's taxable capacity, like enhancing tax administration, broadening the tax base, and enacting fair tax policies to produce income and efficiently manage fiscal affairs. Panda (2009) examined the incentive effects of federal transfers on States' Own-Revenue in India using fixed and random effect panel regression models. The study concluded that Central transfers hindered States' efforts to raise revenue. The study suggested to consider both the Gadgil formula used by the Planning Commission and the incentive criterion for tax effort utilized in the Finance Commission devolutions. The author recommended giving tax effort more weight in the devolution formula and enhancing collaboration between various channels when creating criteria and incentives.

Nagaland's economy is predominantly dependent on the primary sector, with agriculture and allied activities contributing a significant share to the Gross State Domestic Product (GSDP). However, the State has also witnessed growth in secondary and tertiary sectors, with the manufacturing and services sectors showing promising growth rates. Nagaland has also made strides in sectors such as tourism, handloom and handicrafts, and horticulture, which have the potential to become major sources of revenue.

Despite the State’s efforts to diversify its revenue sources, its dependence on central transfers continues to be significant. As per the RBI’s “State Finances: A Study of Budgets 2020-2021", the share of Central transfers in the State’s Total Revenue Receipts was around 77 percent in 2019-20. This highlights the need for Nagaland to increase its own revenue generation, which will require a careful analysis of its revenue sources and growth patterns.

Therefore, it is essential to analyze the growth and structure of revenue in Nagaland, with a focus on the period between 1995-96 and 2019-20. This study aims to examine the different revenue sources in the State, the trends in revenue growth, and the composition of revenue receipts. The analysis will help to identify the challenges and opportunities for revenue growth and recommend policy measures to enhance revenue generation. This study is expected to provide insights for policy makers and stakeholders in Nagaland to formulate effective policies for sustainable economic growth and development.

State governments in India are the primary funders in several sectors crucial to boosting growth and alleviating poverty. This means that States will need to create a growing amount of revenue to fulfill their rising government spending needs to meet the developmental plan's objectives.

The socio-economic activities carried out inside the economy create the foundation for the government to produce financial resources. For example, States levy an agricultural income tax on agricultural operations, a sales tax on the sale and purchase of products, a stamp duty on real estate transactions, and so on. The States' non-tax revenue is mostly derived from economic activities like as public sector undertakings, interest income, animal husbandry, mining, and user fees for social services, among others. Education, sports, arts and culture, medical and public health, family welfare, water supply and sanitation, housing, urban development, social security and welfare, and other social services provide the majority of non-tax revenue in the form of fees and user charges.

Nagaland's finances are marked by enormous fiscal deficits, which are fueled by high revenue expenditures, low revenue mobilization, and revenue shortfalls, as well as high debt and low capital spending. Enhancing the income collection process through intelligent control of public spending is one of the possible solutions to this fiscal mess. The current study examines the efficiency with which the Government of Nagaland manages Revenue Receipts, with an emphasis on micro-foundation revenue.

It is essential to study the growth rate of the State’s revenue by analyzing the revenue trend and providing a comparative picture of the State government’s efficiency in generating the financial resources. Therefore, the present chapter focuses on examining the revenue performance by estimating the growth rates of the Revenue Receipts. Only Revenue Receipts were examined in order to identify the key contributors of Public Revenue, where Tax Revenue account for 21.10 per cent, Non-Tax Revenue account for 3.36 per cent and Grants-in-Aid from Centre accounted for 75.26 per cent of the State’s total Revenue Receipt during the study period.

4.2 Revenue Sources in Nagaland

Nagaland, a State located in the northeast region of India, has a unique geography and a diverse population, making it a challenging place to govern. In this chapter, we will examine the revenue sources that contribute to the State’s economy and government revenue.

Nagaland's economy is primarily based on agriculture and forestry, with a small industrial sector and a growing tourism industry. The State has a population of around 2 million people, with the majority living in rural areas. The State’s Per Capita Income is below the national average, and poverty and unemployment are major challenges facing the State.

The State government of Nagaland generates revenue from a variety of sources, including Taxes, Grants, and Non-Tax Revenue. According to the "State Finances: A Study of Budgets 2020-2021" report by the Reserve Bank of India, the State’s total revenue receipts were around ₹ 9,077 crores in 2019-20, with taxes and grants accounting for the majority of revenue.

Taxes are a significant source of revenue for the State government, with the major taxes including State excise duty, State sales tax, and State VAT. The State also collects revenue from taxes on vehicles, entertainment, and luxury goods. In addition to these taxes, the State government also levies taxes on land and buildings, stamp duty, and registration fees.

Grants from the central government are another significant source of revenue for Nagaland. As per the Reserve Bank of India report, the share of central transfers in the State's Total Revenue Receipts was around 77 percent in 2019-20. These transfers include grants for various purposes such as local government, health, education, and infrastructure development.

Non-tax revenue sources include revenue from State-owned enterprises, fees for government services, and other miscellaneous revenue sources. State-owned enterprises such as Nagaland State Transport Corporation and Nagaland State Mineral Development Corporation generate revenue through the sale of their products and services. The government also collects fees for various services such as vehicle registration and driver licensing.

The State government has also been exploring ways to diversify its revenue sources, with a particular focus on promoting tourism and encouraging private investment in the State. In recent years, the State has seen an increase in tourism, with attractions such as the Hornbill Festival and the Dzükou Valley attracting visitors from all over the world. Private investment has also been encouraged through policies such as the Nagaland Industrial and Investment Promotion Policy, which aims to attract investment in the State's industrial sector.

Nagaland's economy is primarily based on agriculture and forestry, with a small industrial sector and a growing tourism industry. The State government generates revenue from a variety of sources, including taxes, grants, and non-tax revenue. While taxes and grants account for the majority of revenue, the State government has also been exploring ways to diversify its revenue sources through promoting tourism and encouraging private investment in the State. These efforts may help to boost the State's economy and generate more revenue for the government, which can be used to address the challenges facing the State, such as poverty and unemployment.

The growth and composition of Revenue Receipts are analyzed in the following paragraphs, focusing mainly on some of the significant components. In addition to studying the growth pattern of Tax and Non-Tax Revenue, there is also a need to look at how the different revenue sources contribute to the States' Total Revenue. Within the Tax and Non-Tax Revenue also, various taxes and user charges have their additional share in the whole composition, and this would, in turn, determine the growth of the States' Total Revenue Receipts.

4.2.1 Total Revenue Receipts

The Revenue Receipts of the State government comprise of Tax Revenue, Non-Tax Revenue and the Grants-In-Aid received from the Union government. The State government received major part of revenue from Tax Revenue, therefore interpretation of Tax Revenue collection is important to know the State government fiscal management. To analyze the financial State of the Government of Nagaland, the Revenue Receipts have been interpreted in this chapter in details.

Tax Revenue comprises of:

1. Taxes on Income covering Agricultural Income Tax, Taxes on Professional Trader and Employment,
2. Taxes on Property and Capital Transactions, which broadly include Land Revenue, Stamps and Registration Fees, Taxes on Wealth and Urban Immovable Property,
3. Taxes on Commodities and Services comprising (a) Sales Tax (State Sales Tax/VAT, Central Sales Tax, Sales Tax on Motor, Spirit and Lubricants, Surcharge on Sales Tax, Receipts of Turnover Tax and Other Receipts), (b) State Excise, (c) Taxes on Vehicles, (d) Taxes on Goods And Passengers, (e) Taxes and Duties On Electricity, (f) Entertainment Tax, (g) Other Taxes and Duties.

Non-Tax Revenue includes:

1. Interest Receipts, Dividends and Profits, and User Charges from General, Social, and Economic Services.
2. User's costs from General Services constitute charges received from - Public Service Commission, Police, Jails, Stationery and Printing, Public Works, Other Administrative Services, Contributions and Recoveries Towards Pension and Other Retirement Benefits, And Miscellaneous General Services.

3. User charges from Social Services consist of Education, Sports, Arts and Culture, Medical and Public Health, Family Welfare, Housing, Urban Development, Labor and Employment, Social Security and Welfare, Water Supply and Sanitation.
4. Economic Services include Crop and Animal Husbandry, Fisheries, Forestry and Wildlife, Plantations, Co-Operatives, Other Agricultural Produces, Major and Medium Irrigation Projects, Minor Irrigations, Power, Petroleum, Village and Small Industries, Industries, Port and Lighthouses, Road Transport, And Tourism.

The analysis of the growth of Revenue Receipts for the period 1995-96 to 2019-20 is presented in Table 4.1. During the research period, the examination of the State's overall Revenue Receipts revealed a growing tendency. Revenue Receipts grew at a compound annual rate of 13.14 percent, while Gross State Domestic Product (GSDP) grew at a rate of 12.51 percent. The percentage share of Tax Revenue, Non-Tax Revenue, State's share in Union Taxes and Grants-in-Aid from the Centre towards Total Revenue Receipts revealed that the Central government's grants-in-aid is the most important component, accounting for 68.62 percent. Tax Revenue accounted only 5.57 percent, Non-Tax Revenue 3.41 percent and State's share in Union Tax 22.39 percent, respectively out of the total percentage share in total Revenue Receipts. This low percentage share of Tax and Non-Tax Revenues reflects the State's continued reliance on the Central government.

The State's finances are under significant strain due to the low percentage share of Tax Revenue and Non-Tax Revenue. It causes the State to seek a larger portion from the central pool, which is further hampered by different socio-economic and political elements in the Finance Commission's calculations for allocating these shares.

The percentage share of Tax Revenue at 5.57 percent indicates that the State Government of Nagaland has been able to generate a significant portion of its revenue from taxes imposed on various economic activities within the state. This is a positive sign as it indicates that the State has a diversified economic base, with different sectors contributing to its revenue generation. The high share of tax revenue also indicates that the State has a good taxation system in place and that it is effectively collecting taxes from various sources.

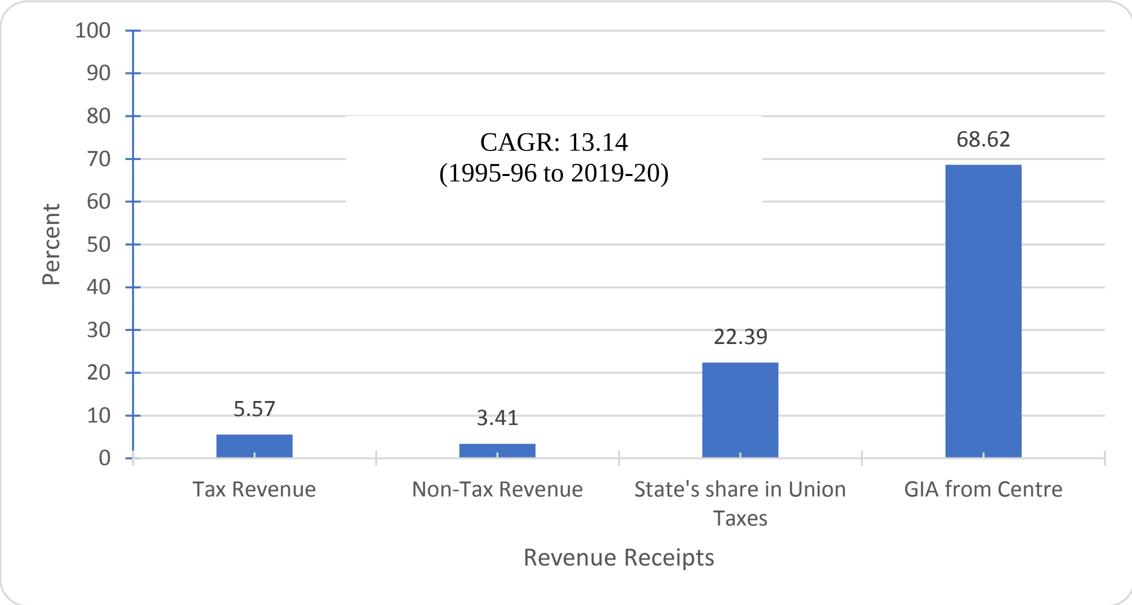
Table 4.1: State's Total Revenue Receipts from 1995-96 to 2019-20. *(₹ crores)*

Year	Revenue Receipts	*of which*				GSDP (at current prices)
		Tax Revenue	Non-Tax Revenue	State's share in Union Taxes	GIA from Centre	
1995-96	733.79	23.28	36.05	186.10	488.36	1605.51
1996-97	855.13	32.59	33.45	274.75	514.34	1914.04
1997-98	860.99	31.57	27.52	380.81	421.09	2324.1
1998-99	989.38	30.56	44.15	437.19	477.48	2626.23
1999-00	1131.46	39.50	38.86	526.04	527.06	2967.64
2000-01	1254.10	46.25	39.23	96.48	1072.14	3679.36
2001-02	1324.53	62.39	43.41	23.22	1195.51	4136.88
2002-03	1346.90	62.00	43.94	46.01	1194.95	4748.6
2003-04	2359.79	68.55	60.91	256.97	1973.36	5238.66
2004-05	1839.52	78.31	77.90	160.15	1523.16	5838.84
2005-06	2267.20	105.53	96.82	248.50	1816.35	6587.68
2006-07	2772.51	119.02	91.14	316.93	2245.42	7256.65
2007-08	2996.02	131.37	119.48	399.77	2345.40	8074.95
2008-09	3400.89	156.02	180.55	421.84	2642.48	9436.07
2009-10	3719.76	180.51	126.35	434.03	2978.87	10526.77
2010-11	4999.99	227.32	183.14	689.46	3900.07	11759.37
2011-12	5586.38	303.88	232.95	803.20	4246.35	12176.76
2012-13	6203.93	339.59	207.17	917.14	4740.03	14121.27
2013-14	6497.90	333.39	216.57	1001.27	4946.67	16611.73
2014-15	7650.94	388.60	270.61	1062.69	5929.04	18400.67
2015-16	8043.57	427.10	256.39	2540.72	4819.36	19523.95
2016-17	9442.28	510.75	345.52	3032.63	5553.38	21722.45
2017-18	11019.21	638.28	388.53	3353.13	6639.27	24392.96
2018-19	11437.41	846.43	255.24	3792.41	6543.33	26527.42
2019-20	11423.06	958.00	339.29	3267.08	6858.69	29535.93
CAGR	**13.12**	**16.53**	**12.18**	**13.23**	**13.14**	**12.51**
% Share to GSDP	**40.54**	**2.26**	**1.38**	**9.08**	**27.82**	
% Share to Total Revenue Receipts		**5.57**	**3.41**	**22.39**	**68.62**	

Source: Estimated from State's Finance Accounts (various issues).

On the other hand, the low percentage share of Non-Tax Revenue at 3.41 percent suggests that the State has not been able to generate significant revenue from non-tax sources such as fees and charges, dividends, and profits from public sector enterprises, and other sources. This could be due to a lack of investment in these sectors, inadequate infrastructure, or low demand for services provided by the State.

Figure 4.1: Percentage Share of Total Revenue Receipts (1995-95 to 2019-20)



The high percentage share of State's share in Union Taxes and Grants-in-Aid indicates that the State Government of Nagaland is highly dependent on external sources of funding such as grants from the central government, and other sources. This is a concerning sign as it indicates that the State is not generating enough revenue to finance its expenditure needs, which could lead to an unsustainable fiscal position in the long run.

Therefore, it is essential for the State government to focus on generating more revenue from non-tax sources, such as investment in infrastructure, tourism, and other sectors that have the potential to generate revenue. The State government could also explore new sources of revenue such as public-private partnerships, innovative financing mechanisms, and other revenue models to reduce its dependence on grants and other external sources of funding. Additionally, the State government could also consider implementing fiscal reforms to improve tax collection efficiency and reduce leakages to enhance tax revenue.

4.2.2 Revenue Receipts as a Percentage to Gross State Domestic Product (GSDP)

Revenue Receipts as a percentage to GSDP provides information about the revenue generation capacity and efficiency of the State's economy. A higher percentage indicates that the State is generating more revenue relative to its overall economic size, which is generally seen as a positive sign of a strong and robust economy. From the given Table 4.2, it is seen that the percentage of Revenue Receipts to GSDP has been fluctuating over the years, with an average of 39.2 percent.

Table 4.2: Percentage share of Total Revenue Receipts to GSDP (1995-96 to 2019-20)

(₹ crores)

Year	Revenue Receipts	GSDP (Current Prices)	Revenue Receipts Annual Growth Rate	GSDP Annual Growth Rate	Revenue Receipts as Percentage to GSDP
1995-96	733.79	1605.51	-	-	45.7%
1996-97	855.13	1914.04	16.5%	19.2%	44.7%
1997-98	860.99	2324.10	0.7%	21.4%	37.0%
1998-99	989.38	2626.23	14.9%	13.0%	37.7%
1999-00	1131.46	2967.64	14.4%	13.0%	38.1%
2000-01	1254.10	3679.36	10.8%	24.0%	34.1%
2001-02	1324.52	4136.88	5.6%	12.4%	32.0%
2002-03	1346.88	4748.60	1.7%	14.8%	28.4%
2003-04	2359.78	5238.66	75.2%	10.3%	45.0%
2004-05	1839.50	5838.84	-22.0%	11.5%	31.5%
2005-06	2267.08	6587.68	23.2%	12.8%	34.4%
2006-07	2772.50	7256.65	22.3%	10.2%	38.2%
2007-08	2996.01	8074.95	8.1%	11.3%	37.1%
2008-09	3400.88	9436.07	13.5%	16.9%	36.0%
2009-10	3719.75	10526.77	9.4%	11.6%	35.3%
2010-11	4999.97	11759.37	34.4%	11.7%	42.5%
2011-12	5586.37	12176.76	11.7%	3.5%	45.9%
2012-13	6204.27	14121.27	11.1%	16.0%	43.9%
2013-14	6497.89	16611.73	4.7%	17.6%	39.1%
2014-15	7650.93	18400.67	17.7%	10.8%	41.6%
2015-16	8043.55	19523.95	5.1%	6.1%	41.2%
2016-17	9442.27	21722.45	17.4%	11.3%	43.5%
2017-18	11019.21	24392.96	16.7%	12.3%	45.2%
2018-19	11437.41	26527.42	3.8%	8.8%	43.1%
2019-20	11423.29	29535.93	-0.1%	11.3%	38.7%
Average			**13.2%**	**13.0%**	**39.2%**

Source: Estimated from State's Finance Accounts (various issues).

There are a few important observations that can be made from the data:

1. The percentage of Revenue Receipts to GSDP was highest in the year 1995-96 at 45.7 percent, and then declined to a low of 28.4 percent in the year 2002-03.
2. From the year 2003-04, there has been a significant increase in the percentage of Revenue Receipts to GSDP, reaching a high of 45.9 percent in the year 2011-12.

3. The percentage has been fluctuating between 28.4 percent to 45.9 percent over the last few years.
4. The average percentage of Revenue Receipts to GSDP over the given period is 39.2 percent, which indicates that the State's Revenue Receipts have been around 39.2 percent of its GSDP on an average.

The given Table 4.2 presents the Revenue Receipts, Gross State Domestic Product (GSDP), and the Revenue Receipts as a Percentage to GSDP for the years from 1995-96 to 2019-20. These indicators reflect the economic performance of the State over the years and provide insights into the trends and patterns of revenue generation and growth.

Starting with the Revenue Receipts, the table shows that it has increased from ₹733.79 crore in 1995-96 to ₹11,423.06 crore in 2019-20. The growth rate of Revenue Receipts has been volatile, with fluctuations observed throughout the years. The highest annual growth rate of 75.2 percent was recorded in 2003-04, while the lowest growth rate of -22.0 percent was observed in 2004-05. On average, the annual growth rate of Revenue Receipts has been 13.2 percent.

Moving on to the GSDP, the table shows that it has increased from ₹1,605.51 crore in 1995-96 to ₹29,535.93 crore in 2019-20. The growth rate of GSDP has also been fluctuating, with the highest annual growth rate of 24.0 percent observed in 2000-01, and the lowest annual growth rate of 3.5 percent observed in 2011-12. On average, the annual growth rate of GSDP has been 13.0 percent.

Finally, the table shows the Revenue Receipts as a Percentage to GSDP, which is an important measure of the State's economic health. This indicator shows the proportion of Revenue Receipts to the size of the State's economy, as represented by the GSDP. The table shows that this percentage has fluctuated over the years, with the highest percentage of 45.9 percent observed in 2011-12 and the lowest percentage of 28.4 percent observed in 2002-03. On average, the Revenue Receipts as a Percentage to GSDP has been 39.2 percent.

Overall, the study show that the State's Revenue Receipts and GSDP have increased over the years, indicating economic growth. However, the growth rates have been volatile, with fluctuations observed in different years. The Revenue Receipts as a percentage to GSDP has also fluctuated, indicating that the State's revenue generation has not kept pace with the growth of the economy in some years. Moreover, the average annual growth rate of Revenue Receipts is slightly higher than the average annual growth rate of GSDP, indicating that the State's revenue generation has grown at a faster rate than the economy. However, the Revenue Receipts as a Percentage to GSDP has decreased in recent years, indicating that revenue generation has not kept pace with the growth of the economy.

4.2.3 Composition and Trend of Revenue Receipts

As a proportion of State's GSDP, Tax Revenue constituted 2.26 percent, Non-Tax Revenue constituted 1.38 percent, State's share in Union Tax constituted 9.08 percent and 27.82 percent of Grants-in-Aid from the Centre throughout the research period, as shown in Table 4.3. The Tax Revenue of the State government has been consistently increasing over the years. In 1995-1996, the Tax Revenue was ₹23.28 crores and by 2019-2020, it had increased to ₹958.00 crores. The Compound Annual Growth Rate of Tax Revenue has also been positive with 16.53 percent, indicating a growth in the economy. In absolute term, the Tax component of Revenue Receipts climbed from ₹23.28 crore in 1995-96 to ₹62.39 crore in 2001-02, to ₹303.88 crore in 2011-12, and again to ₹958.00 crore in 2019-20. Tax Revenue grew at 17.41 percent on average. The Tax Revenue as a percentage of GSDP has also been increasing over the years. In 1995-1996, the Tax Revenue was only 1.45 percent of GSDP, while by 2019-2020, it had increased to 3.24 percent of GSDP.

The Non-Tax Revenue of the State government has also been increasing over the years. In 1995-1996, the Non-Tax Revenue was ₹36.05 crores, and by 2019-2020, it had increased to ₹339.29 crores. The annual growth rate of Non-Tax Revenue has been fluctuating over the years, with some years having a positive growth rate and others having a negative growth rate. The CAGR of Non-Tax Revenue grew at 12.18 percent over the years. The Non-Tax Revenue of the State government, increased from ₹36.05 crore in 1995-96 to ₹43.41 crore in 2001-02, ₹232.95 crore in 2011-12, and again ₹339.29 crore in 2019-20 witnessing a Compound Annual Growth Rate of 12.18 percent during the research period. The Non-Tax Revenue as a percentage to GSDP has been fluctuating over the years, with some years having a high percentage and others having a low percentage. For instance, in 1995-1996, the Non-Tax Revenue was 2.25 percent of GSDP, while in 2019-2020, it was only 1.15 percent of GSDP.

In terms of growth, the Tax component of the Revenue Receipts witnessed a high of 40.0percent in 1996-97 and a low of -3.2 percent in 1998-99, average growth rate of

13.20 percent. Similarly, the growth rate in the Non-Tax Revenue has been very variable, ranging from a high of 60.4 percent in 1998-99 to a low of -30.0 percent in 2009-10, with average growth rate of 12.69 percent.

The study of State Revenue Receipts from 1995-1996 to 2019-2020 is provided in Table 4.3. An examination of the Revenue Receipts of the States indicates that the Revenue Receipts are made up of Tax Revenue, Non-Tax Revenue, State's share in Union Taxes and Grants-in-Aid from the Centre. The study reveals that Grants-in-Aid from the Centre is the dominant component contributing about 68.62 percent to the Total Revenue Receipt during the study period from 1995-96 to 2019-20, followed by State's share in Union Taxes with 22.39 percent, Tax Revenue with 5.57 percent and 3.41 percent to Non-Tax Revenue. There was a significant increase in the Total Revenue Receipts from ₹733.79 crores in 1995-96 to ₹11423.06 crores in 2019-20, with a Compound Annual Growth Rate of 13.14 percent mainly because of the larger share from Grants-in-Aid from Central and improvement in State's share in Union Taxes. Tax Revenues showed a good increase from ₹23.28 crores in 1995-96 to ₹958.00 crores in 2019-20, registering the highest CAGR of 16.53 percent compared to the Non-tax Revenue and Grants-in-Aid from the Centre. Non-Tax Revenue of the State increased from ₹36.05 crores in 1995-96 to ₹339.29 crores in 2019-20 with a CAGR of 12.18 percent. In contrast, the Grants-in-Aid from the Central Government increased from ₹488.36 crores in 1995-96 to ₹6858.69 crores in 2019-20, with a CAGR of 13.23 percent. What is particularly important to note is the growth rate of Tax Revenue and Non-Tax Revenue in the Total Revenue Receipts of the State. The low growth in Tax Revenue and Non-Tax Revenue puts severe pressure on the finances of the State as it forces the State to demand more share from the Central pool.

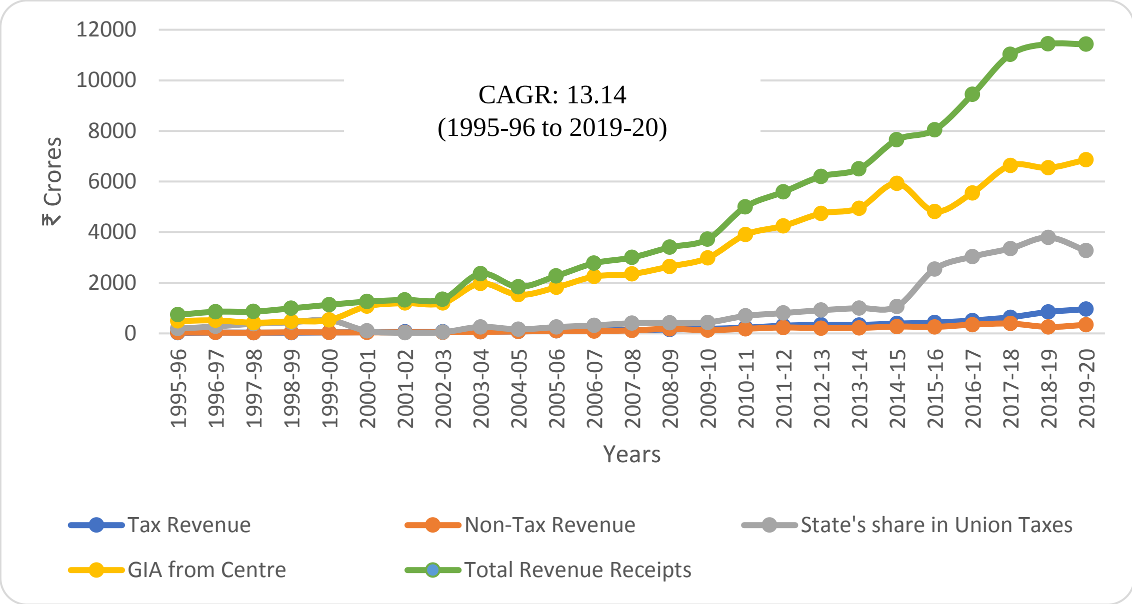
The study's findings showed that the State became more reliant on the Center throughout the study period. In comparison, the percentage share of the State's Grants-in-Aid from the Centre is 68.62 percent, whereas the percentage share of the State's share in Union Taxes is 22.39 percent and the percentage share of the State's Tax Revenue and Non-Tax Revenue is 5.57 percent and 3.41 percent respectively. This demonstrates how the State has become dependent on the share in Central Assistance over time. In addition, the State Government attempted to boost its revenue during the research, which was a positive development.

Table 4.3: Composition of Revenue Receipts (1995-65 to 2019-20) *(₹ crores)*

Year	Revenue Receipts	*of which*				Annual Growth Rate of Revenue Receipts	Annual Growth Rate of Tax Revenue	Annual Growth Rate of Non-Tax Revenue	Revenue Receipts as a Percentage to GSDP	Tax Revenue as a Percentage to GSDP	Non-Tax Revenue as a Percentage to GSDP
		Tax Revenue	Non-Tax Revenue	State's share in Union Taxes	GIA from Centre						
1995-96	733.79	23.28	36.05	186.10	488.36	-	-	-	45.7%	1.45%	2.25%
1996-97	855.13	32.59	33.45	274.75	514.34	16.5%	40.0%	-7.2%	44.7%	1.70%	1.75%
1997-98	860.99	31.57	27.52	380.81	421.09	0.7%	-3.1%	-17.7%	37.0%	1.36%	1.18%
1998-99	989.38	30.56	44.15	437.19	477.48	14.9%	-3.2%	60.4%	37.7%	1.16%	1.68%
1999-00	1131.46	39.50	38.86	526.04	527.06	14.4%	29.3%	-12.0%	38.1%	1.33%	1.31%
2000-01	1254.10	46.25	39.23	96.48	1072.14	10.8%	17.1%	1.0%	34.1%	1.26%	1.07%
2001-02	1324.53	62.39	43.41	23.22	1195.51	5.6%	34.9%	10.7%	32.0%	1.51%	1.05%
2002-03	1346.90	62.00	43.94	46.01	1194.95	1.7%	-0.6%	1.2%	28.4%	1.31%	0.93%
2003-04	2359.79	68.55	60.91	256.97	1973.36	75.2%	10.6%	38.6%	45.0%	1.31%	1.16%
2004-05	1839.52	78.31	77.90	160.15	1523.16	-22.0%	14.2%	27.9%	31.5%	1.34%	1.33%
2005-06	2267.20	105.53	96.82	248.50	1816.35	23.2%	34.8%	24.3%	34.4%	1.60%	1.47%
2006-07	2772.51	119.02	91.14	316.93	2245.42	22.3%	12.8%	-5.9%	38.2%	1.64%	1.26%
2007-08	2996.02	131.37	119.48	399.77	2345.40	8.1%	10.4%	31.1%	37.1%	1.63%	1.48%
2008-09	3400.89	156.02	180.55	421.84	2642.48	13.5%	18.8%	51.1%	36.0%	1.65%	1.91%
2009-10	3719.76	180.51	126.35	434.03	2978.87	9.4%	15.7%	-30.0%	35.3%	1.71%	1.20%
2010-11	4999.99	227.32	183.14	689.46	3900.07	34.4%	25.9%	44.9%	42.5%	1.93%	1.56%
2011-12	5586.38	303.88	232.95	803.20	4246.35	11.7%	33.7%	27.2%	45.9%	2.50%	1.91%
2012-13	6203.93	339.59	207.17	917.14	4740.03	11.1%	11.8%	-11.1%	43.9%	2.40%	1.47%
2013-14	6497.90	333.39	216.57	1001.27	4946.67	4.7%	-1.8%	4.5%	39.1%	2.01%	1.30%
2014-15	7650.94	388.60	270.61	1062.69	5929.04	17.7%	16.6%	25.0%	41.6%	2.11%	1.47%
2015-16	8043.57	427.10	256.39	2540.72	4819.36	5.1%	9.9%	-5.3%	41.2%	2.19%	1.31%
2016-17	9442.28	510.75	345.52	3032.63	5553.38	17.4%	19.6%	34.8%	43.5%	2.35%	1.59%
2017-18	11019.21	638.28	388.53	3353.13	6639.27	16.7%	25.0%	12.4%	45.2%	2.62%	1.59%
2018-19	11437.41	846.43	255.24	3792.41	6543.33	3.8%	32.6%	-34.3%	43.1%	3.19%	0.96%
2019-20	11423.06	958.00	339.29	3267.08	6858.69	-0.1%	13.2%	32.9%	38.7%	3.24%	1.15%
CAGR	**13.14**	**16.53**	**12.18**	**14.83**	**13.23**	**Avg.13.20%**	**Avg.17.41%**	**Avg.2.69%**	**Avg. 39.20%**	**Avg. 1.86%**	**Avg. 1.41%**
% Share to Revenue Receipts		**5.57**	**3.41**	**22.39**	**68.62**						

Source: Estimated from State's Finance Accounts (various issues).

Figure 4.2: Trends in State's Total Revenue Receipts (1995-96 to 2019-20)



4.2.4 Growth Rate of Revenue Receipts in India

From the given Table 4.4, it is observed that the compound annual growth rate (CAGR) of revenue receipts for all the Indian states has varied widely over the past two decades. The highest CAGR is seen in Chhattisgarh at 18.69 percent, followed by Uttarakhand (16.58 percent), Uttar Pradesh (16.21 percent), Arunachal Pradesh (16.51 percent), and Bihar (15.28 percent). On the other hand, Sikkim has the lowest CAGR at 8.06 percent. The majority of the States have shown a positive growth trend in revenue receipts over the past two decades. This is indicative of economic growth in these states. However, the rate of growth varies significantly between the different states.

Chhattisgarh has consistently shown the highest CAGR over the period, indicating strong economic growth and development in the State. Uttarakhand, Uttar Pradesh, and Arunachal Pradesh also show consistently high growth rates over the two decades.

It is important to note that the CAGR for some states has varied over the period, indicating fluctuations in their economic growth. For example, Orissa shows a CAGR of 16.33 percent, which is relatively high, but its growth rate has fluctuated over the past two decades.

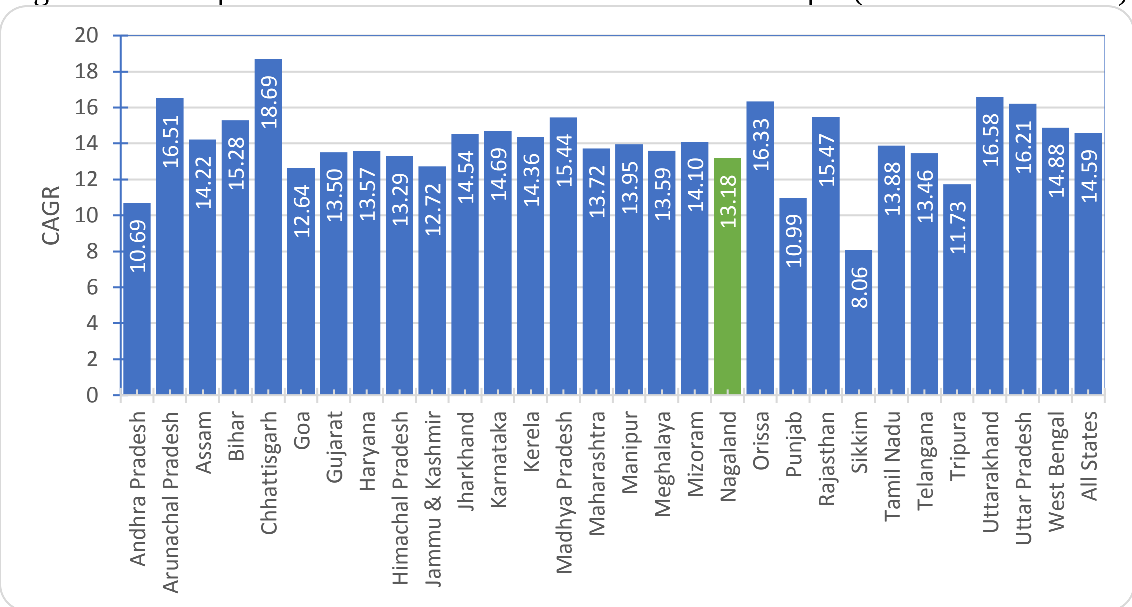
The CAGR of Nagaland with respect to all the other states can be analyzed by comparing its value with the values of other states. According to the table, the CAGR of Nagaland is 13.18 percent. Compared to other states, Nagaland's CAGR is lower than some states like Chhattisgarh (18.69 percent), Uttarakhand (16.58 percent), Uttar Pradesh (16.21 percent), Bihar (15.28 percent), Rajasthan (15.47 percent), Madhya Pradesh (15.44 percent), and Orissa (16.33 percent).

Table 4.4: Compound Annual Growth Rate of Revenue Receipts (1999-00 to 2019-20)

States	Revenue Receipts	States	Revenue Receipts
Andhra Pradesh	**10.69**	Manipur	**13.95**
Arunachal Pradesh	**16.51**	Meghalaya	**13.59**
Assam	**14.22**	Mizoram	**14.10**
Bihar	**15.28**	Nagaland	**13.18**
Chhattisgarh	**18.69**	Orissa	**16.33**
Goa	**12.64**	Punjab	**10.99**
Gujarat	**13.50**	Rajasthan	**15.47**
Haryana	**13.57**	Sikkim	**8.06**
Himachal Pradesh	**13.29**	Tamil Nadu	**13.88**
Jammu and Kashmir	**12.72**	Telangana	**13.46**
Jharkhand	**14.54**	Tripura	**11.73**
Karnataka	**14.69**	Uttarakhand	**16.58**
Kerala	**14.36**	Uttar Pradesh	**16.21**
Madhya Pradesh	**15.44**	West Bengal	**14.88**
Maharashtra	**13.72**	All States	**14.59**

Source: Estimated from various RBI bulletins.

Figure 4.3: Compound Annual Growth Rate of Revenue Receipts (1999-00 to 2019-20)



Nagaland's revenue receipts growth may not be as high as some of the other States, though the consistent upward trend is a positive sign for the State's economy. Revenue receipts are the primary source of income for any government. In India, the growth rate of revenue receipts has been dynamic over the years, and the different states of India have shown different growth rates. The growth rate of Nagaland's revenue receipts was affected by various factors, including economic, social, and political factors. The State’s economic growth rate was hampered by a lack of industrialization, limited natural resources, and insufficient investment in infrastructure development. The social factors, such as the high poverty rate, low literacy rate, and low per capita income, also contributed to the State’s revenue receipts' slow growth rate. The State’s political instability and frequent bandhs and blockades also negatively affected the State’s economy and revenue receipts. The state government should focus on implementing policies and programs to boost the State’s economy, enhance infrastructure development, and improve the social and political stability of the state, which will help increase the revenue receipts of Nagaland in the future. On the other hand, Nagaland's CAGR is higher than some other states like Sikkim (8.06 percent), Punjab (10.99 percent), Andhra Pradesh (10.69 percent), Goa (12.64 percent), Jammu and Kashmir (12.72 percent), Manipur (13.95 percent), and Meghalaya (13.59 percent). Therefore, it is seen that the Nagaland's revenue receipts growth rate has been moderate compared to other states during the period 1999-2000 to 2019-2020.

In terms of trend, Nagaland's revenue receipts have been increasing consistently over the past two decades, although at a slower pace compared to other states. This indicates a relatively stable and steady growth pattern, which could be due to factors such as the State’s economic structure, policies, and demographics.

4.3 Growth Rate of Tax Revenue

The majority of the State’s Tax and Non-Tax revenue comes from its own initiatives. While the distribution of Central Tax and Union Grants is generally directed by Finance Commissions in order to accomplish equitable and efficiency goals, the study of State’s Tax and Non-Tax becomes vital if one seeks to examine the performance and potential in augmenting their financial sources.

Tax Revenue provides a substantial portion of the State government's revenue; consequently, understanding Tax Revenue collection is critical to understanding the State government's budgetary management. Taxes on Sales and Trade, State Excise, Taxes on vehicles, Taxes on Stamps and Registration Fees, Taxes on Land Revenue and Other Taxes are important components that comprises Tax Revenue of the State.

Nagaland State experienced varied growth rates across different Tax Revenue heads between 1995-96 and 2019-20. Taxes on Sales, Trade, etc. remained the most significant contributor at 54.8 percent of the total Tax Revenue, with a CAGR of 15.43 percent. Taxes on Vehicles and GST also exhibited substantial growth with CAGRs of 17.29 percent and 80.78 percent, respectively. While State Excise, Stamps and Registration Fees, and Land Revenue had smaller contributions, Other Taxes contributed 10.1 percent to the overall Tax Revenue. Overall, the growth in various tax heads reflects Nagaland's efforts to diversify revenue sources, improve tax collection mechanisms, and adapt to the changing economic landscape.

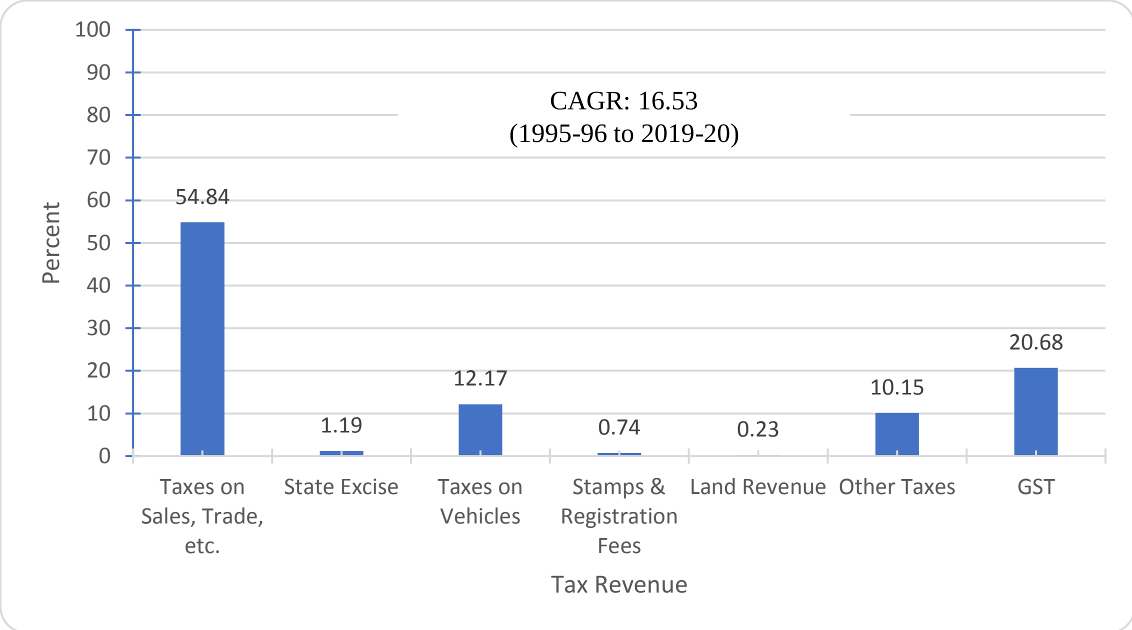
Table 4.5: Composition of Tax Revenue (1995-96 to 2019-20) *(₹ crores)*

Year	***Taxes on Sales, Trade, etc.***	***State Excise***	***Taxes on Vehicles***	***Stamps and Registration Fees***	***Land Revenue***	***Other Taxes***	***GST***	**Tax Revenue**
1995-96	12.32	1.59	2.92	1.74	0.07	4.64	0.00	**23.28**
1996-97	16.15	2.00	3.88	5.76	0.16	4.64	0.00	**32.59**
1997-98	16.52	2.10	3.86	3.66	0.08	5.35	0.00	**31.57**
1998-99	16.10	1.89	4.37	1.94	0.12	6.14	0.00	**30.56**
1999-00	23.04	1.73	4.59	1.85	0.26	8.03	0.00	**39.50**
2000-01	27.30	1.77	5.28	1.77	0.35	9.78	0.00	**46.25**
2001-02	34.42	1.87	5.35	0.91	0.62	19.22	0.00	**62.39**
2002-03	41.15	1.98	4.74	0.57	0.41	13.15	0.00	**62.00**
2003-04	45.63	1.99	6.00	0.66	0.54	13.73	0.00	**68.55**
2004-05	53.08	2.07	7.30	0.73	0.43	14.70	0.00	**78.31**
2005-06	77.16	1.96	8.71	0.89	0.55	16.26	0.00	**105.53**
2006-07	85.02	2.13	12.26	1.05	0.50	18.06	0.00	**119.02**
2007-08	94.79	2.83	12.30	1.02	0.50	19.93	0.00	**131.37**
2008-09	114.70	3.34	14.14	1.01	0.60	22.23	0.00	**156.02**
2009-10	132.22	3.14	16.73	1.19	0.63	26.60	0.00	**180.51**
2010-11	167.22	3.00	23.92	1.35	0.59	31.24	0.00	**227.32**
2011-12	231.12	3.36	34.58	1.85	0.68	32.29	0.00	**303.88**
2012-13	257.21	3.37	41.59	1.58	0.72	35.12	0.00	**339.59**
2013-14	250.20	4.86	36.15	1.77	0.70	39.71	0.00	**333.39**
2014-15	294.29	4.70	46.46	1.93	0.74	40.48	0.00	**388.60**
2015-16	328.58	5.12	53.09	2.04	0.75	37.52	0.00	**427.10**
2016-17	400.12	4.63	57.39	2.05	0.82	45.74	0.00	**510.75**
2017-18	287.55	4.20	101.53	2.62	0.90	53.91	187.57	**638.28**
2018-19	186.69	4.65	126.22	2.53	1.13	55.57	469.64	**846.43**
2019-20	175.00	3.00	114.00	3.00	1.00	49.00	613.00	**958.00**
CAGR	**15.43**	**4.76**	**17.29**	**0.90**	**9.21**	**10.96**	**80.78**	**16.53**
% Share	**54.84%**	**1.19%**	**12.17%**	**0.74%**	**0.23%**	**10.15%**	**20.68%**	**-**

Source: Estimated from State’s Finance Accounts (various issues).

The study shows that the Tax Revenue structure of Nagaland State from 1995-96 to 2019-20 reflects a dynamic economic environment with diverse growth rates across various tax heads. The state has successfully managed to adapt to new tax regimes like GST while also maintaining growth in traditional revenue sources. The analysis of these tax heads highlights the importance of diversifying revenue streams, implementing efficient tax collection mechanisms, and investing in infrastructure development to support the State’s growing economy. As Nagaland continues to evolve, it will be essential for the State to maintain a balanced tax structure that supports both economic growth and social development.

Figure 4.4: Percentage Share of Tax Revenue (1995-96 – 2019-20)



4.3.1 Taxes on Sales, Trade, Etc.

Over the period from 1995-96 to 2019-20, Taxes on Sales, Trade, etc. contributed a significant portion of the Tax Revenue in Nagaland State. With a Compound Annual Growth Rate (CAGR) of 15.43 percent, this revenue head has consistently been a major source of tax income for the state. The percentage share of Taxes on Sales, Trade, etc. towards the overall Tax Revenue stands at 54.8 percent, which indicates the importance of this head in the State’s tax structure. The growth in this tax head can be attributed to the expansion of the trade and commerce sector in the state, along with the implementation of efficient tax collection mechanisms.

Taxes on Sales, Trade, etc. have been a major contributor to the Tax Revenue in Nagaland State, playing a crucial role in the State’s economy. With a CAGR of 15.43 percent from 1995-96 to 2019-20, this tax head has consistently been a significant source of income for the state. The percentage share of Taxes on Sales, Trade, etc. towards the overall Tax Revenue stands at 54.8 percent, reflecting the importance of this sector to Nagaland's financial health.

The growth in this tax head can be attributed to multiple factors, including the expansion and diversification of the trade and commerce sector in the state. As businesses grow and evolve, the demand for goods and services increases, leading to higher sales and transactions. This, in turn, results in higher Tax Revenue from sales, trade, and other commercial activities. Additionally, the implementation of efficient tax collection mechanisms and the streamlining of tax administration have contributed to improved revenue collection.

One significant change in the taxation landscape was the introduction of the Goods and Services Tax (GST) in 2017, which replaced various indirect taxes levied by the state and central governments. While GST is now a separate tax head, it has also impacted Taxes on Sales, Trade, etc. by simplifying the tax structure, making it easier for businesses to comply and for the government to collect taxes.

4.3.2 Taxes on State Excise

State Excise, although not a major contributor to the overall Tax Revenue in Nagaland State, has still exhibited a steady growth over the years. With a CAGR of 4.76 percent, this head represents a relatively small 1.2 percent share of the total Tax Revenue.

Although Nagaland is officially a dry state, with the sale and consumption of alcohol prohibited since 1989 under the Nagaland Liquor Total Prohibition Act, there remains a significant demand for liquor in the state. As a result, a considerable amount of liquor is imported from neighboring states, particularly Assam, either legally or through illicit channels. This presents an opportunity for the Nagaland government to collect taxes on the import of alcohol from Assam.

While State Excise contributes only 1.2 percent to the overall Tax Revenue of Nagaland with a CAGR of 4.76 percent, the state could potentially generate additional revenue by imposing taxes on the import of liquor from Assam. By regulating and taxing the import of alcohol, the government could not only generate additional revenue but also help control the flow of illicit liquor into the state, ensuring the quality and safety of the alcohol being consumed.

To capitalize on this opportunity, the Government could consider amending the existing prohibition laws to allow for the regulated import, sale, and consumption of alcohol in a controlled manner. This would require establishing a licensing system for importers, distributors, and retailers, and implementing strict quality control and monitoring measures to prevent the sale of counterfeit or substandard products. By doing so, the Nagaland government could potentially increase its State Excise Revenue while also addressing the public health concerns arising from the unregulated consumption of alcohol.

However, it is important to consider the social and cultural implications of such a change in policy, as the decision to implement a total prohibition in Nagaland was largely driven by religious and social factors. Any efforts to modify the existing alcohol prohibition laws must involve open dialogue and consultation with various stakeholders, including religious leaders, community groups, and the general public, to ensure a balanced approach that respects the cultural values of the state while addressing the potential economic benefits of regulating and taxing alcohol imports.

4.3.3 Taxes on Vehicles

Taxes on Vehicles have seen substantial growth between 1995-96 and 2019-20, with a CAGR of 17.29 percent. This tax head constitutes 12.2 percent of the total Tax Revenue, reflecting the increasing number of vehicles in the state and the subsequent demand for better infrastructure and transportation services. The growth in this revenue head highlights the need for more efficient transportation systems and improved road networks to accommodate the growing number of vehicles in Nagaland.

Over the period from 1995-96 to 2019-20, Taxes on Vehicles in Nagaland State have experienced significant growth, with a CAGR of 17.29 percent. This tax head constitutes 12.2 percent of the total Tax Revenue, which is indicative of the increasing number of vehicles and the rising demand for better transportation infrastructure and services in the state.

The growth in Taxes on Vehicles can be attributed to several factors, such as the rising population, increased urbanization, and improved economic conditions. As more people purchase vehicles for personal and commercial use, the demand for better roads, parking facilities, and public transportation systems grows. In response, the Government collects taxes on vehicles to generate Revenue that can be invested in developing and maintaining the necessary infrastructure.

Taxes on Vehicles include various levies, such as registration fees, road taxes, and taxes on the transfer of vehicle ownership. These taxes are generally collected by the State transport department and contribute to the State's overall Tax Revenue.

4.3.4 Taxes on Stamps and Registration Fees

Stamps and Registration Fees have experienced relatively slow growth over the years, with a CAGR of just 0.90 percent. Contributing to 0.7 percent of the overall Tax Revenue, this head primarily deals with revenue generated from the registration of property and other legal documents. The minimal growth in this sector suggests a limited number of property transactions and registration activities in the state during the given period.

Between 1995-96 and 2019-20, Stamps and Registration Fees in Nagaland State have experienced relatively slow growth, with a CAGR of just 0.90 percent. This tax head contributes to 0.7 percent of the overall Tax Revenue and primarily deals with the revenue generated from the registration of property transactions, legal documents, and other agreements that require stamp duty and registration fees to be paid.

The minimal growth in this sector suggests that there has been a limited number of property transactions and registration activities in the state during the given period. This could be attributed to various factors, including limited urban development, a slow real estate market, and bureaucratic hurdles that may deter property transactions and the registration of legal documents.

To increase revenue from Stamps and Registration Fees, the Nagaland government can focus on several areas. First, promoting urban development and infrastructural improvements could encourage growth in the real estate sector, leading to increased property transactions and, consequently, higher registration fees. Second, streamlining the registration process by reducing bureaucratic obstacles and implementing efficient online services can make it easier for citizens to register property and legal documents, leading to increased compliance and revenue collection.

4.3.5 Taxes on Land Revenue

Land Revenue has a CAGR of 9.21 percent and contributes to 0.2 percent of the overall Tax Revenue in Nagaland State. This revenue head comprises income from land taxes and other levies on landholdings. While the percentage share is relatively small, the growth in Land Revenue indicates increasing land values and urbanization in the state.

Land Revenue in Nagaland State has a CAGR of 9.21 percent from 1995-96 to 2019-20 and contributes to 0.2 percent of the overall Tax Revenue. This Revenue head consists of income generated from land taxes, levies on landholdings, and other charges related to land ownership and usage. Although the percentage share is relatively small, the growth in Land Revenue indicates increasing land values and urbanization in the state.

The growth in Land Revenue can be attributed to several factors. As Nagaland experiences urbanization and infrastructural development, land becomes a more valuable and scarce resource. This increased demand for land drives up its value, leading to higher land taxes and other related revenue. Moreover, the Government's efforts to improve land administration and taxation systems have contributed to better revenue collection in this sector. The Government can review and update land tax rates and policies to ensure they are in line with current market trends and reflect the true value of land. This may involve revising tax rates or introducing new tax categories to account for different types of land usage, such as agricultural, residential, or commercial.

4.3.6 Other Taxes

Other Taxes in Nagaland State have shown a CAGR of 10.96 percent, accounting for 10.1 percent of the overall Tax Revenue. This category includes various miscellaneous taxes such as taxes on Income and Expenditure, taxes and duties on Commodities and Services, and taxes and duties on Electricity. The growth in this sector highlights the State’s efforts to diversify its tax revenue sources and improve its tax collection mechanisms.

Other Taxes in Nagaland State, with a CAGR of 10.96 percent from 1995-96 to 2019-20, make up 10.1 percent of the overall Tax Revenue. This category includes taxes on Income and Expenditure, taxes and duties on Commodities and Services, and taxes and duties on Electricity. The growth in this sector highlights the State’s efforts to diversify its tax revenue sources, tap into various markets, and improve its tax collection mechanisms.

Taxes on Income and Expenditure relate to levies on individual and corporate incomes and various expenditures incurred by taxpayers. Ensuring compliance and efficient tax collection in this area can help the State maximize revenue from this source.

Taxes and duties on Commodities and Services encompass a range of levies on the production, sale, and consumption of goods and services. These may include taxes on luxury items, entertainment, and other specific commodities or services. The growth in this revenue head suggests that Nagaland has been successful in tapping into various niche markets and sectors to generate additional income for the state.

Taxes and duties on Electricity involve levies on the generation, transmission, and distribution of electricity, which contribute to the State's revenue and support investments in the energy sector.

4.3.7 Goods and Services Tax (GST)

The Goods and Services Tax (GST) has been a game-changer for the Indian tax system since its introduction in 2017. In Nagaland State, the CAGR for GST revenue between its introduction and 2019-20 stands at an impressive 80.78 percent, contributing to 20.7 percent of the overall Tax Revenue. The growth of GST revenue signifies the successful implementation of a unified tax system, which has streamlined tax collection and reduced the cascading effect of taxes on the end consumers.

The Goods and Services Tax (GST) was introduced in India in 2017, replacing various indirect taxes levied by the state and central governments. In Nagaland State, GST has experienced significant growth, with a CAGR of 80.78 percent from its inception until 2019-20. It contributes 20.7 percent to the overall Tax Revenue, making it a crucial component of the State's taxation structure.

GST is a comprehensive, destination-based tax on the supply of goods and services, designed to simplify the tax system and improve efficiency in tax collection. It has had a considerable impact on the economy, streamlining the tax structure and making it easier for businesses to comply with tax regulations. Additionally, GST has improved transparency and reduced the cascading effect of taxes, leading to a more business-friendly environment.

4.3.8 Tax Revenue Growth Rate: Nagaland and Other Indian States

India's diverse states exhibit varying degrees of economic growth and fiscal performance, as evidenced by the CAGR of tax revenue for each state. The CAGR is a valuable metric for gauging the average annual growth rate of tax revenue, which in turn sheds light on a State's economic health and fiscal policies. Table 4.6 reveals several key insights into the economic landscape of India and the performance of individual states.

Arunachal Pradesh, a small northeastern state, boasts the highest CAGR of 25.94 percent, demonstrating strong tax revenue growth. This impressive figure might be attributable to factors such as a thriving economy, proactive government policies, or efficient tax collection systems. Despite its relatively small size and population, Arunachal Pradesh's robust growth could attract investors and businesses looking to capitalize on emerging opportunities.

On the other hand, Maharashtra, one of India's largest and most economically significant states, has a relatively low CAGR of 11.10 percent. While this figure indicates a more modest growth in tax revenue, it is crucial to consider that the state already has a significant tax base and a large economy. As such, even a lower growth rate in Maharashtra can still contribute substantially to the country's overall tax revenue.

States like Nagaland (18.98 percent) and Sikkim (19.65 percent) are also experiencing notable growth in tax revenue. These states may benefit from a combination of factors such as strong economic growth, effective tax collection mechanisms, and proactive government policies. Their relatively high CAGRs could signify a promising outlook for infrastructure development, public services, and overall economic progress.

In contrast, States with lower CAGRs, such as Andhra Pradesh (10.80 percent) and Jharkhand (12.39 percent), may face challenges in generating tax revenue growth. These challenges could stem from slower economic growth, inefficiencies in tax collection, or a lack of investment opportunities. Policymakers and investors should examine these states more closely to identify potential areas for improvement and investment.

Analyzing the CAGR of Tax Revenue for North Eastern states, the study gains valuable insights into their economic performance and growth prospects. Arunachal Pradesh, the state with the highest CAGR among North Eastern states and the entire country, has a remarkable growth rate of 25.94 percent. This extraordinary performance could be attributed to factors such as a burgeoning economy, increased investments, and efficient tax collection systems. The strong growth in tax revenue has the potential to propel Arunachal Pradesh's development in areas like infrastructure, education, and healthcare, ultimately contributing to the overall economic growth of the region.

Mizoram and Sikkim, two other North Eastern states, also demonstrate impressive CAGRs of 21.45 percent and 19.65 percent, respectively. These growth rates indicate that both states are experiencing a robust increase in tax revenue, which could be a result of effective government policies, investment-friendly environments, or improved tax collection mechanisms. The promising outlook for these states highlights the North Eastern region's untapped potential and opportunities for investors and businesses.

Assam, the most populous state in the North Eastern region, has a moderate CAGR of 15.53 percent. While not as high as Arunachal Pradesh, Mizoram, or Sikkim, this growth rate still signifies that Assam is experiencing steady tax revenue growth. Assam's strategic location and abundant natural resources could be significant factors in its tax revenue growth, making it an important player in the region's overall economic development.

Nagaland, Meghalaya, and Tripura all exhibit relatively high CAGRs of 18.98 percent, 18.38 percent, and 17.24 percent, respectively. These growth rates reflect healthy tax revenue growth in these states, which could be driven by factors such as increasing economic activities, better tax compliance, and proactive government initiatives. The strong performance of these states adds to the overall economic vitality of the North Eastern region.

Manipur, with a CAGR of 19.22 percent, is another North Eastern state that showcases considerable growth in tax revenue. This growth could be a result of a combination of factors, such as the State's expanding economy, increased investments in key sectors, and efficient tax collection.

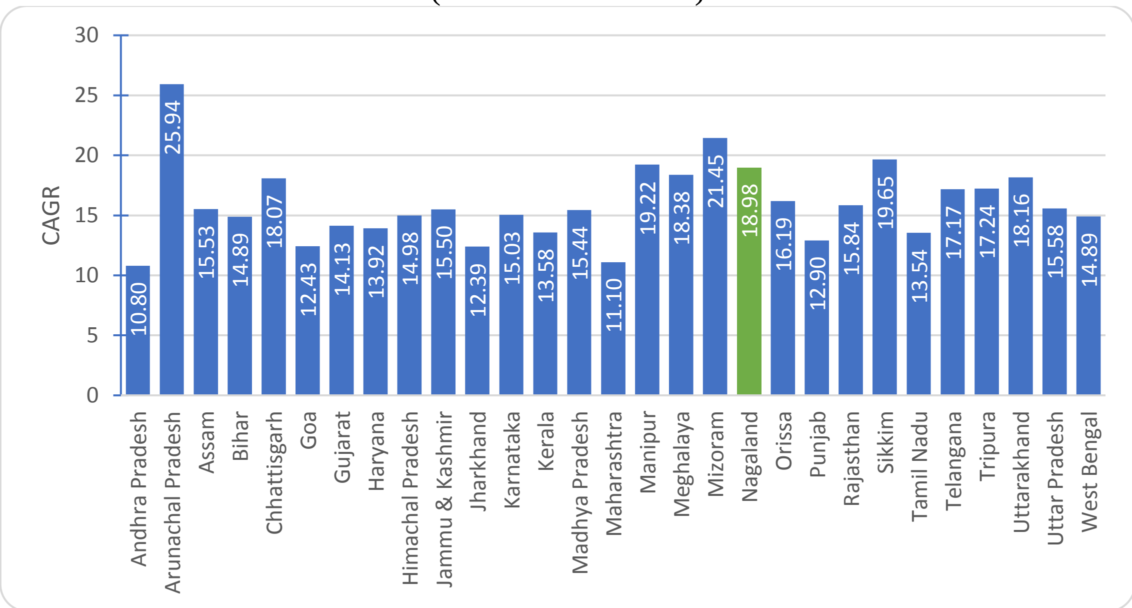
Table 4.6: Compound Annual Growth Rate of Tax Revenue (1990-00 to 2019-20)

States	**CAGR**	**States**	**CAGR**
Andhra Pradesh	10.80	Manipur	19.22
Arunachal Pradesh	25.94	Meghalaya	18.38
Assam	15.53	Mizoram	21.45
Bihar	14.89	Nagaland	18.98
Chhattisgarh	18.07	Orissa	16.19
Goa	12.43	Punjab	12.90
Gujarat	14.13	Rajasthan	15.84
Haryana	13.92	Sikkim	19.65
Himachal Pradesh	14.98	Tamil Nadu	13.54
Jammu and Kashmir	15.50	Telangana	17.17
Jharkhand	12.39	Tripura	17.24
Karnataka	15.03	Uttarakhand	18.16
Kerala	13.58	Uttar Pradesh	15.58
Madhya Pradesh	15.44	West Bengal	14.89
Maharashtra	11.10		

Source: Estimated from various RBI bulletins.

The North Eastern states of India display varying degrees of tax revenue growth, with Arunachal Pradesh leading the pack. The high CAGRs in most of these states indicate that the region holds significant potential for economic growth and investment opportunities. As the North Eastern region continues to develop and attract attention from policymakers, investors, and businesses, it will be crucial to monitor the progress of these states and capitalize on their unique strengths to ensure balanced growth and development across the region.

Figure 4.5: Compound Annual Growth Rate of Tax Revenue all States (1999-00 to 2019-20)



4.4 Growth Rate of Non-Tax Revenue

Non-Tax Revenue highlights the State's attempts to supplement revenue through fees and user charges, interest payments, and earnings from State-Owned Enterprises. Non-Tax Revenues are derived from a diverse range of sources, including interest payments on government loans, earnings on equity investments, user fees and tariffs for social and community services, government economic services, and profit from the public sector, among others.

The Non-Tax Revenue of Nagaland State from 1995-96 to 2019-20 showcases an interesting perspective on the State's financial health. The following paragraphs provide an analysis of the different Non-Tax Revenue Heads, namely General Services, Social Services, Economic Services, and Interest Receipts, Dividends and Profits.

Table 4.7: Composition of Non-Tax Revenue (1995-95 to 2019-20) *(₹ crores)*

Year	*General Services*	*Social Services*	*Economic Services*	*Interest Receipts, Dividends and Profits*	Non-Tax Revenue
1995-96	12.96	0.65	17.34	5.11	36.05
1996-97	7.13	0.98	23.96	1.39	33.45
1997-98	6.68	0.68	19.14	1.02	27.52
1998-99	18.58	0.58	23.55	1.44	44.15
1999-00	7.48	2.45	24.36	4.59	38.87
2000-01	3.76	2.83	29.12	3.50	39.23
2001-02	6.18	3.22	32.39	1.62	43.41
2002-03	6.67	4.67	30.88	1.72	43.94
2003-04	7.35	3.90	44.05	5.61	60.91
2004-05	18.10	3.46	53.06	3.27	77.90
2005-06	24.93	3.96	62.34	5.60	96.82
2006-07	18.82	6.48	60.63	5.22	91.14
2007-08	24.50	4.21	85.10	5.66	119.48
2008-09	31.83	4.97	132.18	11.57	180.55
2009-10	9.75	5.14	101.43	10.02	126.35
2010-11	50.89	17.00	100.90	14.35	183.14
2011-12	63.10	19.20	141.03	9.62	232.95
2012-13	18.85	53.52	128.90	5.90	207.17
2013-14	13.97	76.86	118.12	7.62	216.57
2014-15	19.61	112.92	130.86	7.23	270.61
2015-16	18.96	85.21	142.08	10.13	256.39
2016-17	49.20	130.68	158.92	6.73	345.52
2017-18	85.63	143.36	152.57	6.97	388.53
2018-19	33.91	18.72	189.88	12.72	255.22
2019-20	62.94	71.80	196.02	8.53	339.29
CAGR	**8.82**	**24.82**	**11.17**	**7.91**	**12.18**
% Share	**16.56**	**20.70**	**58.55**	**4.18**	**-**

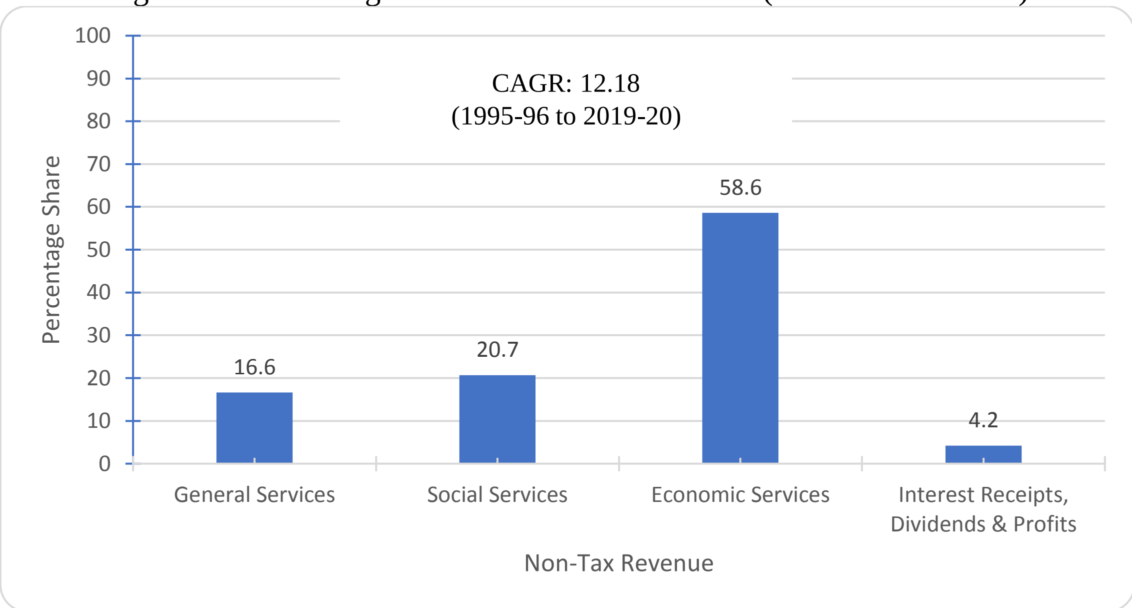
Source: Estimated from State's Finance Accounts (various issues).

General Services, which account for 17 percent of the Non-Tax Revenue, have experienced a Compound Annual Growth Rate (CAGR) of 8.82 percent during the period under consideration. This growth signifies the strengthening of administrative capabilities and an increase in income from services provided by the state government. The higher revenue generation from general services could be attributed to the enhancement of fees, fines, and other charges collected for services such as public safety, regulatory functions, and administrative procedures. The consistent growth in this category reflects the State's commitment to improving its infrastructure and the efficiency of public service delivery systems.

Social Services, contributing to 21 percent of the Non-Tax Revenue, have witnessed an impressive CAGR of 24.82 percent. This remarkable growth demonstrates the State's dedication to investing in the welfare of its citizens. The income generated from social services includes revenue from education, health, housing, and other social welfare programs. The growth in this category can be linked to the expansion of public services and the introduction of innovative social programs aimed at addressing the diverse needs of the Nagaland population. The significant increase in revenue from social services underscores the State's efforts to prioritize human development and ensure equitable access to essential services.

Economic Services, which make up the majority of Non-Tax Revenue at 59 percent, have exhibited a CAGR of 11.17 percent during the analyzed period. The revenue in this category comes from various sectors, such as agriculture, industry, and transportation. The robust growth of this revenue head is indicative of the State's focus on boosting economic activities and promoting overall development. The growth in economic services revenue can be attributed to the implementation of policies and initiatives aimed at attracting investments, promoting industrial growth, and encouraging sustainable development practices. The increasing revenue from economic services reflects the State's success in creating an environment conducive to economic growth and prosperity.

Figure 4.6: Percentage Share of Non-Tax Revenue (1995-96 – 2019-20)



Lastly, Interest Receipts, Dividends and Profits account for a modest 4 percent of the Non-Tax Revenue and have a CAGR of 7.91 percent. This revenue head comprises income from investments, state-owned enterprises, and financial institutions. The relatively stable growth of this category suggests that the state has been able to maintain its financial assets and investments effectively. Additionally, the steady increase in revenue from interest receipts, dividends, and profits highlights the State's ability to generate income from its assets, ensuring a diversified revenue stream that contributes to the overall financial stability of Nagaland.

The Non-Tax Revenue of Nagaland State from 1995-96 to 2019-20 offers valuable insights into the State's financial landscape. The growth in each of the revenue heads demonstrates the State's commitment to enhancing public services, promoting economic growth, and ensuring financial stability through prudent management of its assets and investments.

4.4.1 General Services

Public Service Commission, Police, Jail, Supplies and Disposals, Stationery and Printing, Public Works, Other Administrative Services, Contributions and Recoveries towards Pension and Retirement Benefits, and Miscellaneous General Services are some of the departments that fall under the General Services. These are the general services that the State's government machinery needs to function properly. The actions of these services do not produce much revenue. The following paragraphs provide an analysis of each head under General Services, including their CAGR and percentage share from 1995-96 to 2019-20.

Public Service Commission: With a CAGR of 17.05 percent and a 0.87 percent share of General Services, the Public Service Commission plays a vital role in maintaining the integrity and efficiency of the State's civil services. This growth signifies the importance of recruitment, selection, and promotion of competent and committed civil servants in Nagaland, leading to an increase in revenue from fees and other charges collected for examinations and other services provided by the commission.

Police: Accounting for 26.04 percent of General Services, the Police force is one of the most significant contributors in this category, with a CAGR of 18.90 percent. The growth in police-related revenue can be attributed to the collection of fines, fees, and other charges for various police services, such as issuing permits, licenses, and security clearances. The increase in revenue highlights the State's commitment to maintaining law and order and ensuring public safety.

Jails: Jails contribute a relatively small 0.08 percent to General Services, with a CAGR of 5.15 percent. This growth indicates that the state has been able to generate income through fees associated with the operation of correctional facilities, such as the cost of prisoner maintenance and the sale of prison-produced goods.

Stationery and Printing: With a 0.07 percent share in General Services and a CAGR of 3.10 percent, revenue from stationery and printing includes income generated from the sale of government publications, forms, and other printed materials. The modest growth in this category highlights the State's efforts to maintain a steady stream of income from these services.

Public Works: This subcategory contributes 1.89 percent to General Services but has experienced a negative CAGR of -0.92 percent. This decline could be attributed to a decrease in revenue generated from renting or leasing public buildings, facilities, and other public works infrastructure. The negative growth suggests a need to reevaluate the State's approach to managing its public works assets.

Other Administrative Services: With a 12.96 percent share of General Services and a CAGR of 4.00 percent, this category encompasses a wide range of miscellaneous services provided by the government. The steady growth in this subcategory highlights the State's ability to generate revenue from diverse sources, ensuring a more stable income stream.

Contributions and Recovers towards Pension and Other Retirement Benefits: Accounting for 10.86 percent of General Services, this subcategory has witnessed a CAGR of 17.09 percent. The growth signifies an increase in revenue from contributions made by employees and the state towards pension and retirement benefit schemes. The increase in revenue from this subcategory reflects the State's commitment to providing financial security for its retired employees.

Miscellaneous General Services (State Lotteries and Others): This subcategory, which includes state lotteries and other miscellaneous services, contributes the most significant share to General Services at 47.22 percent, with a CAGR of 8.76 percent. The substantial growth in this category can be attributed to the popularity of state lotteries and other revenue-generating initiatives. The State's ability to consistently increase revenue from these sources highlights its innovative approach to enhancing non-tax revenue streams.

The various heads under General Services in Nagaland demonstrate diverse growth rates and contributions to the State's Non-Tax Revenue. The State's ability to generate revenue from different sources within the General Services category showcases its commitment to maintaining and improving its public service delivery systems. Each subcategory's growth and share in General Services underscore the importance of effectively managing various government departments and agencies to generate revenue and ensure the efficient functioning of the state machinery. By focusing on enhancing the revenue from these subcategories, Nagaland can continue to invest in public infrastructure, maintain law and order, and provide essential services to its citizens, contributing to the overall development and prosperity of the state.

Figure 4.7: Percentage Share of General Services to Non-Tax Revenue (1995-96 – 2019-20).

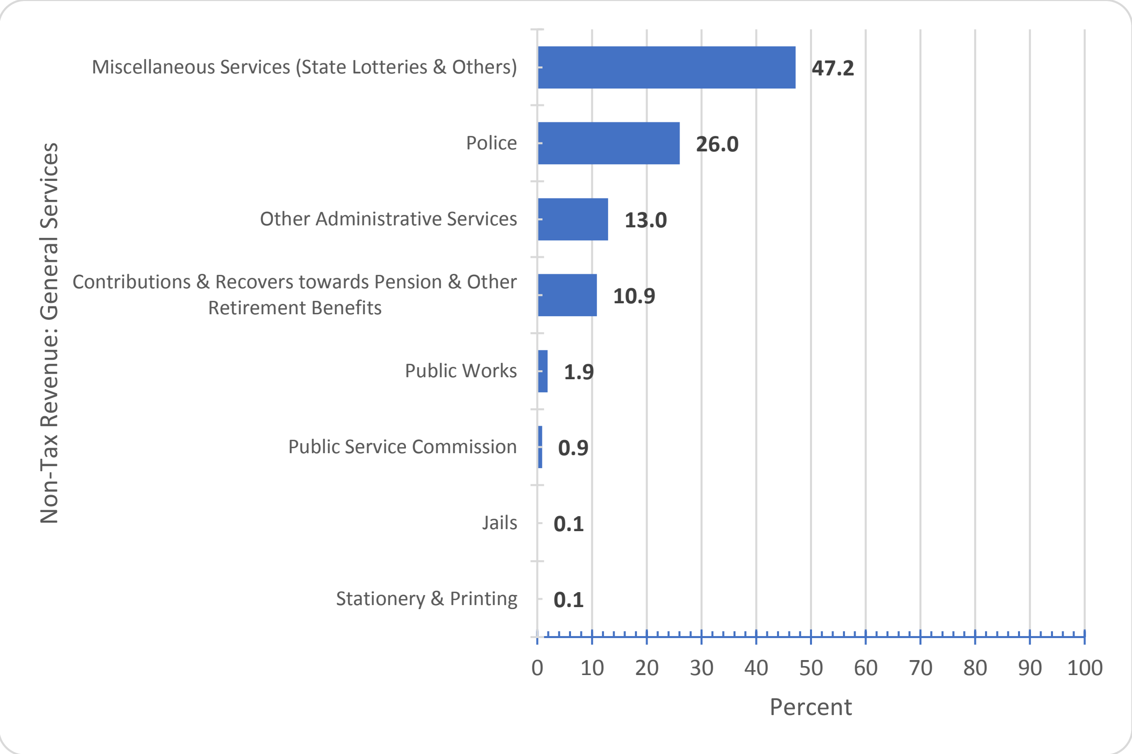


Table 4.8: Composition of Non-Tax Revenue: General Services (1995-96 to 2019-20). *(₹ Crore)*

Year	Public Service Commission	Police	Jails	Stationery and Printing	Public Works	Other Administrative Services	Contributions and Recovers towards Pension and Other Retirement Benefits	Miscellaneous General Services (State Lotteries and Others)	TOTAL
1995-96	0.01	0.33	0.00	0.00	0.75	4.05	0.04	7.78	12.96
1996-97	0.01	0.54	0.00	0.01	0.55	0.26	0.02	5.73	7.13
1997-98	0.02	0.26	0.00	0.01	0.57	0.26	0.02	5.54	6.68
1998-99	0.04	0.21	0.00	0.00	0.14	3.28	0.08	14.83	18.58
1999-00	0.03	0.15	0.34	0.01	0.32	6.11	0.08	0.79	7.81
2000-01	0.03	0.24	0.00	0.00	0.32	1.85	0.09	1.22	3.76
2001-02	0.06	0.51	0.01	0.01	0.97	3.14	1.04	0.44	6.18
2002-03	0.13	0.56	0.00	0.01	0.62	3.14	0.11	2.11	6.67
2003-04	0.23	0.17	0.00	0.01	0.75	3.96	0.12	2.10	7.35
2004-05	0.13	0.41	0.00	0.00	0.22	5.54	0.10	11.70	18.10
2005-06	0.01	1.56	0.01	0.05	0.17	7.10	0.40	15.64	24.93
2006-07	0.00	2.15	0.00	0.08	0.31	1.46	0.23	14.59	18.82
2007-08	0.00	2.73	0.01	0.07	0.10	1.93	0.21	19.44	24.50
2008-09	0.80	0.61	0.00	0.01	0.99	1.21	1.05	28.05	32.72
2009-10	0.09	0.44	0.02	0.01	0.54	1.42	0.21	7.04	9.75
2010-11	0.33	34.21	0.00	0.01	0.72	2.90	0.30	12.43	50.89
2011-12	0.00	30.65	0.03	0.02	0.69	2.38	0.31	29.01	63.10
2012-13	0.94	7.34	0.00	0.01	0.18	3.22	0.57	6.60	18.85
2013-14	0.53	3.37	0.06	0.00	0.40	2.73	0.31	6.57	13.97
2014-15	0.43	1.45	0.01	0.03	0.11	4.03	0.46	13.08	19.61
2015-16	0.57	1.68	0.00	0.00	0.23	2.55	0.50	13.43	18.96
2016-17	0.00	31.54	0.00	0.01	0.96	2.48	0.56	13.64	49.20
2017-18	0.57	2.70	0.00	0.02	0.34	6.37	59.53	16.10	85.63
2018-19	0.49	1.86	0.02	0.02	0.39	6.52	0.49	24.15	33.93
2019-20	0.00	36.56	0.00	0.04	0.46	2.86	0.83	22.18	62.95
CAGR	**-**	**18.90**	**-**	**3.10**	**-0.92**	**4.00**	**17.09**	**8.76**	**8.79**
% Share	**0.87**	**26.04**	**0.08**	**0.07**	**1.89**	**12.96**	**10.86**	**47.22**	**100.00**

Source: Estimated from State's Finance Accounts (various issues).

4.4.2 Social Services

In general, Social Services give services to society. As a result, as compared to Economic and General Services, the revenue generated by Social Services is low and minimal. Because this sector is primarily concerned with the wellbeing of the citizens of the State, it generates very little revenue and contributes very little to the State budget. Education, Sports and Culture, Medical and Public Health, Family Welfare, Water Supply and Sanitation, Housing, Urban Development, Information and Publicity, Labour and Empowerment, Social Security and Welfare, and Other Social Services are among the departments that make up the Social Services.

The Social Services category of Non-Tax Revenue in Nagaland encompasses a wide range of sectors aimed at enhancing the quality of life for its citizens. The following paragraphs provide an analysis of each head under Social Services, focusing on their CAGR and percentage share from 1995-96 to 2019-20.

Education, Sports, Art and Culture: With a substantial 82.02 percent share of the Social Services category and a CAGR of 39.71 percent, this subcategory is crucial to the State's human development efforts. The impressive growth in this segment can be attributed to the collection of fees for educational services, as well as revenue generated from sports, art, and cultural events. The high growth rate and share in this subcategory demonstrate the State's commitment to investing in education and promoting cultural heritage, sports, and artistic activities to foster a vibrant and diverse society.

Medical and Public Health: Accounting for a 0.73 percent share of Social Services and having a CAGR of 15.78 percent, the Medical and Public Health subcategory reflects the State's focus on providing quality healthcare services to its citizens. The growth in this category is primarily driven by the collection of fees for medical treatments, hospital services, and other health-related charges. The increasing revenue from this subcategory highlights the State's efforts to improve healthcare infrastructure, expand access to public health services, and promote overall wellbeing.

Water Supply and Sanitation: This subcategory holds a 4.29 percent share of Social Services and has experienced a CAGR of 11.83 percent. The growth in this category signifies the State's dedication to ensuring clean water and proper sanitation facilities for its population. The revenue generated from this segment comes from user charges for water supply services, sanitation fees, and the sale of recycled materials. The growth in this category highlights the State's commitment to investing in water and sanitation infrastructure to enhance the quality of life for its citizens.

Housing: With a 10.31 percent share in Social Services and a CAGR of 14.38 percent, the Housing subcategory represents the State's focus on providing affordable housing solutions for its citizens. The growth in this segment is driven by revenue generated from the sale or lease of government-owned properties, rent collected from public housing schemes, and other housing-related charges. The increasing revenue from this subcategory underscores the State's efforts to address housing needs and improve the living conditions for its population.

Labour and Employment: Contributing a 0.21 percent share to Social Services and having a CAGR of 8.59 percent, the Labour and Employment subcategory is essential for the State's economic development. The growth in this category can be attributed to the collection of fees for employment exchanges, vocational training programs, and other labor-related services. The increase in Revenue from this subcategory highlights the State's commitment to creating job opportunities, promoting skill development, and ensuring a skilled workforce to fuel economic growth.

Figure 4.8: Percentage Share of Social Services to Non-Tax Revenue (1995-96 – 2019-20).

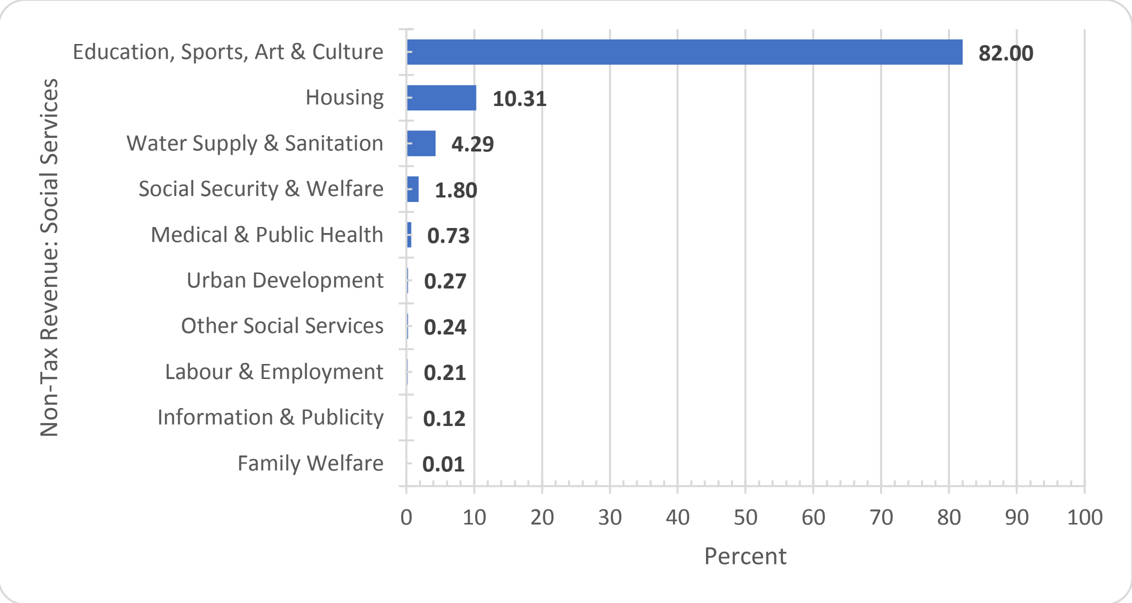


Table 4.9: Composition of Non-Tax Revenue: Social Services (1995-96 to 2019-20) *(₹ Crore)*

Year	*Education, Sports, Art and Culture*	*Medical and Public Health*	*Family Welfare*	*Water Supply and Sanitation*	*Housing*	*Urban Development*	*Information and Publicity*	*Labour and Employment*	*Social Security and Welfare*	*Other Social Services*	TOTAL
1995-96	0.14	0.02	0.00	0.30	0.14	0.00	0.01	0.03	0.01	0.00	0.65
1996-97	0.13	0.03	0.00	0.47	0.21	0.00	0.00	0.02	0.11	0.00	0.98
1997-98	0.07	0.02	0.00	0.21	0.23	0.00	0.01	0.02	0.12	0.00	0.68
1998-99	0.12	0.02	0.00	0.18	0.22	0.00	0.01	0.02	0.00	0.00	0.58
1999-00	0.15	0.02	0.00	0.33	1.89	0.00	0.02	0.02	0.00	0.00	2.45
2000-01	0.13	0.07	0.00	0.29	2.25	0.00	0.03	0.04	0.01	0.00	2.83
2001-02	0.46	0.12	0.00	0.36	2.22	0.00	0.02	0.03	0.01	0.00	3.22
2002-03	0.15	0.15	0.00	0.63	2.25	1.31	0.02	0.03	0.13	0.00	4.67
2003-04	0.19	0.06	0.00	0.80	2.19	0.00	0.05	0.03	0.56	0.09	3.98
2004-05	0.19	0.06	0.00	0.97	2.18	0.00	0.01	0.03	0.03	0.00	3.46
2005-06	0.22	0.07	0.00	1.06	2.23	0.00	0.03	0.03	0.31	0.00	3.96
2006-07	0.16	0.13	0.00	2.26	2.21	0.02	0.00	0.06	0.16	0.00	5.00
2007-08	0.48	0.16	0.00	1.07	2.11	0.04	0.00	0.03	0.31	0.00	4.21
2008-09	0.55	0.17	0.00	0.98	2.97	0.02	0.00	0.03	0.25	0.00	4.97
2009-10	0.43	0.09	0.00	0.94	3.43	0.03	0.02	0.03	0.17	0.00	5.14
2010-11	8.74	0.09	0.00	1.29	3.63	0.04	0.00	0.02	3.19	0.00	17.00
2011-12	12.16	0.21	0.00	1.62	4.38	0.07	0.03	0.03	0.70	0.00	19.20
2012-13	45.57	0.35	0.00	1.74	5.12	0.09	0.08	0.02	0.55	0.00	53.52
2013-14	67.83	0.55	0.01	1.95	5.13	0.09	0.09	0.05	1.17	0.00	76.86
2014-15	103.56	0.52	0.01	1.95	5.01	0.04	0.11	0.07	1.65	0.00	112.92
2015-16	76.52	0.59	0.00	2.43	5.36	0.05	0.15	0.10	0.16	0.00	85.35
2016-17	119.40	0.49	0.05	2.65	5.20	0.06	0.08	0.16	2.60	0.00	130.68
2017-18	132.84	0.60	0.00	3.21	6.28	0.12	0.08	0.20	0.02	0.00	143.36
2018-19	4.33	0.76	0.00	2.88	6.77	0.08	0.11	0.28	1.77	1.72	18.72
2019-20	62.04	0.31	0.00	2.77	6.40	0.01	0.00	0.24	0.00	0.03	71.80
CAGR	**39.71**	**15.78**	**-**	**11.83**	**14.38**	**-**	**-**	**8.59**	**-**	**-**	**24.84**
% Share	**82.02**	**0.73**	**0.01**	**4.29**	**10.31**	**0.27**	**0.12**	**0.21**	**1.80**	**0.24**	**-**

Source: Estimated from State's Finance Accounts (various issues).

The various heads under Social Services in Nagaland demonstrate the State's dedication to investing in the welfare of its citizens. The growth and share of each subcategory reflect the State's focus on human development, healthcare, infrastructure, and economic opportunities. By continuing to prioritize and expand Revenue from these areas, Nagaland can work towards ensuring equitable access to essential services and fostering an environment that promotes overall wellbeing and prosperity for its population.

4.4.3 Economic Services

Economic Services is one of the State government's most reliable key sources of Non-Tax Revenue. Other services, excluding Economic Services, account for a small portion of the State government's overall Non-Tax Revenue. Crop and Animal Husbandry, Dairy Development, Fisheries, Forestry and Wildlife, Plantation, Food Storage and Warehousing, Agricultural and Allied Services, Co-operation, Land Reforms, Irrigation, Power, Mine and Industry, Village and Small Industries, Tourism, Transport Services, Other Economic Services, and so on are all included in the Economic Services category. Only a few departments account for a large portion of total revenue. As a result, the State government must know of its revenue-generating strengths and weaknesses. Table 4.10 breaks out the specifics of some departments which have generated more revenue under Economic Services. The following paragraphs provide an analysis of each head under Economic Services, focusing on their CAGR and percentage share from 1995-96 to 2019-20.

Crop Husbandry: Holding a 0.23 percent share of Economic Services and a CAGR of 9.06 percent, the Crop Husbandry subcategory demonstrates the State's focus on agricultural development. The growth in this category is driven by revenue generated from agricultural extension services, fees for crop testing, and other related charges. The increasing revenue highlights the State's commitment to enhancing agricultural productivity and ensuring food security for its population.

Animal Husbandry: Contributing 0.44 percent to Economic Services and having a CAGR of 8.72 percent, the Animal Husbandry subcategory reflects the State's efforts to improve livestock farming and related services. The growth in this segment can be attributed to the collection of fees for veterinary services, breeding, and other animal husbandry-related activities. The increase in revenue from this subcategory signifies the

State’s dedication to promoting sustainable livestock management practices and supporting rural livelihoods.

Fisheries: With a 0.02 percent share in Economic Services and a CAGR of 3.88 percent, the Fisheries subcategory represents the State’s focus on developing the fisheries sector. The growth in this segment is driven by revenue generated from fishing licenses, fees for aquaculture services, and other related charges. The modest growth in this category highlights the potential for further development and expansion of the fisheries sector in Nagaland.

Forestry and Wildlife: This subcategory holds a 7.08 percent share of Economic Services and has experienced a CAGR of 9.02 percent. The growth in this category signifies the State’s commitment to sustainable forest management and wildlife conservation. The revenue generated from this segment comes from timber sales, forest product fees, and wildlife-related charges. The growth in this category emphasizes the State’s efforts to balance economic development with environmental conservation.

Food Storage and Warehousing: Accounting for a 0.12 percent share of Economic Services, the Food Storage and Warehousing subcategory has experienced a negative CAGR of -7.70 percent. This decline could be attributed to changes in the demand for food storage and warehousing services, as well as fluctuations in fees and other charges. The negative growth suggests a need to reevaluate the State’s approach to managing food storage and warehousing infrastructure.

Co-operation: Contributing 1.27 percent to Economic Services and having a CAGR of 14.85 percent, the Co-operation subcategory reflects the State’s focus on promoting cooperative societies and their activities. The growth in this segment can be attributed to the collection of fees for cooperative registration, audit services, and other related charges. The increasing revenue from this subcategory highlights the State’s commitment to fostering a spirit of cooperation and collective action among its citizens.

Power: With a dominant 75.82 percent share in Economic Services and a CAGR of 11.82 percent, the Power subcategory represents the State’s focus on developing and maintaining a robust power infrastructure. The growth in this segment is driven by revenue generated from electricity sales, fees for power transmission, and other related charges. The substantial revenue from this subcategory underscores the State’s efforts to ensure reliable and affordable energy supply for its population.

Villages and Small Industries: Holding a 0.36 percent share of Economic Services and a CAGR of 4.69 percent, the Villages and Small Industries subcategory demonstrates the State's focus on promoting rural and small-scale industries. The growth in this category is driven by revenue generated from fees for industrial registration, licensing, and other related charges. The modest growth in this category highlights the potential for further development and expansion of small-scale industries in Nagaland, which can contribute to economic diversification and job creation.

Non-Ferrous Mining and Metallurgical: Contributing 0.72 percent to Economic Services and having a CAGR of 16.58 percent, the Non-Ferrous Mining and Metallurgical subcategory reflects the State's efforts to develop and manage its mineral resources. The growth in this segment can be attributed to the collection of fees for mining licenses, royalties, and other related charges. The increasing revenue from this subcategory highlights the State's commitment to the responsible and sustainable extraction of mineral resources while ensuring economic benefits.

Road Transport: Accounting for 8.66 percent of Economic Services, the Road Transport subcategory has experienced a CAGR of 6.65 percent. The growth in this category signifies the State's dedication to maintaining and expanding its transportation infrastructure. The revenue generated from this segment comes from vehicle registration fees, road tolls, and other transport-related charges. The growth in this category emphasizes the State's efforts to improve connectivity and facilitate the movement of goods and people.

Tourism: With a 0.26 percent share in Economic Services and a CAGR of 6.85 percent, the Tourism subcategory represents the State's focus on promoting tourism as a driver of economic growth. The growth in this segment is driven by revenue generated from entry fees to tourist attractions, accommodation charges, and other tourism-related services. The modest growth in this category highlights the potential for further development and expansion of the tourism sector in Nagaland, which can contribute to job creation and economic diversification.

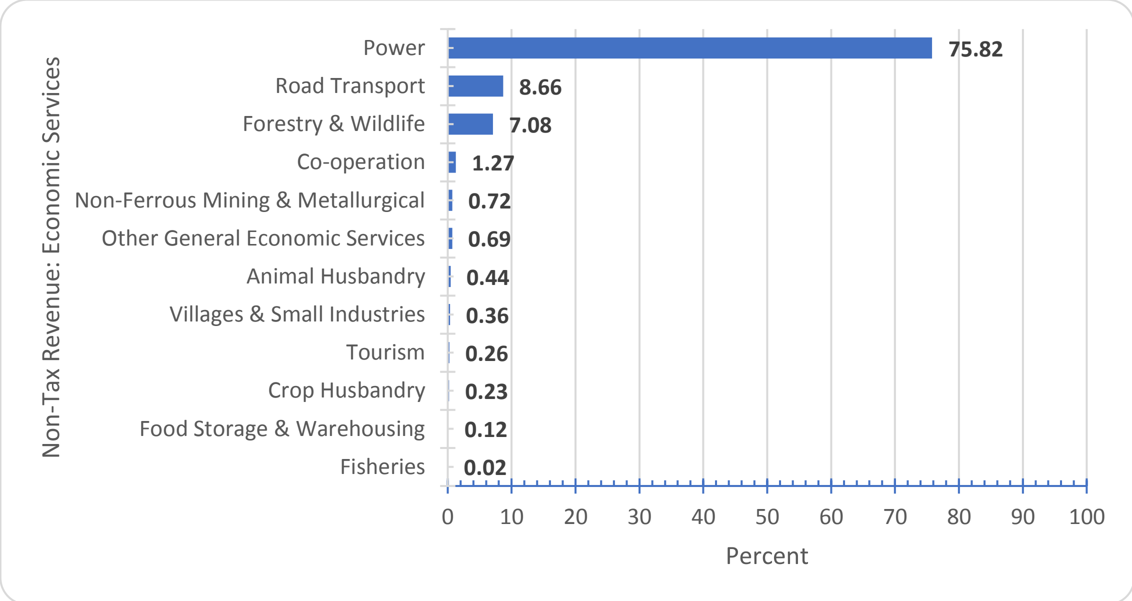
Table 4.10: Composition of Non-Tax Revenue: Economic Services (1995-96 to 2019-20) (₹ *crores)*

Year	Crop Husbandry	Animal Husbandry	Fisheries	Forestry and Wildlife	Food Storage and Warehousing	Co-operation	Power	Villages and Small Industries	Non-Ferrous Mining and Metallurgical	Civil Aviation	Roads and Bridges	Road Transport	Tourism	Other General Economic Services	TOTAL
1995-96	0.05	0.09	0.00	2.74	0.87	0.02	10.51	0.03	0.75	0.00	0.00	2.15	0.03	0.05	17.34
1996-97	0.08	0.10	0.01	2.07	0.78	0.02	18.46	0.03	0.17	0.00	0.00	2.19	0.12	0.05	24.11
1997-98	0.04	0.14	0.09	1.26	0.14	0.03	14.58	0.15	0.11	0.00	0.00	2.42	0.12	0.05	19.23
1998-99	0.03	0.10	0.01	3.05	0.02	0.06	17.21	0.10	0.03	0.00	0.00	2.50	0.14	0.06	23.55
1999-00	0.03	0.21	0.00	1.70	0.08	0.08	17.85	0.14	0.01	0.00	0.15	3.81	0.18	0.05	24.35
2000-01	0.14	0.17	0.01	2.64	0.06	0.08	19.87	0.15	0.09	0.00	0.43	5.16	0.08	0.05	29.12
2001-02	0.10	0.22	0.01	2.04	0.07	1.30	22.93	0.18	0.02	0.00	0.11	5.10	0.10	0.05	32.39
2002-03	0.10	0.20	0.00	3.54	0.01	0.97	19.59	0.62	0.01	0.00	0.00	5.52	0.16	0.06	30.88
2003-04	0.06	0.22	0.00	3.43	0.05	0.42	29.30	0.25	0.05	0.00	0.08	5.75	0.20	0.07	44.05
2004-05	0.09	0.33	0.01	3.88	0.02	0.84	39.66	0.46	0.10	0.00	0.27	6.79	0.17	0.06	53.06
2005-06	0.06	0.37	0.00	6.21	0.02	0.89	42.71	1.30	0.05	0.00	0.38	7.34	0.26	2.57	62.29
2006-07	0.15	0.35	0.02	5.95	0.03	0.92	41.63	0.21	1.91	0.00	0.84	8.03	0.30	0.73	61.28
2007-08	0.12	0.39	0.01	4.81	0.03	0.17	69.47	0.26	0.30	0.00	0.73	8.37	0.21	0.08	85.10
2008-09	0.11	0.43	0.03	4.78	0.02	0.79	111.49	0.67	0.89	0.00	1.09	9.38	0.13	0.08	132.18
2009-10	0.13	0.47	0.02	7.70	0.02	3.15	75.17	0.31	0.59	0.00	2.34	10.81	0.30	0.12	101.43
2010-11	0.16	0.57	0.00	10.18	0.01	0.34	74.01	0.35	0.72	0.00	2.28	11.55	0.16	0.12	100.90
2011-12	0.20	0.40	0.00	8.87	0.04	3.54	94.28	0.29	0.92	6.36	2.53	12.90	0.07	6.35	141.01
2012-13	0.16	0.50	0.01	7.76	0.09	1.13	102.83	0.34	0.87	1.03	1.80	11.37	0.31	0.19	128.90
2013-14	0.27	0.53	0.01	8.81	0.04	2.45	88.31	0.33	1.25	0.99	1.95	12.17	0.15	0.21	118.12
2014-15	0.99	0.57	0.02	9.68	0.03	0.98	98.91	0.45	1.41	1.43	1.59	12.97	0.16	1.99	131.75
2015-16	0.84	0.67	0.03	8.80	0.01	0.18	111.10	0.66	1.78	1.05	1.12	10.81	0.55	0.76	142.83
2016-17	0.78	0.46	0.03	10.03	0.02	0.42	114.58	0.24	0.73	20.78	1.23	9.00	0.29	0.27	159.62
2017-18	0.14	0.68	0.00	9.73	0.10	0.06	127.89	0.21	0.95	2.09	1.39	7.35	0.49	0.40	152.57
2018-19	0.13	0.83	0.04	12.62	0.02	7.77	147.97	0.17	1.23	6.70	1.54	8.74	0.64	0.52	189.88
2019-20	0.10	0.63	0.03	13.72	0.03	1.41	159.31	0.08	0.90	8.79	0.73	8.43	0.45	0.27	196.02
CAGR	**9.06**	**8.72**	**3.88**	**9.02**	**-7.70**	**14.85**	**11.82**	**4.69**	**16.58**	-	-	**6.65**	**6.85**	**12.59**	**11.17**
% Share	**0.23**	**0.44**	**0.02**	**7.08**	**0.12**	**1.27**	**75.82**	**0.36**	**0.72**	**2.24**	**1.03**	**8.66**	**0.26**	**0.69**	-

Source: Estimated from State's Finance Accounts (various issues).

Other General Economic Services: Holding a 0.69 percent share of Economic Services and a CAGR of 12.59 percent, the Other General Economic Services subcategory encompasses a wide range of miscellaneous economic services provided by the government. The steady growth in this subcategory highlights the State's ability to generate revenue from diverse sources, ensuring a more stable income stream and promoting overall economic growth.

Figure 4.9: Percentage Share of Economic Services to Non-Tax Revenue (1995-96 – 2019-20)



4.4.4 Non-Tax Revenue Growth Rate: Nagaland and Other Indian States

Non-Tax Revenue holds significant importance for India's financial health and overall economic growth. As the name suggests, Non-Tax Revenue refers to the income generated by the government from sources other than taxes. This revenue includes earnings from various government services, fees, fines, penalties, dividends, interests, grants, and other miscellaneous sources.

The Compound Annual Growth Rate (CAGR) data provided in Table 4.11, shows valuable insights into the performance of various Indian states in generating non-tax revenue. By analyzing this data, we can understand the trends and effectiveness of revenue generation mechanisms in different regions, with a particular focus on their growth rates. The following paragraphs delve into key observations and comparisons derived from the CAGR data.

Nationally, there is considerable variation in the CAGR of non-tax revenue among Indian states. This diversity indicates that each state has its unique economic landscape, priorities, and strategies for generating non-tax revenue. The table highlights the importance of understanding regional differences and the need for tailored approaches to enhance non-tax revenue generation across the country.

States like Orissa (19.86 percent) and Chhattisgarh (19.40 percent) have the highest CAGR in non-tax revenue, demonstrating their success in diversifying revenue streams and ensuring robust growth. These states may have adopted effective policies and strategies to optimize their revenue sources and maintain stable income from non-tax avenues, such as fees, fines, dividends, and interests.

At the other end of the spectrum, states like Sikkim (2.84 percent) and Telangana (1.90 percent) exhibit the lowest CAGR in non-tax revenue. The low growth rates in these states suggest potential areas for improvement in their revenue-generating mechanisms. By learning from the best practices of states with higher growth rates, these states can enhance their non-tax revenue generation capabilities.

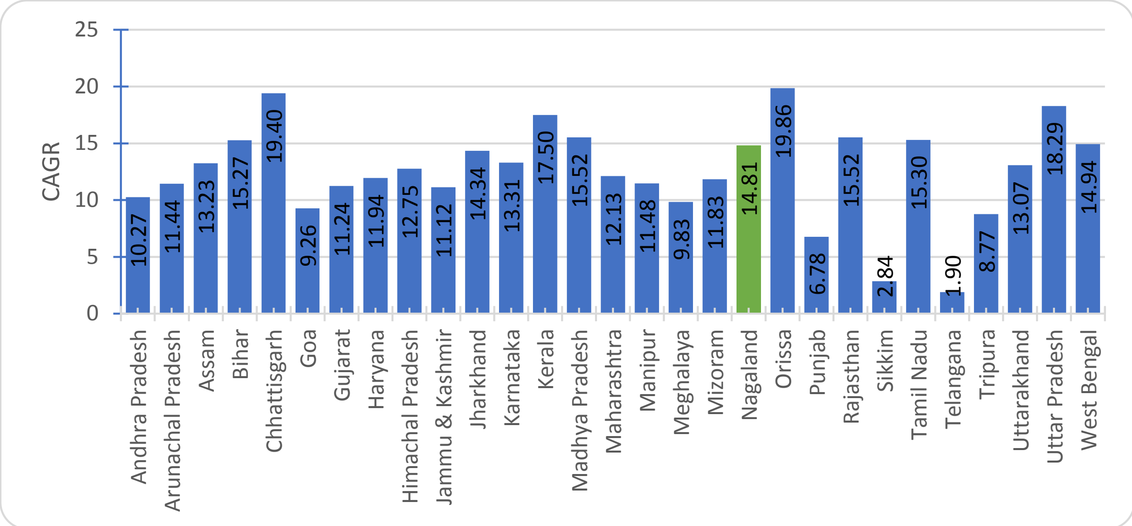
Nagaland, with a CAGR of 14.81 percent, ranks in the upper-middle range among Indian states in terms of non-tax revenue growth. This performance suggests that Nagaland has been reasonably effective in generating non-tax revenue, as it outperforms some of its neighboring states like Assam (13.23 percent), Manipur (11.48 percent), Meghalaya (9.83 percent), and Tripura (8.77 percent). The State's efforts in diversifying revenue streams and optimizing non-tax revenue sources have contributed to its relatively strong growth rate in this sector.

Table 4.11: Compound Annual Growth Rate of Non-Tax Revenue (1990-00 to 2019-20)

States	**CAGR**	**States**	**CAGR**
Andhra Pradesh	10.27	Manipur	11.48
Arunachal Pradesh	11.44	Meghalaya	9.83
Assam	13.23	Mizoram	11.83
Bihar	15.27	Nagaland	14.81
Chhattisgarh	19.40	Orissa	19.86
Goa	9.26	Punjab	6.78
Gujarat	11.24	Rajasthan	15.52
Haryana	11.94	Sikkim	2.84
Himachal Pradesh	12.75	Tamil Nadu	15.30
Jammu and Kashmir	11.12	Telangana	1.90
Jharkhand	14.34	Tripura	8.77
Karnataka	13.31	Uttarakhand	13.07
Kerala	17.50	Uttar Pradesh	18.29
Madhya Pradesh	15.52	West Bengal	14.94
Maharashtra	12.13		

Source: Estimated from various RBI bulletins.

Figure 4.10: CAGR of Non-Tax Revenue: All States (1999-00 to 2019-20)



The CAGR data of non-tax revenue for Indian states offers valuable insights into the effectiveness of revenue generation mechanisms across the country. The diversity in growth rates highlights the unique economic contexts, priorities, and strategies of each state. Understanding these differences and learning from the best practices of high-performing states can help enhance non-tax revenue generation in India, contributing to the nation's financial stability and overall economic growth.

4.5 Estimation of Tax Buoyancies

The level of tax buoyancy is an indicator used to quantify the efficiency and responsiveness of revenue mobilization in response to an increase in the Gross Domestic Product (GDP). A tax is considered buoyant when the amount of money collected from it grows at a greater rate than the proportional increase that results from a growth in the Gross State Domestic Product (GSDP). Buoyancy coefficient is a measure of the responsiveness of revenue receipts to changes in GSDP. A coefficient greater than 1 indicates that revenue grows faster than GSDP, while a coefficient less than 1 indicates that revenue grows slower than GSDP.

Table 4.12: Buoyancy of Tax and Non-Tax Revenues with respect to GSDP: Nagaland (1995-96 to 2019-20)

Revenue Heads	Buoyancy Coefficient (GSDP)	R^2	F-Test
Tax Revenue	1.77	0.96	503.38
Non-Tax Revenue	0.97	0.94	338.77

Source**:** Computed on the basis of data available in various issues of Finance Accounts.

4.5.1 Buoyancy of Tax Revenue with Respect to GSDP

The regression model has a high R-squared value of 0.96, indicating that 96 percent of the variation in Tax Revenue Buoyancy can be explained by changes in GSDP. The F-Test result shows that the regression model is significant with a p-value of 3.89247E-17, indicating that the relationship between Tax Revenue Buoyancy and GSDP is statistically significant.

The coefficients of the model indicate that the intercept value is -9.805751694, and the slope of the line is 1.77. This suggests that when GSDP increases by one percent, Tax Revenue Buoyancy increases by 1.77 percent.

Overall, the regression model suggests that there is a positive relationship between GSDP and Tax Revenue Buoyancy, which means that an increase in GSDP is likely to lead to an increase in Tax Revenue Buoyancy.

4.5.2 Buoyancy of Non-Tax Revenue with Respect to GSDP

The regression result shows that the R-squared value is 0.94, which means that 94 percent of the variation in Non-Tax Revenue Buoyancy can be explained by changes in GSDP. The adjusted R-squared value is 0.934, indicating that the model fits well.

The F-statistic is 338.77, with a very low p-value of 2.93E-15, which means that the regression model is significant and provides evidence that Non-Tax Revenue Buoyancy and GSDP are positively correlated.

The slope of the regression line is 0.97, which means that for every one percent increase in GSDP, Non-Tax Revenue Buoyancy increases by 0.97 percent. The p-value associated with the slope coefficient is very low, indicating that this relationship is significant.

4.5.3 Tax Buoyancy: All India

Tax Revenue: Table 4.13 presents the tax buoyancy coefficient and R2 values for all Indian states during the period 1999-00 to 2019-20. Tax buoyancy is an indicator that shows how tax revenue grows in response to the growth in the Gross State Domestic Product (GSDP). A tax buoyancy coefficient higher than 1 indicates that tax revenues are growing faster than the State’s economic output, while a value lower than 1 signifies that tax revenues are growing at a slower rate than the economy. The R2 value, on the other hand, represents the proportion of the variance in tax revenue that is predictable from the GSDP, with a higher value indicating a stronger relationship.

Nagaland stands out in the table with a tax buoyancy coefficient of 1.481, which is the highest among all the states. This indicates that Nagaland's tax revenues have been growing at a much faster rate than its GSDP during the studied period. In addition, Nagaland has an R^2 value of 0.864, suggesting a strong correlation between its tax revenue and GSDP. This means that a significant proportion of the variation in Nagaland's Tax Revenue can be explained by its economic performance.

Table 4.13: Buoyancy of Tax and Non-Tax Revenues with respect to GSDP: All India (1999-00 to 2019-20)

States	**Tax Revenue**		**Non-Tax Revenue**	
	Buoyancy Coefficient (GSDP)	**R^2**	**Buoyancy Coefficient (GSDP)**	**R^2**
Andhra Pradesh	0.887	0.799	0.856	0.796
Arunachal Pradesh	1.452	0.822	0.722	0.567
Assam	1.161	0.990	0.990	0.935
Bihar	1.043	0.991	1.055	0.892
Chhattisgarh	1.156	0.966	0.126	0.949
Goa	0.826	0.667	0.645	0.874
Gujarat	0.915	0.991	0.722	0.899
Haryana	0.908	0.983	0.784	0.962
Himachal Pradesh	1.060	0.983	0.895	0.934
Jammu and Kashmir	1.152	0.977	0.795	0.963
Jharkhand	0.914	0.639	1.029	0.924
Karnataka	0.908	0.991	0.792	0.927
Kerala	0.930	0.996	1.175	0.975
Madhya Pradesh	1.064	0.989	1.070	0.978
Maharashtra	0.761	0.467	0.850	0.925
Manipur	1.429	0.967	0.864	0.861
Meghalaya	1.357	0.943	0.786	0.909
Mizoram	1.353	0.915	0.767	0.956
Nagaland	1.481	0.864	1.193	0.769
Orissa	1.084	0.991	1.303	0.838
Punjab	1.065	0.990	0.538	0.580
Rajasthan	1.034	0.992	1.021	0.987
Sikkim	0.882	0.962	0.146	0.265
Tamil Nadu	0.889	0.995	0.990	0.967
Telangana	1.251	0.925	0.114	0.919
Tripura	1.296	0.910	0.677	0.830
Uttarakhand	1.302	0.981	0.943	0.859
Uttar Pradesh	0.871	0.991	1.009	0.964
West Bengal	1.195	0.994	1.198	0.947

Source: Estimated from various RBI bulletins.

Comparing Nagaland with other states, Arunachal Pradesh comes in second place in terms of tax buoyancy with a coefficient of 1.452, followed by Manipur with 1.429, Meghalaya with 1.357, and Mizoram with 1.353. On the other end of the spectrum, Maharashtra has the lowest tax buoyancy coefficient at 0.761, followed by Goa with 0.826 and Jharkhand with 0.914. This implies that in states like Maharashtra, tax revenues are not growing as quickly as their GSDP.

In terms of R^2 values, most states have values above 0.9, indicating a strong relationship between tax revenue and GSDP. Some states, however, have relatively lower R^2 values, such as Maharashtra (0.467), Jharkhand (0.639), and Goa (0.667), which suggests a weaker correlation between their Tax Revenues and economic performance.

The result indicates that Nagaland has experienced the highest Tax Buoyancy among all Indian States during the period of 1999-00 to 2019-20, with Tax Revenues growing at a significantly faster rate than its GSDP. This performance, combined with a strong correlation between Tax Revenue and GSDP, highlights the effectiveness of Nagaland's tax system in mobilizing revenue in response to economic growth.

Non-Tax Revenue: Focusing on Nagaland, the State has a Non-Tax Buoyancy coefficient of 1.193, which is relatively high among all the states. This indicates that Nagaland's Non-Tax Revenues have been growing at a faster rate than its GSDP during the studied period. However, Nagaland's R^2 value is 0.769, which suggests a moderate correlation between its Non-Tax Revenue and GSDP. This means that a significant proportion of the variation in Nagaland's Non-Tax Revenue can be explained by its economic performance, but the relationship is not as strong as in some other states.

Comparing Nagaland with other states, Orissa and West Bengal have the highest non-tax buoyancy coefficients, at 1.303 and 1.198, respectively. In contrast, states like Telangana (0.114), Sikkim (0.146), and Chhattisgarh (0.126) have the lowest non-tax buoyancy coefficients, implying that their non-tax revenues are growing at a much slower rate compared to their GSDP.

In terms of R^2 values, Rajasthan has the highest value at 0.987, followed by Madhya Pradesh with 0.978 and Kerala with 0.975, indicating strong relationships between non-tax revenue and GSDP in these states. On the other hand, Sikkim has the lowest R^2 value at 0.265, followed by Punjab at 0.580 and Arunachal Pradesh at 0.567, suggesting weaker correlations between non-tax revenues and economic performance in these states.

The data indicates that Nagaland has experienced a relatively high Non-Tax Buoyancy during the period of 1999-00 to 2019-20, with Non-Tax Revenues growing faster than its GSDP. However, the correlation between non-tax revenue and GSDP in Nagaland is moderate, implying that other factors might also be influencing its Non-Tax Revenue growth. The State’s performance in Non-Tax Revenue mobilization is better than many other Indian states, but there is still room for improvement in terms of strengthening the relationship between non-tax revenue and economic growth.

4.6 Nagaland’s Reliance on Central Government Transfer

Central transfers play a crucial role in supporting Nagaland's economy and meeting its developmental needs. As a small state in northeastern India, Nagaland faces unique challenges, including geographical remoteness, limited infrastructure, and a relatively small revenue base. In this context, central transfers serve as a lifeline for the state, providing financial assistance to bridge the gap between its revenue generation and expenditure requirements. The central government transfers funds to Nagaland through various channels, such as grants, tax devolution, and centrally sponsored schemes. These transfers aim to address the State’s specific needs and promote equitable development across regions. They enable Nagaland to undertake infrastructure projects, invest in education and healthcare, and implement poverty alleviation programs.

However, while Central transfers provide vital financial support, they also have implications for Nagaland's fiscal autonomy. The State’s reliance on external funds reduces its ability to independently determine its fiscal policies and priorities. Budgetary allocations and expenditure decisions are largely influenced by the central government, limiting Nagaland's flexibility to address its unique challenges and tap into its economic potential. Moreover, fluctuations in central transfers can significantly impact Nagaland's financial stability. Any changes in funding patterns or delays in disbursing funds can disrupt the State’s budget planning and hinder the implementation of crucial projects. This highlights the need for a sustainable and predictable transfer mechanism that takes into account Nagaland's specific requirements and allows for effective long-term planning.

To the analyze the reliance of State Government of Nagaland on Central Transfer, has increased over time, impacting its fiscal autonomy, multiple regression analysis model was tested on the Revenue Receipts of Nagaland from 1995-96 to 2019-20.

The multiple regression analysis was conducted to examine the impact of Tax Revenue (TN), Non-Tax Revenue (NTR), the State's share in Union Taxes (UT), and Grants-in-Aid from the Centre (GIA) on Nagaland's Total Revenue Receipts (TRR). The data were transformed by taking all the variables' natural logarithm (LN). The model demonstrated a high level of explanatory power, with an adjusted R-squared of .998, indicating that the independent variables can account for approximately 99.8% of the variance in Total Revenue Receipts. The standard error of the estimate was .04540.

Table 4.14: Result of Multiple Regression Analysis

Variable	**Coefficient**	**t-statistic**	**Prob.**
Constant	1.907	8.540	.000
LNTR	.265	5.404	.000
LNNTR	-.008	-.152	.881
LNUT	.134	7.955	.000
LNGIA	.524	8.509	.000
R^2	.998		
ΔR^2	.998		

Note: $*p < 0.05$, LNTR = log of Tax Revenue, LNNTR = log of Non-Tax Revenue, LNUT = Log of Union Taxes, LNGIA = log of Grants-in-Aid

The analysis of variance (ANOVA) revealed a statistically significant regression model F (4, 20) = 2.422E3, $p < .001$), indicating that the model as a whole had a significant impact on Total Revenue Receipts. The coefficients of determination showed that the regression model explained 99.8% of the total sum of squares, further supporting the model's strong fit.

The coefficients for the individual predictors were also examined to determine their impact on Total Revenue Receipts. The constant term was estimated at 1.907 (SE = .223, t = 8.540, $p < .001$), indicating the expected value of Total Revenue Receipts when all independent variables are zero. Among the transformed variables, LNTR had a coefficient of .265 (SE = .049, t = 5.404, $p < .001$) and a standardized coefficient (Beta) of .328. The result suggests that Tax Revenue has a significant positive impact on Total Revenue Receipts.

On the other hand, LNNTR had a coefficient of -.008 (SE = .055, t = -.152, p = .881), indicating no significant impact on Total Revenue Receipts. LNUT, with a coefficient of .134 (SE = .017, t = 7.955, $p < .001$) and a standardized coefficient of .191, showed a significant positive relationship with Total Revenue Receipts. Lastly, LNGIA had a coefficient of .524 (SE = .062, t = 8.509, $p < .001$) and the highest standardized coefficient of .539, implying that Grants-in-Aid from the Centre have the most substantial impact on Total Revenue Receipts in Nagaland.

Given this finding, it can be reasonably hypothesized that Nagaland's reliance on Central government transfers has increased over time during the research period. The positive coefficient for Grants-in-Aid from the Centre implies that these transfers play a crucial role in contributing to Nagaland's Total Revenue Receipts. The standardized coefficient for GIA is the highest among the variables, indicating its more substantial influence on Total Revenue Receipts than the other factors examined in the regression model.

Considering the historical context and additional supporting evidence, such as trends in Nagaland's fiscal transfers and budgetary position, the results strengthen the hypothesis and conclude that Nagaland has become more reliant on Central government transfers over time. It suggests that the State's fiscal stability and economic well-being are increasingly tied to the funding received from the Central government through grants.

Therefore, the hypothesis statement "Nagaland's reliance on Central government transfer has increased over time" is supported by the findings from this multiple regression analysis.

4.7 Challenges in Mobilization Revenue in Nagaland

Nagaland, one of the Northeastern States of India, has a predominantly agricultural economy, with a relatively small industrial base. The State’s economy is largely dependent on Central government funds, making it vulnerable to fiscal deficits. The State government has been facing significant challenges in generating enough Revenue to meet its growing demands. This study explores the challenges in mobilizing Revenue resources in Nagaland.

1. Limited Tax Base: Nagaland is a small State with a population of just over nineteen lakh people, and the Government's tax base is narrow. Expanding the tax base is challenging due to low compliance, a predominantly agrarian economy, and a large population engaged in subsistence farming or small-scale businesses. The State government's Revenue comes mainly from taxes on goods and services, including sales tax and excise duty. However, the Revenue generated from these sources is not sufficient to meet the State’s growing needs. Therefore, the government needs to explore alternative Revenue sources, such as Non-Tax Revenue, to increase its revenue base.
2. Administrative Capacity: Another challenge facing Nagaland is its weak tax collection system. The effectiveness of Revenue mobilization depends on the administrative capacity of tax authorities. Limited resources, inadequate training, and a lack of skilled personnel can hinder tax administration and enforcement efforts. The State government has been struggling to improve its tax collection system and increase compliance. The main reason for the poor tax collection is the low tax culture prevalent in the State. The government has to create awareness among the people to pay taxes to the government regularly. The government should set up a robust tax collection system by leveraging technology and creating awareness among the public about the benefits of paying taxes. Also, the government should provide incentives to taxpayers and increase its monitoring of tax evasion.
3. Infrastructure and Connectivity: Infrastructure is another area where the State government should focus its attention. Nagaland faces a severe lack of infrastructure, particularly in the remote areas. The State government should invest in infrastructure development, particularly in the transport and communication sectors, to enable better connectivity between the urban and rural areas. The development of new infrastructure will not only create more job opportunities but also provide a conducive environment for businesses to thrive, which will contribute to higher revenue generation.
4. Tourism is a significant opportunity for revenue generation for Nagaland. Nagaland is known for its rich cultural heritage and scenic beauty. However, the tourism industry in the State is still in its nascent stage. The government should take steps to promote tourism by developing tourist spots, improving transportation facilities, and providing better accommodation facilities. This

would attract more tourists to the State, which would create job opportunities and contribute to revenue generation.

5. Informal Economy: The presence of a significant informal economy poses a challenge to revenue mobilization efforts. Many economic activities, especially in rural areas, are conducted outside the formal tax system, making it difficult to capture and collect taxes from these sectors. The State government should focus on developing its agriculture and horticulture sectors in rural areas. The majority of the population in Nagaland is engaged in agriculture and horticulture. The government should provide better infrastructure, market linkages, and credit facilities to farmers to improve their income levels. This would not only improve the livelihoods of the farmers but also increase revenue generation for the State.
6. Political Will and Governance: The commitment of policymakers and the effectiveness of governance play a crucial role in Revenue mobilization. Ensuring political will, transparency, and accountability in revenue-related decision-making is essential for creating an enabling environment for revenue mobilization efforts.

4.8 Conclusion

The growth and structure of Revenue in India has been a subject of intense interest and research, particularly with respect to the North Eastern state of Nagaland. India is a rapidly growing economy and the Revenue structure in the Country has changed significantly over the years. In Nagaland, however, the revenue growth has been slower compared to other states in India. The primary reason for this is the low level of economic development in the State. Nagaland is primarily an agrarian economy and lacks the industrialization and urbanization that is seen in other states. This has resulted in low levels of tax revenue and limited resources for the government to invest in development initiatives.

The Revenue structure in Nagaland is heavily reliant on grants and transfers from the Central government. This is because the state has limited sources of Revenue, and its Own Tax collection capabilities are relatively weak. The Central government provides financial assistance to Nagaland in the form of grants and transfers to support development initiatives and to help the State meet its Revenue needs.

The analysis reveals a positive growth trajectory in both Tax and Non-Tax Revenue, indicating Nagaland's efforts to diversify its Revenue streams and enhance financial stability. The study highlights the significant contribution of Taxes on Sales and Trade, which exhibited steady growth with a Compound Annual Growth Rate (CAGR) of 15.43 percent. Additionally, Taxes on Vehicles and implementing GST showed substantial growth rates, reflecting Nagaland's commitment to expanding its tax base and adapting to changing economic dynamics. Similarly, to Tax Revenue, the State administration could not collect substantial Non-Tax Revenue throughout the research period. Economic Services provide the most significant contribution to Non-Tax Revenue in which Power department brought considerable revenue to the State. Department of Education, Sports, Art and Culture contributed the most in case of Social Services, and under General Services of Non-Tax Revenue, Miscellaneous General Services, and Police Department supplied considerable Revenue to the State.

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CHAPTER 5

GROWTH OF PUBLIC EXPENDITURE IN NAGALAND

5.1 Introduction

In India's states, the government's economic pursuits and public spending have risen in relative and absolute terms. Achieving steady and equitable economic growth is one of the main goals of public expenditure policy. Public spending has played a significant role in the long-term growth of both physical and human capital (Lhoungu et al., 2016). The proper distribution of public spending can also boost short-term economic growth. Determining how public spending affects economic growth can therefore be used as a comprehensive indicator of the effectiveness of public spending. The contribution of government spending to economic growth and the effectiveness with which it produces the desired results should be included in this measure. Ghosh (2008) examined the long-term growth performance and regional differences in per capita income among 15 significant Indian states. The study's findings showed that throughout the post-reform period, there was a more significant disparity in per capita income among areas. According to the author, economic reforms significantly cause India's growing and widening income gaps. The study showed that changes highly influenced regional divergence in production structures, human capital, and infrastructure. The research proposed more significant public infrastructure and human capital investments for states with lower steady-state levels to alleviate these discrepancies and improve overall growth. This would aid in closing the gap and encourage more equitable development throughout India's many regions. This chapter aims to examine the patterns and trends of public expenditure in Nagaland to understand the factors contributing to its growth over time. By examining the various sectors and domains where public funds have been allocated, we can gain insights into the priorities and strategies of the government in Nagaland.

Furthermore, this chapter aims to explore the implications of public expenditure growth on Nagaland's socio-economic landscape. Understanding the impact of public spending on critical sectors such as education, healthcare, infrastructure, and rural development is essential for assessing the effectiveness and efficiency of government policies in addressing the population's needs.

Through a comprehensive analysis of the growth of public expenditure in Nagaland, the study tries to shed light on the dynamics of fiscal policy and its implications for the state's overall development. This chapter will provide a valuable resource for policymakers, researchers, and stakeholders interested in understanding the role of public expenditure in shaping the economic trajectory of Nagaland.

It is observed that the State government of Nagaland is more concern with Non-Plan Revenue Expenditure due to the payment of salaries, pensions of government employees and for the payment of interest on outstanding debts. The State cannot contemplate appropriate capital spending for socio-economic infrastructural development due to large fiscal deficits in different fiscal years.

Fiscal Deficit is measured as a proportion of state income (GSDP) through time, and it is used to determine fiscal health. The debt-to-GSDP ratio in Nagaland has been rising over time, reflecting a higher proportion of interest payments to Revenue Expenditure, enhancing further revenue spending to other sorts of mounting revenue expenditure such as salary and pension payments to government employees.

Since Fiscal Deficit is not used as a productive expenditure, the State government is unable to repay the debt in future. On the other hand, debt accumulation with interest payments over time, resulting from unproductive public borrowings in the past, traps the State in a debt trap, leading to non-solvency and, hence, non-sustainability of the public debt. An analysis of public spending shows a considerable increase in public spending in the form of Non-Plan Revenue Expenditure, resulting in a lack of necessary capital spending for the state's economic growth. Nagaland, being a backward State due to its inability for infrastructural development, worsen the situation by shifting a large portion of public spending to the revenue account.

5.2 Growth of Public Expenditure in Nagaland

A study conducted by Tulsidharan (2006), focused on examining the correlation between government expenditure and economic growth in India. The primary discoveries of the research indicate that as economic growth rises, there is a corresponding upsurge in government expenditure. Moreover, it was found that the government's final consumption expenditure favorably impacts India's economic growth. Lahirushan and Gunasekara (2015) investigated the impact of government spending on economic growth in Asian nations using quantitative research and secondary data from 1970 to 2013. Their main conclusions show that government spending has a considerable and favourable impact on Gross Domestic Product (GDP) in the Asian area. The analysis also demonstrates a one-way causal relationship, with economic growth in Asian nations causing increased government spending and vice versa. The findings also show a long-term relationship between government spending and regional economic expansion.

Overall, Lahirushan and Gunasekara's research emphasizes the reciprocal link between the two variables and the significance of government spending in promoting economic growth in Asian nations. An attempt has been made to analyze the patterns of Public Expenditure from 1995-96 to 2019-20 in order to obtain a better understanding of the growth of Total Public Expenditure in the State of Nagaland. Table 5.1 shows the rise of Nagaland's Public Expenditure as a percentage of GSDP.

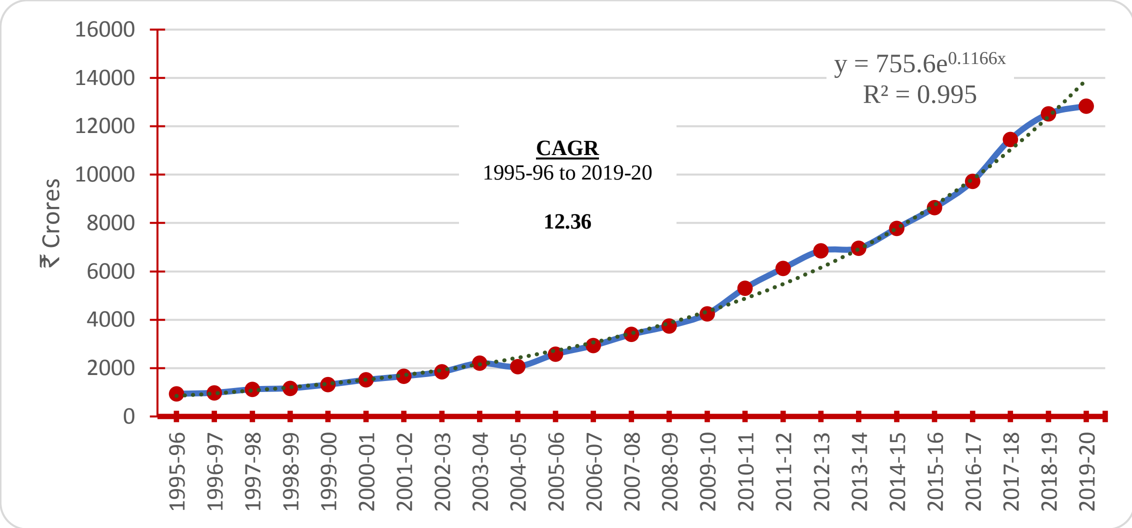
Table 5.1: Growth of Public Expenditure in Nagaland: Revenue and Capital Account

(₹ *Crores*)

Years	Total Expenditure	GSDP (Current Prices)	Total Expenditure as % of GSDP
1995-96	935.89	1605.51	58.3
1996-97	981.93	1914.04	51.3
1997-98	1121.86	2324.10	48.3
1998-99	1168.19	2626.23	44.5
1999-00	1320.14	2967.64	44.5
2000-01	1514.63	3679.36	41.2
2001-02	1665.84	4136.88	40.3
2002-03	1846.96	4748.60	38.9
2003-04	2204.12	5238.66	42.1
2004-05	2064.06	5838.84	35.4
2005-06	2578.40	6587.68	39.1
2006-07	2932.62	7256.65	40.4
2007-08	3393.75	8074.95	42.0
2008-09	3742.63	9436.07	39.7
2009-10	4241.97	10526.77	40.3
2010-11	5310.78	11759.37	45.2
2011-12	6125.05	12176.76	50.3
2012-13	6856.57	14121.27	48.6
2013-14	6957.41	16611.73	41.9
2014-15	7785.58	18400.67	42.3
2015-16	8641.16	19523.95	44.3
2016-17	9728.03	21722.45	44.8
2017-18	11466.19	24392.96	47.0
2018-19	12515.55	26527.42	47.2
2019-20	12843.34	29535.93	43.5
CAGR	**12.36**	**12.50**	**Avg. % 44.0**

Source: Estimation from State's Finance Accounts (various issues).

Figure 5.1 Trends in Total Public Expenditure



With a compound annual growth rate of 12.36 percent, the State's Total Public Expenditure climbed from ₹ 935.89 crores in 1995-96 to ₹ 2064.06 crores in 2004-05, and then from ₹ 7785.58 crores in 2014-15 to ₹ 12843.34 crores in 2019-20. Throughout the study period, it has been seen that government spending has increased slowly and consistently, with few deviations. Increased Revenue Expenditures are responsible for Nagaland's increasing trend in overall public expenditures over the last twenty-five years. Increased spending on state organs, interest payments and debt servicing, administrative services, and a failure to raise revenue and match expenditure are all eating into the state economy's vitals.

5.3 Expenditure on Revenue and Capital Accounts

In Nagaland, public expenditure is split into two categories for accounting purposes: expenditure on the revenue account and expenditure on the capital account. The current consumer spending on goods and services is dealt with in the revenue account. Expenditure on capital accounts, on the other hand, is concerned with the purchase or creation of durable assets as well as certain financial investments. The distinction between the two is essentially between expenditures that result in new assets and those that do not. Goods and services consumed during the accounting period may be included in the Current Expenditure. Revenue expenditures cover the day-to-day operations of government agencies and services, as well as interest charges on the government's debt. Any expenditure that does not result in the creation of assets and all grants to local governments and other parties are accounted for as Revenue Expenditures. Whereas, all investment expenditures in socio-economic sectors, as well as loans and advances to other governments, public agencies, or statutory organizations, are included in capital expenditures.

The essential feature of capital expenditure is that at least a portion of it is made at one time, with the benefits accruing over several years. The type of expenditure intended to develop concrete assets of a material character is the most used criterion for defining capital expenditure in Nagaland. As a result, Revenue Expenditure can be described as spending on items that will be consumed rapidly, usually within a year. Capital expenditure, on the other hand, refers to spending on assets with long-term advantages.

Table 5.2 shows the details of public spending on the Revenue and Capital accounts in the Nagaland budgets. According to the study, Revenue spending climbed from ₹ 834.48 crores in 1995-96 to ₹ 1684.63 crores in 2004-05, and then from ₹ 6762.41 crores in 2014-15 to ₹ 11637.02 crores in 2019-20. Revenue accounts for a 12.40 percent Compound Annual Growth Rate. During the study period, however, Revenue Account expenditure contributed a bigger percentage of overall public spending than Capital Account expenditure. It is evident from the study, Revenue Expenditure accounts for the lion's share of Total Public Expenditure, accounting for 84.8 percent of Total Expenditure compared to only 16 percent for Capital expenditure.

Capital Account expenditure increased from ₹ 101.41 crores in 1995-96 to ₹ 379.44 crores in 2004-05, then from ₹ 1023.17 crores in 2014-15 to ₹ 1206.32 crores in 2019-20. The Compound Annual Growth Rate of Capital Account Expenditures is 12.00 percent. However, as compared to the percentage contribution of Revenue expenditure, the percentage contribution of Capital expenditure is deficient at 15.2 percent on average.

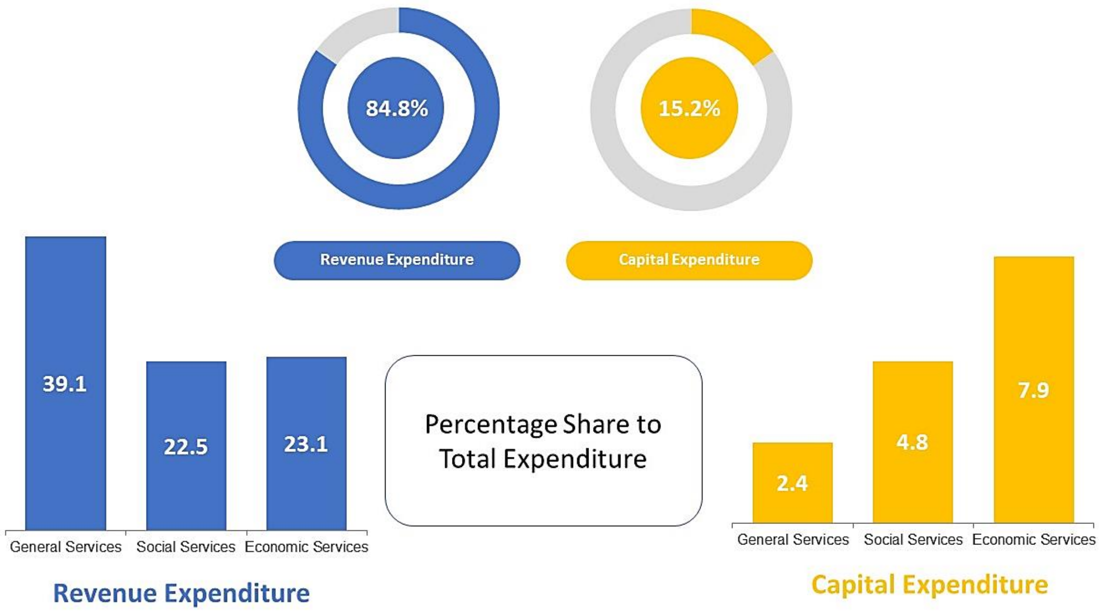
It can be deduced from the above research that Nagaland's government has been spending more on the revenue account and less on the capital account. During the study periods, the Capital Account had an average proportion of roughly 15.2 percent, while the Revenue Account had an average share of 84.8 percent. As a result, in Nagaland, the structure of public expenditure in terms of revenue and capital categories has not changed much.

Table 5.2: Total Expenditures on Revenue Account and Capital Account (₹ *Crores*)

Years	Revenue Expenditure Account				Capital Expenditure Account				Grand Total Expenditure
	General Services	Social Services	Economic Services	Total Revenue Expenditure	General Services	Social Services	Economic Services	Total Capital Expenditure	
1995-96	336.59	248.45	249.45	834.48	11.94	30.43	59.04	101.41	935.89
1996-97	352.90	242.57	251.84	847.31	13.13	57.09	64.39	134.62	981.93
1997-98	417.96	262.81	307.40	988.18	9.88	49.94	73.86	133.68	1121.86
1998-99	460.41	293.78	258.21	1012.40	10.63	55.19	89.97	155.79	1168.19
1999-00	544.60	330.39	265.82	1140.80	11.80	77.11	90.42	179.33	1320.14
2000-01	623.34	351.15	315.75	1290.23	28.51	81.02	114.87	224.40	1514.63
2001-02	723.88	377.18	326.05	1427.11	14.25	98.87	125.60	238.73	1665.84
2002-03	798.67	385.57	322.04	1506.27	24.79	148.91	167.00	340.69	1846.96
2003-04	874.91	422.31	515.76	1812.99	50.05	138.14	202.93	391.13	2204.12
2004-05	857.95	420.95	405.73	1684.63	42.80	148.97	187.67	379.44	2064.06
2005-06	939.90	552.23	568.40	2060.53	61.84	155.09	300.94	517.87	2578.40
2006-07	1020.32	588.85	612.98	2222.14	67.16	240.95	402.37	710.48	2932.62
2007-08	1193.44	656.95	721.88	2572.27	137.72	290.82	392.95	821.48	3393.75
2008-09	1348.85	696.76	843.94	2889.54	149.15	291.78	412.16	853.09	3742.63
2009-10	1583.98	773.60	894.86	3252.44	193.57	285.02	510.93	989.53	4241.97
2010-11	1843.17	1125.72	1218.94	4187.84	217.17	306.09	599.68	1122.94	5310.78
2011-12	2318.27	1154.12	1403.27	4875.66	235.75	338.77	674.86	1249.39	6125.05
2012-13	2537.80	1461.78	1601.80	5601.39	211.01	346.81	697.36	1255.18	6856.57
2013-14	2730.88	1701.56	1317.91	5750.35	181.19	324.47	701.41	1207.06	6957.41
2014-15	3133.24	1855.17	1774.00	6762.41	160.95	350.99	511.23	1023.17	7785.58
2015-16	3623.25	2093.61	1865.06	7581.92	105.78	287.49	665.96	1059.23	8641.16
2016-17	3896.45	2295.21	2460.28	8651.94	132.55	431.72	511.82	1076.10	9728.03
2017-18	4319.40	2558.56	3313.38	10191.35	267.10	485.69	522.07	1274.85	11466.19
2018-19	5018.12	3158.59	2743.28	10919.98	419.49	329.89	846.18	1595.56	12515.55
2019-20	5428.79	3030.05	3178.17	11637.02	165.73	457.02	583.57	1206.32	12843.34
CAGR	**12.48**	**12.18**	**12.53**	**12.40**	**16.19**	**10.72**	**11.74**	**12.00**	**12.36**
% Share to Grand Total Expenditure	**39.1**	**22.5**	**23.1**	**84.8**	**2.4**	**4.8**	**7.9**	**15.2**	

Source: Estimation from State's Finance Accounts (various issues).

Figure 5.2: Percentage Share of Revenue and Capital Accounts to Total Expenditure



5.3.1 Expenditure on Revenue Account

The usual routine type of expenditure incurred in conducting administration services, offering routine services, collecting taxes and charges, and interest on public debt is referred to as revenue expenditure. They are almost always a reoccurring expense. General Services, Social Services, and Economic Services are all included in the Revenue account. Expenditures on general services, such as administering civil administration, fiscal services, interest payments and debt servicing, pensions, and miscellaneous services, are non-developmental. Public spending on social and economic services, on the other hand, is a form of development spending that includes education, health, and family welfare, agriculture, energy, transportation, and communications, among other things.

An attempt has been made to study the trends and pattern of Nagaland's revenue expenditures from 1995-96 to 2019-20 in order to gain a better understanding of the amount of the state's revenue expenditures. In terms of revenue account expenditure, it has been noted that total revenue account expenditure has increased significantly from ₹ 834.48 crores in 1995-96 to ₹ 1684.63 crores in 2004-05, and it has further increased to ₹ 6762.41 crores in 2014-15 to ₹ 11637.02 crores in 2019-20, with a compound annual growth rate of 12.40 percent during the study period, as shown in Table 5.3. Between 2005-06 and 2011-12, Revenue expenditures increased as a percentage of Total

Expenditure, with significant variations in some years. However, Revenue Expenditures account for 83.7 percent of Total Expenditures on average.

The main cause of uncontrollable Revenue Expenditure growth is the increase in pensions, wages, salaries, dearness allowances, dearness relief, and interest payments as a result of periodically updated Pay Commissions. While the pay bill is increasing as a result of an increase in the number of employees and higher wages, the State government has not been able to meet the expenditure with its resources. Revenue expenditures on General, Social, and Economic services to promote education, art, and culture, supply minimum fundamental requirements to the masses such as drinking water, sanitation, health care, energy, roads, and generate jobs, among other things, have contributed to an increase in public expenditure.

Table 5.3: Public Expenditure on Revenue Account (₹ crores)

Year	Revenue Account	Total Expenditure	% Share to Total Expenditure
1995-96	834.48	935.89	89.2
1996-97	847.31	981.93	86.3
1997-98	988.18	1121.86	88.1
1998-99	1012.40	1168.19	86.7
1999-00	1140.80	1320.14	86.4
2000-01	1290.23	1514.63	85.2
2001-02	1427.11	1665.84	85.7
2002-03	1506.27	1846.96	81.6
2003-04	1812.99	2204.12	82.3
2004-05	1684.63	2064.06	81.6
2005-06	2060.53	2578.40	79.9
2006-07	2222.14	2932.62	75.8
2007-08	2572.27	3393.75	75.8
2008-09	2889.54	3742.63	77.2
2009-10	3252.44	4241.97	76.7
2010-11	4187.84	5310.78	78.9
2011-12	4875.66	6125.05	79.6
2012-13	5601.39	6856.57	81.7
2013-14	5750.35	6957.41	82.7
2014-15	6762.41	7785.58	86.9
2015-16	7581.92	8641.16	87.7
2016-17	8651.94	9728.03	88.9
2017-18	10191.35	11466.19	88.9
2018-19	10919.98	12515.55	87.3
2019-20	11637.02	12843.34	90.6
CAGR	12.40	12.39	Avg. % 83.7
% Share to Total Expenditure			84.8

Source: Estimation from State's Finance Accounts (various issues).

5.3.2 Expenditure on Capital Account

Capital Expenditure, on the other hand, is a critical budgetary tool for an underdeveloped state like Nagaland, as it is the bedrock of economic development. It involves expenditures incurred by the government in order to increase the volume of production. Capital expenditure is a sort of investment. The expenditures are non-recurring since they are made once and for all. Capital expenditures include the costs of establishing plants, developing multifunctional projects, and constructing multipurpose projects. Capital spending on development pertaining to Social Services and Economic Services is the most common type of capital outlay. Table 5.4 was used to assess the trends and patterns of Nagaland's Capital expenditures from 1995-96 to 2019-20, in order to have a better understanding of the State's Capital expenditures.

Table 5.4 depicts the steady increase in Capital Expenditures over the study period. Increasing Economic, Social, and General services are the primary drivers of increased Capital Expenditure in the State. With a compound annual growth rate of 12 percent, Capital Expenditure climbed from ₹ 101.41 crores in 1995-96 to ₹ 379.44 crores in 2004-05, and then from ₹ 1023.17 crores in 2014-15 to ₹ 1206.32 crores in 2019-20. The capital investment on development directly tied to economic growth has increased in proportion to Total Public Expenditure. During the twenty-five-year study period, however, it accounted for only 15.2 percent of the total. Thus, it is evident that the Capital Expenditures have been increasing during the study period, contributing significantly to the increase in Total Public Expenditures of the State.

Although the State has been spending heavily on Economics and Social services, the Capital expenditures, which are the foundation of economic development, have shown a declining trend that is not a healthy indicator of the State economy. Since 2012-13, the share of Capital expenditures to Total Expenditures has been showing signs of decline. In 2012-13, the share of capital expenditure was 18.3 percent which further declined to as low as 9.4 percent in 2019-20.

Table 5.4: Public Expenditure on Capital Account *(₹ crores)*

Year	Capital Account	Grand Total	% Share to Total Expenditure
1995-96	101.41	935.89	10.8
1996-97	134.62	981.93	13.7
1997-98	133.68	1121.86	11.9
1998-99	155.79	1168.19	13.3
1999-00	179.33	1320.14	13.6
2000-01	224.40	1514.63	14.8
2001-02	238.73	1665.84	14.3
2002-03	340.69	1846.96	18.4
2003-04	391.13	2204.12	17.7
2004-05	379.44	2064.06	18.4
2005-06	517.87	2578.40	20.1
2006-07	710.48	2932.62	24.2
2007-08	821.48	3393.75	24.2
2008-09	853.09	3742.63	22.8
2009-10	989.53	4241.97	23.3
2010-11	1122.94	5310.78	21.1
2011-12	1249.39	6125.05	20.4
2012-13	1255.18	6856.57	18.3
2013-14	1207.06	6957.41	17.3
2014-15	1023.17	7785.58	13.1
2015-16	1059.23	8641.16	12.3
2016-17	1076.10	9728.03	11.1
2017-18	1274.85	11466.19	11.1
2018-19	1595.56	12515.55	12.7
2019-20	1206.32	12843.34	9.4
CAGR	**12.00**	**12.36**	**Avg. % 16.3**
		% Share to Total Expenditure	**15.2**

Source: Estimation from State's Finance Accounts (various issues).

5.4 Developmental and Non-Developmental Expenditures

India's state governments have been tasked with carrying out and developing the economy's developmental activities. As a result, there is a differentiation drawn between developmental and non-developmental spending. The distinction has nothing to do with current and capital expenditures, or plan and non-plan expenditures; rather, it refers to the budget's broad functional division. They are accounted for in the budget's revenue and capital accounts.

Developmental or productive expenditures are those that have an obvious growth implication and are directly linked to the elevation of economic development, whereas non-developmental or unproductive expenditures have no obvious growth implication and are not directly linked to promote economic growth either in the form of physical or human capital. General service expenditures, such as those for administration, internal and external security, the court, and interest payments, are regarded non-developmental, whereas social, communal, and economic service expenditures are considered developmental.

Education, health care, family planning, labour and employment, agriculture and animal husbandry, collaboration, rural and community development projects, irrigation, transportation and communication, forestry, and other miscellaneous services all fall under the heading of development spending. Expenditure on these items is categorized as developmental expenditure in both the revenue and capital accounts.

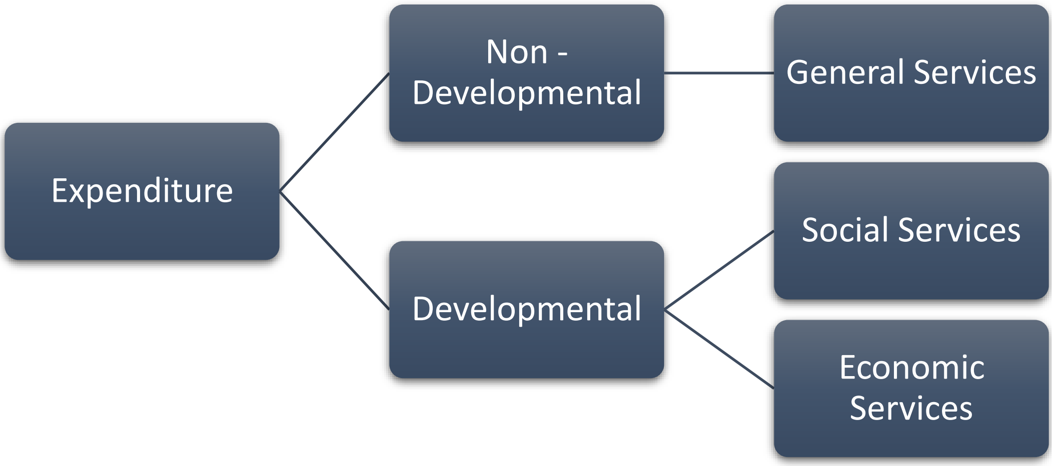
Non-developmental spending covers expenditures under the heads of defense, collection of taxes and duties, administrative services, interest on debt and other services, stationary and printing, and other expenditures on general services. Non-developmental expenditure is defined as spending incurred under these headings on both the revenue and capital accounts.

As previously stated, Nagaland's public spending is split into two categories: developmental and non-developmental. Developmental spending is thought to lead to economic growth, but non-developmental spending has no direct link to increased capital formation. This distinction is related to the budget's broad functional classification, which reveals the government of Nagaland's priorities.

Developmental expenditure includes revenue spent on social, community, and economic services such as education, art, and culture, scientific services and research, medical and public health, sanitization and water supply, family welfare, housing and urban development, labour and employment, agriculture, and related services; industry and minerals, transportation, irrigation and electricity, public works, and so on; and capital spending on agriculture and related services.

Non-development expenditures include revenue spent on civil administration, interest payments, tax collection costs, pensions and other retirement benefits, relief due to natural disasters, and capital expenditures for administrative services, fiscal services, transportation, and other services.

Figure 5.3: Structure of State Expenditure



5.4.1 Growth of Non-Development Expenditure on General Services (Revenue Account)

This study is based on Revenue Account expenditures from 1995-96 to 2019-20. Non-Development Expenditure accounts for 46.1 percent of Total Expenditure on Revenue Account for the entire study period, as shown in Table 5.5. Administrative Services, Pensions and Retirement Benefits, and State Organ Expenditure make up the majority of Non-Development Expenditure. On the other hand, Development Expenditure accounts for 53.9 percent of Total Expenditure on the Revenue Account. Social Services account for 26.6 percent and Economic Services accounts for 27.3 percent of Development Expenditure, respectively. Education, Sports, Art and Culture, Health and Family Welfare, and Social Welfare and Nutrition are the key areas where the State's Government spending on Social Services. Agriculture and Allied Services, Rural Development, and Energy, on the other hand, account for the majority of Economic Services spending. During the whole study period, Revenue Expenditure on Developmental activities was only 7.8 percent more than Non-Development expenditure.

Table 5.5: Growth of Non-Development and Development Expenditure on Revenue Account *(₹ Crores)*

Years	**Non-Development Expenditure**	**Development Expenditure**		**Total Expenditure (Revenue Account)**
	General Services	***Social Services***	***Economic Services***	
1995-96	336.59	248.45	249.45	834.48
1996-97	352.90	242.57	251.84	847.31
1997-98	417.96	262.81	307.40	988.18
1998-99	460.41	293.78	258.21	1012.40
1999-00	544.60	330.39	265.82	1140.80
2000-01	623.34	351.15	315.75	1290.23
2001-02	723.88	377.18	326.05	1427.11
2002-03	798.67	385.57	322.04	1506.27
2003-04	874.91	422.31	515.76	1812.99
2004-05	857.95	420.95	405.73	1684.63
2005-06	939.90	552.23	568.40	2060.53
2006-07	1020.32	588.85	612.98	2222.14
2007-08	1193.44	656.95	721.88	2572.27
2008-09	1348.85	696.76	843.94	2889.54
2009-10	1583.98	773.60	894.86	3252.44
2010-11	1843.17	1125.72	1218.94	4187.84
2011-12	2318.27	1154.12	1403.27	4875.66
2012-13	2537.80	1461.78	1601.80	5601.39
2013-14	2730.88	1701.56	1317.91	5750.35
2014-15	3133.24	1855.17	1774.00	6762.41
2015-16	3623.25	2093.61	1865.06	7581.92
2016-17	3896.45	2295.21	2460.28	8651.94
2017-18	4319.40	2558.56	3313.38	10191.35
2018-19	5018.12	3158.59	2743.28	10919.98
2019-20	5428.79	3030.05	3178.17	11637.02
CAGR	**12.48**	**12.18**	**12.53**	**12.40**
% Share to Total Expenditure	**46.1**	**26.6**	**27.3**	

Source: Estimation from State's Finance Accounts (various issues).

The percentage share of General Service expenditure to Total Expenditure is 46.1 percent, as shown in Table 5.6. In 1995-96, the value of General Services spending in Non-Development Expenditure was ₹ 336.59 crores, and it has steadily climbed to ₹ 5428.79 crores in 2019-20. In 2002-03, the highest yearly growth rate was 53.0 percent. In Non-Development Expenditure, the average value of General Services is ₹ 1877.08 crores every year.

Table 5.6: Growth of Non-Development Expenditure on General Services On Revenue Account (₹ *Crores)*

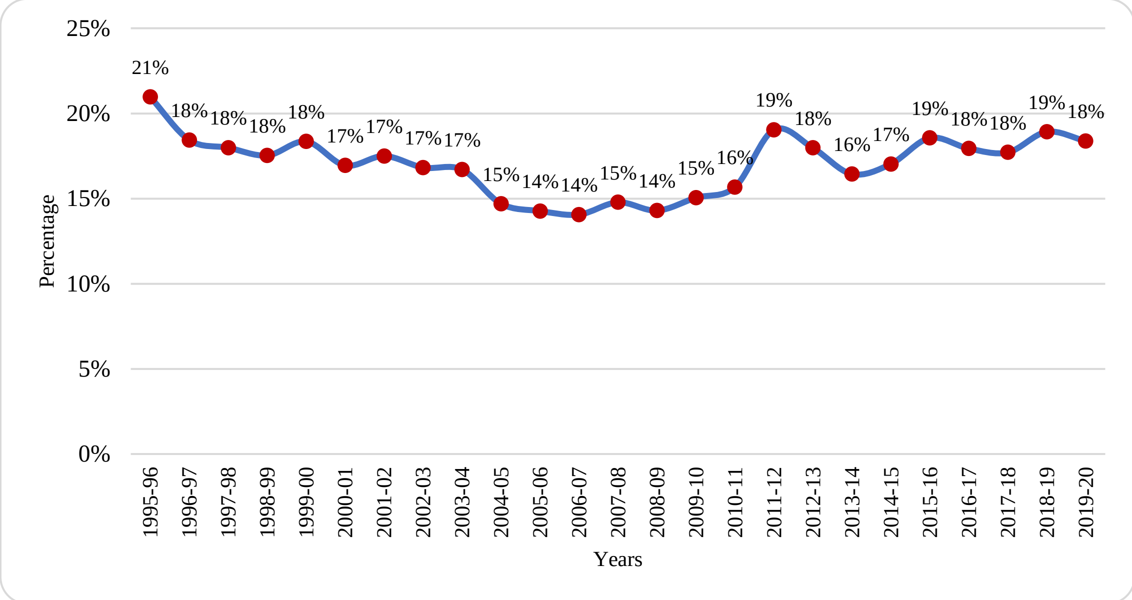
Years	General Service	Total Expenditure (Revenue Account)	% Share to Total Expenditure
1995-96	336.59	834.48	40.3
1996-97	352.90	847.31	41.6
1997-98	417.96	988.18	42.3
1998-99	460.41	1012.40	45.5
1999-00	544.60	1140.80	47.7
2000-01	623.34	1290.23	48.3
2001-02	723.88	1427.11	50.7
2002-03	798.67	1506.27	53.0
2003-04	874.91	1812.99	48.3
2004-05	857.95	1684.63	50.9
2005-06	939.90	2060.53	45.6
2006-07	1020.32	2222.14	45.9
2007-08	1193.44	2572.27	46.4
2008-09	1348.85	2889.54	46.7
2009-10	1583.98	3252.44	48.7
2010-11	1843.17	4187.84	44.0
2011-12	2318.27	4875.66	47.5
2012-13	2537.80	5601.39	45.3
2013-14	2730.88	5750.35	47.5
2014-15	3133.24	6762.41	46.3
2015-16	3623.25	7581.92	47.8
2016-17	3896.45	8651.94	45.0
2017-18	4319.40	10191.35	42.4
2018-19	5018.12	10919.98	46.0
2019-20	5428.79	11637.02	46.7
CAGR	**12.48**	**12.40**	**Avg. % 46.4**
		% Share to Total Expenditure	**46.1**

Source: Estimation from State's Finance Accounts (various issues).

Non-development expenditure on General Services increased from ₹ 336.59 crores in 1995-96 to ₹ 857.95 crores in 2004-05 in the Revenue Account. Expenditure increased from ₹ 3133.24 crores in 2014-15 to ₹ 5428.79 crores in 2019-20. On the Revenue Account, the percentage contribution of General Services to Total Expenditure increased from 40.3 percent in 1995-96 to 53.05 percent in 2002-03. However, from 2004-05 to 2019-20, the proportion of General Services spending in total spending climbed at a steady rate of 46.4 percent.

According to the study's findings, the key reasons for the increase in expenditure on General Services include the increased payments for administrative services, the increased payments for interest and depts, and the increased payments for pensions and retirement benefits, among others. As a result, there is an increasing expenditure trend on General Services. However, General Services to GSDP Ratio (Figure 5.4) shows a downward trend in expenditures.

Figure 5.4: Percentage Share of General Services Expenditure to GSDP Ratio



Organs of the State comprises expenses for the legislative assembly, governor, council of ministers, administration of justice, and elections, as shown in Table 5.7. In 1995-96, the expenditure on State Organs was ₹ 18.23 crores. It steadily climbed in value, reaching a high of ₹ 187.44 crores in 2018-19. The average annual expenditure on state organs is ₹ 52.76 crores. However, the proportion of expenditure on State Organs to overall Revenue Account Expenditure is only 1.3 percent.

Administrative Services include Public Service Commission, Secretariat Services, District Administration, Treasury and Account Administration, Police, Jails, Stationery and Printing, Public Works, and Other Administrative Services. Table 5.7 shows that payments for administrative services, particularly payments for wages, consume a significant portion of general service spending. Administrative Services expenses account for 22.2 percent of the Total Expenditure on Revenue Account. The State Government spent ₹ 192.51 crores on Administrative Services in 1995-96, and ₹ 429.01 crores in 2004-05. From ₹ 1502.35 crores in 2014-15 to ₹ 2441.44 crores in 2019-20, the expenditure has climbed even further.

Similarly, public expenditure on Pensions and Retirement Benefits to government personnel accounts for 11.8 percent of Total Revenue Expenditure, which is unproductive and places an additional strain on the State Government. During the study period, the average rate of increase in expenditure on pension benefits was 9.3 percent.

Interest Payments and Debt Servicing accounts for 9.8 percent of the total spending on the Revenue Account, which is also a high proportion of the total expenditure on the revenue account. Interest on loans from the Centre, interest on internal debt, interest on small savings, interest on provident funds, and other services are all included in the interest payment. During the study period, the average annual growth rate of expenditure on Interest Payments and Debt Servicing was 10.7 percent on an annual basis.

Figure 5.5: Percentage Share of Non-Development Expenditure on General Services (Revenue Account)

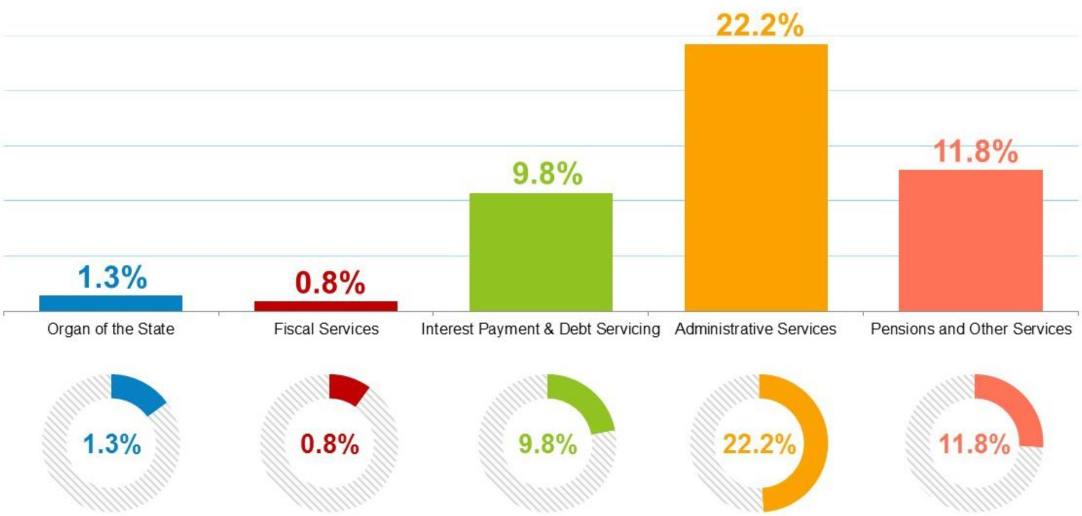


Figure 5.6: Percentage Share of Expenditure on Administrative Services (1995-96 to 2019-20)

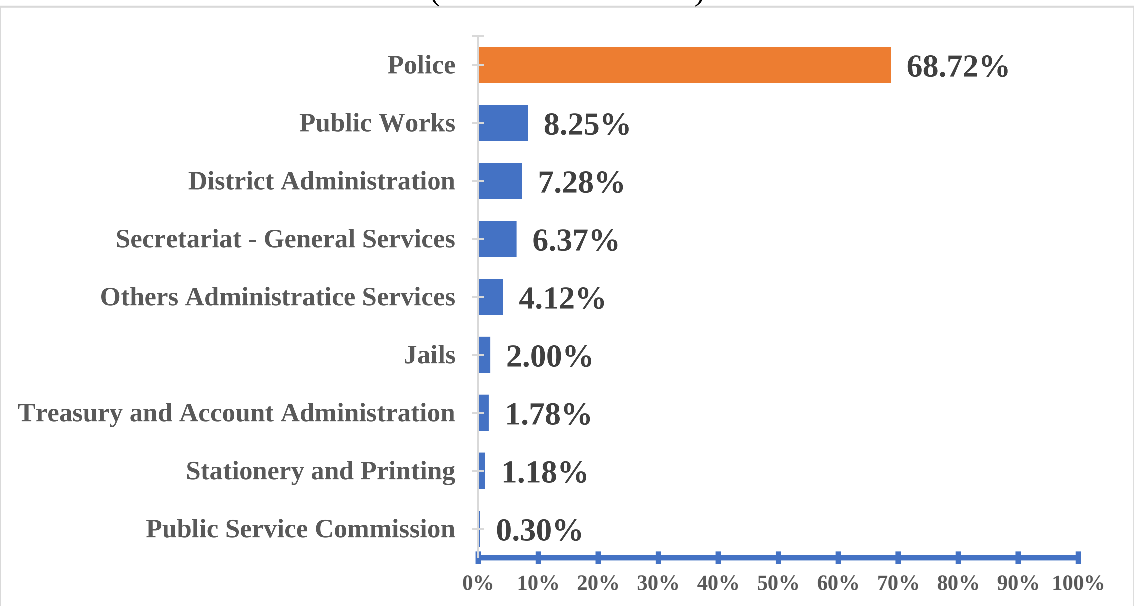


Table 5.7: Composition of Non-Development Expenditure on General Services (Revenue Account) *(₹ Crores)*

Years	Organ of State		Fiscal Service		Interest Payment & Debt Servicing		Administrative Services		Pensions & Other General Services		Total
1995-96	18.23	5.4%	9.85	2.9%	85.11	25.3%	192.51	57.2%	30.90	9.2%	336.59
1996-97	11.37	3.2%	9.24	2.6%	90.20	25.6%	205.74	58.3%	36.35	10.3%	352.90
1997-98	16.49	3.9%	8.48	2.0%	112.62	26.9%	236.98	56.7%	43.39	10.4%	417.96
1998-99	15.12	3.3%	10.16	2.2%	134.83	29.3%	250.36	54.4%	49.95	10.8%	460.41
1999-00	18.44	4.7%	12.76	3.2%	1.52	0.4%	301.83	76.6%	59.28	15.1%	393.84
2000-01	17.61	2.8%	14.30	2.3%	177.09	28.4%	326.30	52.3%	88.04	14.1%	623.34
2001-02	21.59	3.0%	15.46	2.1%	200.47	27.7%	373.60	51.6%	112.75	15.6%	723.88
2002-03	24.66	3.1%	16.46	2.1%	214.58	26.9%	409.01	51.2%	133.97	16.8%	798.67
2003-04	24.29	2.8%	18.88	2.2%	234.74	26.8%	455.51	52.1%	141.49	16.2%	874.91
2004-05	28.51	3.3%	16.09	1.9%	249.62	29.1%	429.19	50.0%	134.54	15.7%	857.95
2005-06	26.35	2.8%	21.19	2.3%	253.89	27.0%	458.22	48.8%	180.26	19.2%	939.90
2006-07	26.62	2.6%	22.89	2.2%	279.69	27.4%	487.94	47.8%	203.18	19.9%	1020.32
2007-08	36.54	3.1%	21.62	1.8%	289.64	24.3%	584.36	49.0%	261.29	21.9%	1193.44
2008-09	32.71	2.4%	26.83	2.0%	334.53	24.8%	724.16	53.7%	230.62	17.1%	1348.85
2009-10	41.84	2.6%	27.91	1.8%	384.71	24.3%	848.10	53.5%	281.41	17.8%	1583.98
2010-11	45.01	2.4%	37.31	2.0%	420.33	22.8%	1002.03	54.4%	338.49	18.4%	1843.17
2011-12	50.90	2.2%	48.37	2.1%	446.39	19.4%	1170.25	50.8%	588.44	25.5%	2304.34
2012-13	76.40	3.0%	45.66	1.8%	481.64	19.0%	1253.88	49.4%	680.22	26.8%	2537.80
2013-14	83.57	3.1%	57.01	2.1%	505.85	18.5%	1385.70	50.7%	698.75	25.6%	2730.88
2014-15	71.86	2.3%	54.48	1.7%	596.34	19.0%	1502.35	47.9%	908.66	29.0%	3133.69
2015-16	79.54	2.2%	59.91	1.7%	787.12	21.7%	1663.72	45.9%	1032.95	28.5%	3623.25
2016-17	93.31	2.4%	64.97	1.7%	860.50	22.1%	1779.43	45.7%	1098.25	28.2%	3896.45
2017-18	147.33	3.4%	68.70	1.6%	902.75	20.9%	1931.90	44.7%	1268.73	29.4%	4319.40
2018-19	187.44	3.7%	75.86	1.5%	996.74	19.9%	2199.63	43.8%	1558.46	31.1%	5018.12
2019-20	123.28	2.3%	83.27	1.5%	963.74	17.8%	2441.44	45.0%	1817.05	33.5%	5428.79
% Share to Total	**2.8**		**1.8**		**21.4**		**48.4**		**25.6**		

Source: Estimation from State's Finance Accounts (various issues).

5.4.2 Growth of Development Expenditure on Social Services (Revenue Account)

Social Services expenditure accounts for 26.6 percent of the Total Revenue Account spending with a Compound Annual Growth Rate of 12.18 percent. The average annual expenditure of Social Services is 26.6 percent, with an average value of ₹ 1081.52 crores. Table 5.8 shows that in 1995-96, the Social Services spending was ₹ 248.45 crores, which climbed to ₹ 420.95 crores in 2004-05. The spending in 2014-15 was ₹ 1701.56 crores, which has increased to ₹ 3030.05 crores in 2019-20.

Table 5.8: Growth of Development Expenditure on Social Services (Revenue Account)

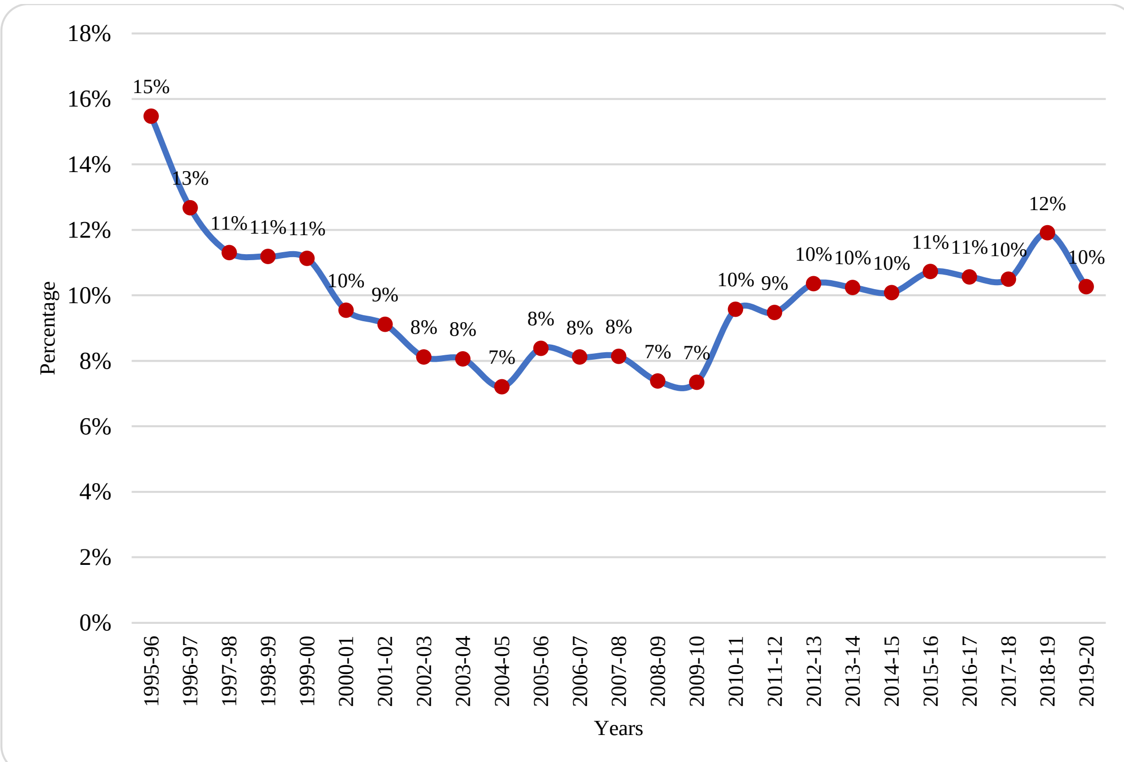
(₹ *Crores*)

Years	Social Services	Total Expenditure on (Revenue Account)	% Share to Total Expenditure
1995-96	248.45	834.48	29.8
1996-97	242.57	847.31	28.6
1997-98	262.81	988.18	26.6
1998-99	293.78	1012.40	29.0
1999-00	330.39	1140.80	29.0
2000-01	351.15	1290.23	27.2
2001-02	377.18	1427.11	26.4
2002-03	385.57	1506.27	25.6
2003-04	422.31	1812.99	23.3
2004-05	420.95	1684.63	25.0
2005-06	552.23	2060.53	26.8
2006-07	588.85	2222.14	26.5
2007-08	656.95	2572.27	25.5
2008-09	696.76	2889.54	24.1
2009-10	773.60	3252.44	23.8
2010-11	1125.72	4187.84	26.9
2011-12	1154.12	4875.66	23.7
2012-13	1461.78	5601.39	26.1
2013-14	1701.56	5750.35	29.6
2014-15	1855.17	6762.41	27.4
2015-16	2093.61	7581.92	27.6
2016-17	2295.21	8651.94	26.5
2017-18	2558.56	10191.35	25.1
2018-19	3158.59	10919.98	28.9
2019-20	3030.05	11637.02	26.0
CAGR	**12.18**	**12.40**	**Avg. % 26.6**
		% Share to Total Expenditure	**26.6**

Source: Estimation from State's Finance Accounts (various issues).

The decrease in the ratio of Social Services expenditure to Total Expenditure on the Revenue Account is seen in Table 5.5. Social Services expenditure accounts only a small proportion of Total Expenditure, it is unfortunate that General Services occupies a larger share in the State budget. Social Services to GSDP Ratio (Figure 5.7) shows a downward trend in expenditures.

Figure 5.7: Percentage Share of Social Services Expenditure to GSDP Ratio



The Composition of expenditure on Social Services constitutes:

- Education, Sports, Arts and Culture,
- Health and Family Welfare,
- Water Supply, Sanitation, Housing and Urban Development,
- Information and Broadcasting,
- Welfare of SC, ST and OBC,
- Labour and Labour Welfare,
- Social Welfare and Nutrition, and
- Other Social Services.

The Development Expenditure on Education, Sports, Arts and Culture includes spending on general education including adult education, technical education, sports and youth services, arts and culture, grants to research institutes and scientific services, and scholarships. The percentage of Development Expenditure on Education, Sports, Arts and Culture accounts for 56.7 percent of the Total Expenditure on the Revenue Account. As shown in Table 5.9, expenditure on education, sports, arts, and culture climbed from ₹ 120.27 crores in 1995-96 to ₹ 239.67 crores in 2004-05, and then increased further to ₹ 1030.02 crores in 2014-15 and ₹ 1594.89 crores in 2019-20. As a result, it can be observed that expenditure on Education, Sports, Arts and Culture is increasing, with an average annual value of ₹ 612.99 crores.

Medical and Public Health Services, including allopathy, homoeopathy, and ayurvedic medicine, medical education, training, and research, public health, nurse training, health laboratories, and health transportation are all under the Health and Family Welfare head, which includes government dispensaries, primary health centers, and mobile medical units. The percentage share of Health and Family Welfare Expenditure in the Total Expenditure on Revenue Account is 20.3 percent. Health and Family Welfare expenditures were ₹ 50.45 crores in 1995-96, rising to ₹ 88.17 crores in 2004-05. The expenditure climbed even further, rising from ₹ 394.47 crores in 2014-15 to ₹ 660.32 crores in 2019-20, demonstrating an upward trend.

Social welfare and nutrition encompass social security and welfare, as well as nourishment and disaster assistance. The expenditure on Social Welfare and Nutrition accounts for only 11.6 percent of the Total Revenue Account Expenditure. The average expenditure on Social Welfare and Nutrition is ₹ 125.79 crores.

The remaining social service sectors, such as water supply, sanitation, housing and urban development, information and broadcasting, labour and labour welfare, and other social services, account for a small percentage of Total Expenditure.

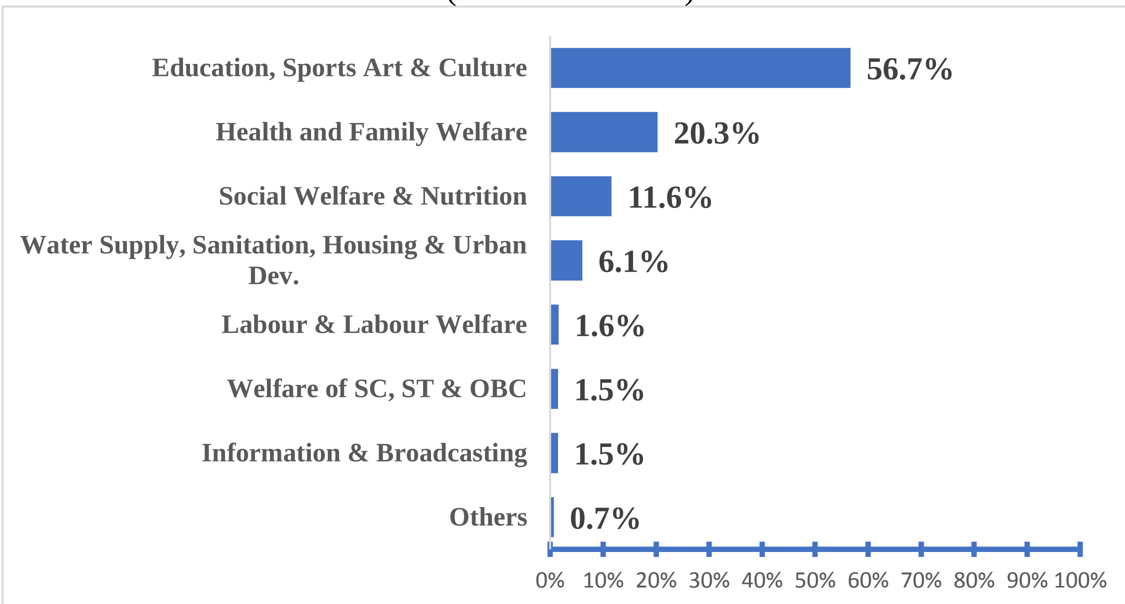
The fact that Social Services account for such a small percentage of total spending suggests that it has a big impact on the general public. The dramatic cut in social service spending makes it difficult for the government to fulfil its social commitment. This also suggests that the state is increasing its non-development spending.

Table 5.9: Composition of Development Expenditure on Social Services (Revenue Account) *(₹ Crores)*

Years	Education, Sports Art & Culture		Health & Family Welfare		Water Supply, Urban Dev., etc.		Information & Broadcasting		Welfare of SC, ST & OBC		Labour & Labour Welfare		Social Welfare & Nutrition		Others		Total
1995-96	120.27	48.4%	50.45	20.3%	45.35	18.3%	4.44	1.8%	3.87	1.6%	3.37	1.4%	17.45	7.0%	3.24	1.3%	248.45
1996-97	120.56	49.7%	51.41	21.2%	36.07	14.9%	4.91	2.0%	4.15	1.7%	4.62	1.9%	17.61	7.3%	3.23	1.3%	242.57
1997-98	124.89	47.5%	57.31	21.8%	46.21	17.6%	3.83	1.5%	2.52	1.0%	2.96	1.1%	22.22	8.5%	2.87	1.1%	262.81
1998-99	135.83	46.2%	57.94	19.7%	49.00	16.7%	6.33	2.2%	10.05	3.4%	3.34	1.1%	26.68	9.1%	4.60	1.6%	293.78
1999-00	163.15	49.4%	70.85	21.4%	51.52	15.6%	6.21	1.9%	7.79	2.4%	3.87	1.2%	23.32	7.1%	3.69	1.1%	330.39
2000-01	181.84	51.8%	76.44	21.8%	40.03	11.4%	7.18	2.0%	7.98	2.3%	4.41	1.3%	28.15	8.0%	5.13	1.5%	351.15
2001-02	209.66	55.6%	78.47	20.8%	28.66	7.6%	9.24	2.5%	7.51	2.0%	4.37	1.2%	34.67	9.2%	4.59	1.2%	377.18
2002-03	200.30	51.9%	80.89	21.0%	32.33	8.4%	10.34	2.7%	8.77	2.3%	5.44	1.4%	43.20	11.2%	4.29	1.1%	385.57
2003-04	246.15	58.3%	82.80	19.6%	18.07	4.3%	10.80	2.6%	9.94	2.4%	5.01	1.2%	45.13	10.7%	4.43	1.0%	422.31
2004-05	239.67	56.9%	88.17	20.9%	31.64	7.5%	7.32	1.7%	5.07	1.2%	5.62	1.3%	39.69	9.4%	3.76	0.9%	420.95
2005-06	305.84	55.4%	109.65	19.9%	43.04	7.8%	7.81	1.4%	13.56	2.5%	9.75	1.8%	57.23	10.4%	5.36	1.0%	552.23
2006-07	334.94	56.9%	116.41	19.8%	31.87	5.4%	9.87	1.7%	14.78	2.5%	9.81	1.7%	66.20	11.2%	4.97	0.8%	588.85
2007-08	379.81	57.8%	122.17	18.6%	53.51	8.1%	10.99	1.7%	1.27	0.2%	11.08	1.7%	72.77	11.1%	5.35	0.8%	656.95
2008-09	395.86	56.8%	134.60	19.3%	43.96	6.3%	13.61	2.0%	14.51	2.1%	11.03	1.6%	77.47	11.1%	5.71	0.8%	696.76
2009-10	460.80	59.6%	157.88	20.4%	31.04	4.0%	12.13	1.6%	16.32	2.1%	15.33	2.0%	74.02	9.6%	6.08	0.8%	773.60
2010-11	659.19	59.5%	201.76	18.2%	53.79	4.9%	19.33	1.7%	0.00	0.0%	18.59	1.7%	148.08	13.4%	7.19	0.6%	1107.93
2011-12	676.14	58.6%	237.08	20.5%	52.58	4.6%	21.68	1.9%	17.98	1.6%	21.46	1.9%	118.54	10.3%	8.65	0.7%	1154.12
2012-13	869.98	59.5%	271.29	18.6%	69.84	4.8%	23.40	1.6%	27.81	1.9%	26.20	1.8%	164.55	11.3%	8.73	0.6%	1461.78
2013-14	1030.02	60.5%	288.20	16.9%	82.79	4.9%	21.69	1.3%	21.98	1.3%	25.45	1.5%	221.16	13.0%	10.27	0.6%	1701.56
2014-15	1063.97	57.4%	394.47	21.3%	127.95	6.9%	22.94	1.2%	25.44	1.4%	33.86	1.8%	173.40	9.3%	13.15	0.7%	1855.17
2015-16	1229.17	59.0%	457.04	22.0%	104.61	5.0%	26.57	1.3%	27.02	1.3%	41.95	2.0%	180.43	8.7%	14.99	0.7%	2081.78
2016-17	1291.95	56.3%	482.41	21.0%	154.93	6.7%	27.31	1.2%	27.32	1.2%	31.65	1.4%	265.73	11.6%	13.91	0.6%	2295.21
2017-18	1482.35	57.9%	537.37	21.0%	140.33	5.5%	31.35	1.2%	45.86	1.8%	35.35	1.4%	273.93	10.7%	12.02	0.5%	2558.56
2018-19	1807.43	57.2%	615.56	19.5%	131.33	4.2%	37.06	1.2%	49.60	1.6%	41.69	1.3%	448.93	14.2%	26.99	0.9%	3158.59
2019-20	1594.89	52.6%	660.32	21.8%	147.78	4.9%	36.80	1.2%	23.58	0.8%	48.86	1.6%	504.18	16.6%	13.64	0.5%	3030.05
% Share to total	56.7		20.3		6.1		1.5		1.5		1.6		11.6		0.7		

Source: Estimation from State's Finance Accounts (various issues)

Figure 5.8: Percentage Share of Development Expenditure on Social Services (Revenue Account)



5.4.3 Growth of Development Expenditure on Economic Services (Revenue Account)

The State Government's expenditure on Economic Services is important to investigate since it contains all of the ingredients for the State's development. In 1995-96, the State Government spent ₹ 249.45 crores on Economic Services, rising to ₹ 405.73 crores in 2004-05. As seen in Table 5.10, the spending grew further from ₹ 1774.00 crores in 2014-15 to ₹ 3178.17 crores in 2019-20. Economic Services expenditure makes up 27.3 percent of Total Revenue Expenditure. With an annual growth rate of 13.0 percent, the average amount spent per year is ₹ 1109.45 crores. Economic Services to GSDP Ratio (Figure 5.9) shows a downward trend in expenditures. It is clear that expenditures for Economic Services have not increased, despite the fact that they are critically required for the State's continued improvement.

Table 5.10: Growth of Development Expenditure on Economic Services (Revenue Account) *(₹ Crores)*

Years	**Economic Services**	**Total Expenditure on (Revenue Account)**	**% Share to Total Expenditure**
1995-96	249.45	834.48	29.9%
1996-97	251.84	847.31	29.7%
1997-98	307.40	988.18	31.1%
1998-99	258.21	1012.40	25.5%
1999-00	265.82	1140.80	23.3%
2000-01	315.75	1290.23	24.5%
2001-02	326.05	1427.11	22.8%
2002-03	322.04	1506.27	21.4%
2003-04	515.76	1812.99	28.4%
2004-05	405.73	1684.63	24.1%
2005-06	568.40	2060.53	27.6%
2006-07	612.98	2222.14	27.6%
2007-08	721.88	2572.27	28.1%
2008-09	843.94	2889.54	29.2%
2009-10	894.86	3252.44	27.5%
2010-11	1218.94	4187.84	29.1%
2011-12	1403.27	4875.66	28.8%
2012-13	1601.80	5601.39	28.6%
2013-14	1317.91	5750.35	22.9%
2014-15	1774.00	6762.41	26.2%
2015-16	1865.06	7581.92	24.6%
2016-17	2460.28	8651.94	28.4%
2017-18	3313.38	10191.35	32.5%
2018-19	2743.28	10919.98	25.1%
2019-20	3178.17	11637.02	27.3%
CAGR	**12.53**	**12.40**	**Avg. % 27.0**
% Share to Total Expenditure			**27.3**

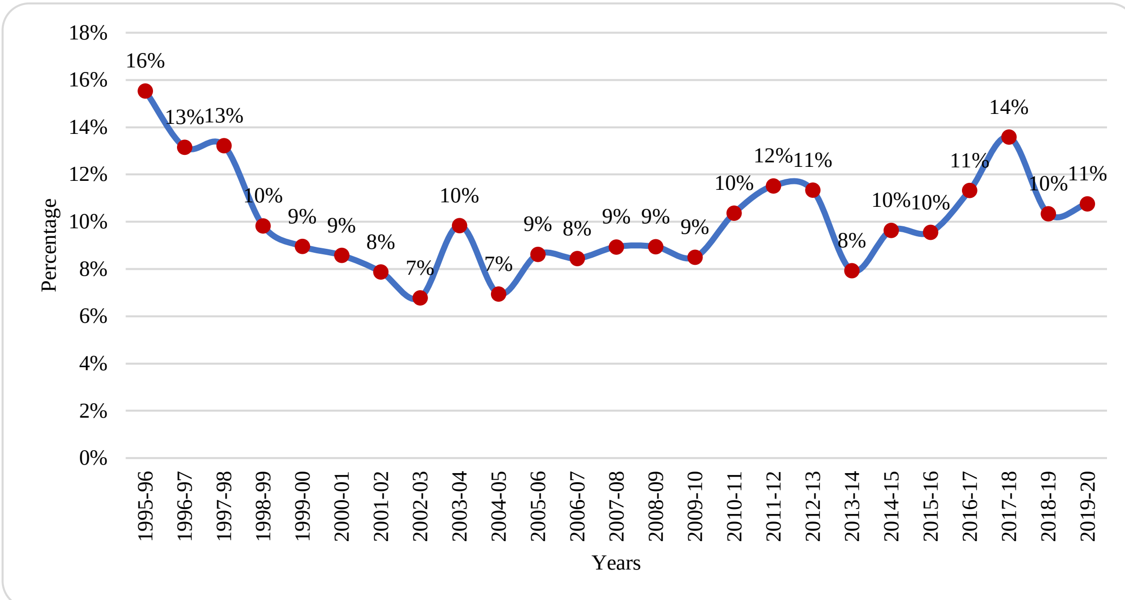
Source: Estimation from State's Finance Accounts (various issues).

The expenditure on Economic Services head constitutes:

- Agriculture and Allied activities,
- Rural Development,
- Special Area Program,
- Irrigation and Flood Control,
- Energy, Industry and Minerals,
- Transport and Communications,

- Science, Technology and Environment, and
- General Economic Services.

Figure 5.9: Percentage Share of Economic Services Expenditure to GSDP Ratio



Agriculture and allied activities spending have been divided into several areas. Crop production, soil and water conservation, animal husbandry, dairy development, fisheries, forestry and wildlife management, food storage and warehousing, agricultural research and education, cooperation, and other agricultural initiatives are among them. Agriculture and Allied Activities expenditure climbed from ₹ 73.65 crores in 1995-96 to ₹ 117.24 crores in 2004-05, and then increased again from ₹ 477.07 crores in 2014-15 to ₹ 783.25 crores in 2019-20, as shown in Table 5.11. Agriculture and Allied Activities expenditure accounts for 24.9 percent of Total Expenditure, with an average annual value of ₹ 275.85 crores. Nagaland is largely an agrarian state, with 70 percent of its population employed and dependent on agriculture and its linked services and agriculturally related enterprises.

Similarly, during the study period, the percentage contribution of expenditure on Rural Development to Total Expenditure on Revenue Account was 19.7 percent. In 1995-96, the State government spent ₹ 30.71 crores, increasing to ₹ 51.79 crores in 2004-05. In 2014-15, the expenditure climbed to ₹ 277.75 crores, which increased to ₹ 813.36 crores in 2019-20. The budget allocation also ignores Nagaland's Rural Development, which is a key area for poverty reduction.

The budget allocation for Energy head expenditure on the Revenue Account was ₹ 51.95 crores in 1995-96 and ₹ 94.28 crores in 2004-05. Again, the spending was ₹ 344.06 crores in 2014-15, rising to ₹ 585.36 crores in 2019-20. The increased funding is insignificant because it does not result in any further effort in Nagaland. Energy expenditures account for only 18.4 percent of total expenditures, which is modest given the importance of energy to the State's development.

With a 14.2 percent share of Total Expenditure on Revenue Account, the expenditure on Transportation and Communications was also overlooked. The spending in 1995-96 was ₹ 29.25 crores, whereas it was ₹ 19.71 crores in 2004-05. Transportation and Communications spending, however, has consistently increased from ₹ 261.63 crores in 2014-15 to ₹ 450.22 crores in 2019-20. Annual expenditures average ₹ 157.45 crores.

Figure 5.10: Percentage Share of Development Expenditure on Economic Services (Revenue Account)

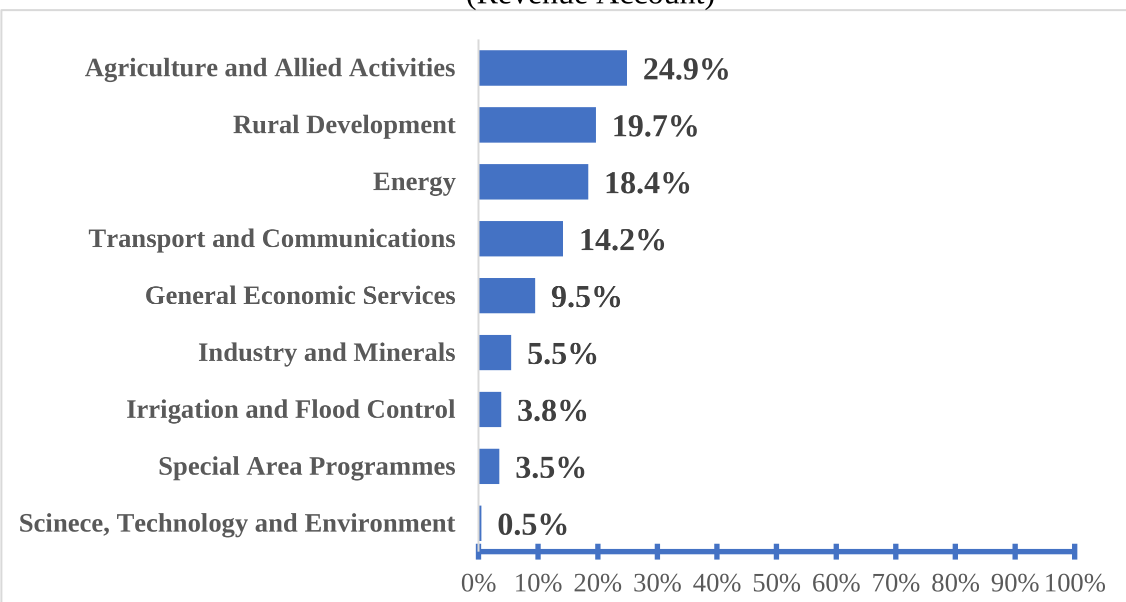


Table 5.11: Composition of Development Expenditure on Economic Services (Revenue Account) (₹ Crores)

Years	Agriculture & Allied Activities		Rural Development		Special Area Programs		Irrigation and Flood Control		Energy		Industry and Minerals		Transport and Communications		Science, Technology & Environment		General Economic Services		Total
1995-96	73.65	29.5%	30.71	12.3%	3.89	1.6%	6.65	2.7%	51.95	20.8%	14.25	5.7%	29.25	11.7%	0.31	0.1%	38.79	15.6%	249.45
1996-97	73.02	29.0%	39.06	15.5%	5.45	2.2%	8.17	3.2%	33.02	13.1%	21.11	8.4%	30.30	12.0%	0.36	0.1%	41.33	16.4%	251.84
1997-98	73.98	24.1%	38.29	12.5%	6.21	2.0%	10.14	3.3%	50.25	16.3%	36.83	12.0%	33.94	11.0%	0.20	0.1%	57.58	18.7%	307.40
1998-99	82.86	32.1%	30.51	11.8%	10.75	4.2%	5.85	2.3%	34.00	13.2%	22.84	8.8%	25.97	10.1%	0.23	0.1%	45.21	17.5%	258.21
1999-00	80.37	30.2%	28.89	10.9%	6.48	2.4%	10.90	4.1%	34.12	12.8%	29.65	11.2%	30.49	11.5%	0.16	0.1%	44.74	16.8%	265.82
2000-01	105.02	33.3%	23.95	7.6%	9.92	3.1%	12.83	4.1%	58.33	18.5%	28.45	9.0%	30.41	9.6%	0.48	0.2%	46.36	14.7%	315.75
2001-02	120.25	36.9%	12.88	3.9%	11.05	3.4%	13.47	4.1%	59.07	18.1%	43.64	13.4%	17.00	5.2%	1.82	0.6%	46.88	14.4%	326.05
2002-03	102.25	31.8%	24.90	7.7%	20.03	6.2%	13.46	4.2%	58.11	18.0%	27.70	8.6%	25.57	7.9%	2.27	0.7%	47.75	14.8%	322.04
2003-04	110.27	21.4%	66.11	12.8%	19.77	3.8%	21.33	4.1%	158.90	30.8%	38.00	7.4%	23.59	4.6%	3.18	0.6%	74.61	14.5%	515.76
2004-05	117.24	28.9%	51.79	12.8%	14.30	3.5%	22.21	5.5%	94.28	23.2%	32.04	7.9%	19.71	4.9%	2.75	0.7%	51.42	12.7%	405.73
2005-06	163.06	28.7%	87.22	15.3%	16.44	2.9%	25.07	4.4%	97.22	17.1%	43.37	7.6%	76.10	13.4%	2.25	0.4%	57.67	10.1%	568.40
2006-07	182.52	29.8%	69.89	11.4%	24.49	4.0%	33.29	5.4%	113.68	18.5%	43.19	7.0%	76.04	12.4%	6.50	1.1%	63.37	10.3%	612.98
2007-08	205.46	28.5%	89.21	12.4%	35.98	5.0%	62.95	8.7%	118.04	16.4%	39.57	5.5%	92.83	12.9%	2.49	0.3%	75.36	10.4%	721.88
2008-09	207.53	24.6%	118.18	14.0%	78.57	9.3%	68.18	8.1%	152.25	18.0%	49.50	5.9%	117.52	13.9%	12.98	1.5%	39.22	4.6%	843.94
2009-10	266.19	29.7%	95.81	10.7%	67.51	7.5%	70.24	7.8%	169.57	18.9%	59.21	6.6%	117.65	13.1%	4.56	0.5%	44.13	4.9%	894.86
2010-11	326.48	26.8%	131.64	10.8%	88.25	7.2%	112.53	9.2%	222.48	18.3%	66.89	5.5%	128.80	10.6%	7.02	0.6%	134.86	11.1%	1218.94
2011-12	363.79	25.9%	95.28	6.8%	96.18	6.9%	131.94	9.4%	294.42	21.0%	73.99	5.3%	199.09	14.2%	7.09	0.5%	141.48	10.1%	1403.27
2012-13	410.86	25.6%	131.68	8.2%	108.85	6.8%	127.81	8.0%	345.27	21.6%	90.64	5.7%	224.71	14.0%	8.43	0.5%	153.54	9.6%	1601.80
2013-14	341.26	25.9%	85.48	6.5%	67.47	5.1%	84.58	6.4%	297.31	22.6%	67.91	5.2%	223.30	16.9%	6.75	0.5%	143.87	10.9%	1317.91
2014-15	477.07	26.9%	277.75	15.7%	100.08	5.6%	61.96	3.5%	344.06	19.4%	78.14	4.4%	261.63	14.7%	9.15	0.5%	164.17	9.3%	1774.00
2015-16	430.98	23.1%	323.59	17.4%	20.42	1.1%	27.71	1.5%	372.53	20.0%	106.52	5.7%	411.12	22.0%	8.64	0.5%	163.54	8.8%	1865.06
2016-17	479.69	19.5%	811.06	33.0%	27.36	1.1%	26.70	1.1%	431.96	17.6%	102.85	4.2%	398.78	16.2%	9.43	0.4%	172.44	7.0%	2460.28
2017-18	625.53	18.9%	1356.47	40.9%	52.44	1.6%	27.94	0.8%	450.59	13.6%	122.32	3.7%	454.27	13.7%	9.81	0.3%	214.00	6.5%	3313.38
2018-19	693.57	25.3%	621.80	22.7%	30.43	1.1%	31.15	1.1%	490.22	17.9%	136.12	5.0%	438.08	16.0%	12.22	0.4%	289.70	10.6%	2743.28
2019-20	783.25	24.6%	813.36	25.6%	37.31	1.2%	31.16	1.0%	585.36	18.4%	138.66	4.4%	450.22	14.2%	13.95	0.4%	324.89	10.2%	3178.17
% Share to Total	**24.9**		**19.7**		**3.5**		**3.8**		**18.4**		**5.5**		**14.2**		**0.5**		**9.7**		

Source: Estimation from State's Finance Accounts (various issues).

5.4.4 Growth of Non-Development and Development Expenditure on Capital Account

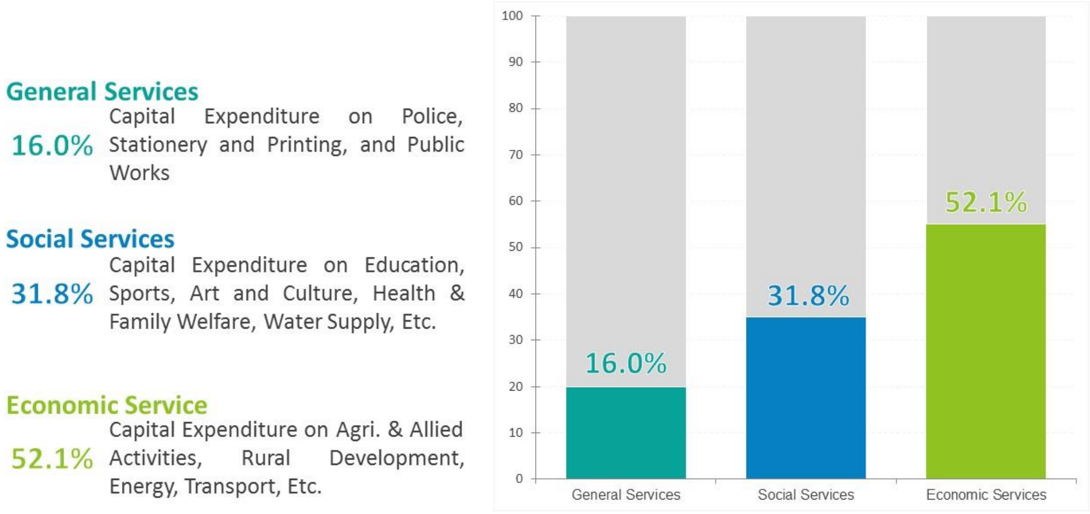
In the Capital Account, the spending on General Services in 1995-96 was ₹ 11.94 crores, whereas it was slightly higher in 2004-05 at ₹ 42.80 crores. From 2007-08 to 2019-20, the expenditure has climbed considerably. Table 5.12 shows that it was ₹ 137.72 crores in 2007-08 and ₹ 144.98 crores in 2019-20. In terms of percentage share, General Services accounts for 16.0 percent of Total Capital Expenditure.

Table 5.12: Growth of Non-Development and Development Expenditure on Capital Account *(₹ Crores)*

Year	**Non-Development**		**Development**				**Capital Account**
	General Services		**Social Services**		**Economic Services**		
1995-96	11.94	11.8%	30.43	30.0%	59.04	58.2%	101.41
1996-97	13.13	9.8%	57.09	42.4%	64.39	47.8%	134.62
1997-98	9.88	7.4%	49.94	37.4%	73.86	55.3%	133.68
1998-99	10.63	6.8%	55.19	35.4%	89.97	57.8%	155.79
1999-00	11.80	6.6%	77.11	43.0%	90.42	50.4%	179.33
2000-01	28.51	12.7%	81.02	36.1%	114.87	51.2%	224.40
2001-02	14.25	6.0%	98.87	41.4%	125.60	52.6%	238.73
2002-03	24.79	7.3%	148.91	43.7%	167.00	49.0%	340.69
2003-04	50.05	12.8%	138.14	35.3%	202.93	51.9%	391.13
2004-05	42.80	11.3%	148.97	39.3%	187.67	49.5%	379.44
2005-06	61.84	11.9%	155.09	29.9%	300.94	58.1%	517.87
2006-07	67.16	9.5%	240.95	33.9%	402.37	56.6%	710.48
2007-08	137.72	16.8%	290.82	35.4%	392.95	47.8%	821.48
2008-09	149.15	17.5%	291.78	34.2%	412.16	48.3%	853.09
2009-10	193.57	19.6%	285.02	28.8%	510.93	51.6%	989.53
2010-11	217.17	19.3%	306.09	27.3%	599.68	53.4%	1122.94
2011-12	235.75	18.9%	338.77	27.1%	674.86	54.0%	1249.39
2012-13	211.01	16.8%	346.81	27.6%	697.36	55.6%	1255.18
2013-14	181.19	15.0%	324.47	26.9%	701.41	58.1%	1207.06
2014-15	160.95	15.7%	350.99	34.3%	511.23	50.0%	1023.17
2015-16	105.78	10.0%	287.49	27.1%	665.96	62.9%	1059.23
2016-17	132.55	12.3%	431.72	40.1%	511.82	47.6%	1076.10
2017-18	267.10	21.0%	485.69	38.1%	522.07	41.0%	1274.85
2018-19	419.49	26.3%	329.89	20.7%	846.18	53.0%	1595.56
2019-20	165.73	13.7%	457.02	38.5%	583.57	49.2%	1185.57
CAGR	**16.19**		**10.72**		**11.74**		**12.00**
% Share to Total Expenditure	**16.0**		**31.8**		**52.1**		

Source: Estimation from State's Finance Accounts (various issues).

Figure 5.11: Percentage Share General, Social and Economic Services to Capital Expenditure



In 1995-96, the Capital spending on Social Services was ₹ 30.43 crores, and in 2004-05, it was ₹ 148.91 crores. From 2004-05 to 2019-20, the amount spent on Social Services increased dramatically. The expenditure in 2014-15 was ₹ 350.99 crores, and it raised to ₹ 457.02 crores in 2019-20. The proportion of Social Services expenditure to Total Capital Expenditure is 31.8 percent.

The expenditure on Economic Services accounts for 52.1 percent of Total Capital Expenditure. In 1995-96, the budget for Economic Services was ₹ 59.04 crores, but by 2004-05, it had risen to ₹ 187.67 crores. Throughout the study period, the amount spent on Economic Services had risen steadily. In 2014-15, the budget was ₹ 511.23 crores, while in 2019-20, it was ₹ 583.57 crores.

However, the analysis finds that the Revenue Account accounts for 84.8 percent of the Total Public Expenditure, while the Capital Account accounts for only 15.2 percent. As a result of the lack of investment in capital assets, the State's economic development is deteriorating, resulting in the worsening of poverty. Increased payments on Administrative Services, Interest and Debt Payments, and payments on Pensions and Retirement Benefits all contributed to the growth in Revenue Expenditure. As a result, the State Government is left with few resources for growth.

5.5 Public Expenditure on Economic Services and GSDP Growth

The relationship between Public Expenditure on Economic Services and Gross State Domestic Product (GSDP) is crucial in understanding the economic dynamics of a State. Expenditure on Economic Services refers to the investments made by the government and private sector in various sectors such as infrastructure development, healthcare, education, and industry, among others. These investments play a significant role in driving economic growth and development within a state. The GSDP, on the other hand, is a measure of the total value of goods and services produced within a state's boundaries over a specific period. The expenditure on Economic Services has a direct impact on the GSDP as it influences the productivity and efficiency of the state's economy. Increased investments in economic services can stimulate growth, create employment opportunities, attract private investments, and enhance the overall productivity of the state. Conversely, a lack of adequate expenditure in these sectors can hinder economic development and limit the potential for growth. Therefore, a positive correlation exists between expenditure on economic services and GSDP, where higher investments generally lead to higher economic output and vice versa. Governments and policymakers need to prioritize and allocate sufficient resources to economic services to foster sustainable economic growth and improve the standard of living within a state.

To the analyze the Relationship between Public Expenditure on Economic Services and Gross State Domestic Product (GSDP), OLS regression analysis was tested on the GSDP of Nagaland from 1995-96 to 2019-20.

Table 5.13: OLS Regression Analysis on Economic Services and GSDP

Variable	Coefficients	t-stat	Prob.
Constant	2.601	8.075	.000
Revenue Expenditure	.958	19.935	.000
R^2	.945		
ΔR^2	.943		

Note: *p < 0.05, Dependent Variable: GSDP

The regression analysis examined the relationship between Public Expenditure on Economic Services and Gross State Domestic Product (GSDP). The model showed a strong positive association between these variables (R = .972, R Square = .945, Adjusted

R Square = .943, $p < .001$). The coefficient for Revenue Expenditure was statistically significant ($\beta = .958$, $t = 19.935$, $p < .001$), indicating that a 1 percent increase in Revenue Expenditure on Economic Services was associated with an estimated 0.958 percent increase in GSDP. The model accounted for approximately 94.5 percent of the variance in the natural logarithm of GSDP, as indicated by the high R-squared value. These findings support the hypothesis that a higher allocation of Public expenditure on Economic Services is positively associated with higher GSDP growth rates, suggesting that investments in economic sectors contribute to increased economic growth.

5.6 Plan and Non-Plan Expenditure

The First Five-Year Plan in India was implemented in 1951, and the Country has gone through a total of Twelve such plans since then. The First Five Year Plans was implemented on 1st April 1951, since then, India has followed a planned approach to accomplish its rapid economic development. Until now, the implementation of the Twelfth Five Year Plan (2012-2017) has been completed, with effect from the 1st of April 2012. The current government, on the other hand, has abolished the Five-Year Plan system and replaced it with a new mechanism of governance. In light of these plans, government expenditure is divided into two categories: Plan Expenditure and Non-Plan Expenditure, which are distinguished by whether or not the expenditure is a result of plan recommendations.

Plan Expenditure refers to any expenditure incurred on programs described in the Centre's current (Five Year) Plan or on the Centre's advances to States for their plans. Plan Expenditure is the term used to refer to the provision of such expenditure in the budget. Plan expenditure is a type of government spending representing current development and investment expenses necessary to implement the current Plan's proposals. Such expenditures are incurred to finance the Central Plan, which is divided into several sectors of the economy. Items of Plan Expenditure include energy generation, irrigation, rural development, road, bridge, canal construction, science, technology, and the environment, among other things. In addition, expenditure on Revenue and Capital are included in Plan Expenditure. Again, the help provided by the Central Government to States and Union Territories in the development of their plans is also included in the Plan's total spending.

Non-Plan Expenditure refers to the expected expenditure given in the budget for spending during the year on the ordinary operation of the government. Non-Plan expenditure refers to all government expenditures that are not part of a specific plan. Such expenditure is necessary for every country, regardless of whether or not it has a strategy. For example, no government can get away from its fundamental responsibility of protecting the lives and property of its citizens and the country against foreign invasions. In order to accomplish this, the government must spend money on police, the judiciary, the military, and other departments. Similarly, the government must incur expenditures for the routine operation of government departments and the provision of economic and social services.

5.6.1 Importance of Plan and Non-Plan Expenditure Classification

The distinction between Plan and Non-Plan is based on both economic and administrative considerations. The Plan Expenditure reflects fresh investment in developmental programs conducted by each level of government every year. Non-Plan Expenditure, on the other hand, shows the government's liability for committed expenditure.

Non-Plan Expenditure is mostly non-developmental, whereas Plan Expenditure is mostly developmental. Non-Plan Expenditure, on the other hand, is predominantly consumption, whereas Plan Expenditure is mostly investment. The categorization is advantageous from an administrative standpoint. To ensure appropriate execution, monitoring, and assessment, all plan programs and initiatives are grouped under one heading.

The administrative justification for the Plan and Non-Plan classifications stems from the system of State expenditure support by the Union government. The income and capital budgets were classified as Plan and Non-plan to distinguish the roles of the Finance Commission and the Planning Commission in the formulation of Central aid to the States. This is solely a classification for administrative purposes and has nothing to do with economic or national accounting standards. The Plan heads list the programs and initiatives that the Union Government supports based on the Planning Commission's recommendations.

Non-Plan Expenditure programs are those that the Finance Commission considers while recommending financial support from the Union Government to the States. However, because both Developmental and Non-Developmental Expenditures are included under Plan and Non-Plan heads, the Plan and Non-Plan heads do not correlate to Developmental and Non-Developmental categories. During the Five-Year Plan era, expenditures for new projects or programs become plan expenditures assuming that the projects were finished within the timeframe of the Five-Year Plan. In that case, maintenance costs for these projects will be classified as Non-Plan Expenditure in subsequent plan periods, which the Finance Commission will consider when recommending grants to the States. Non-Plan Expenditure also includes committed expenditure on works completed in previous years and expenditure on programs not approved by the Planning Commission that are not part of the plan.

The Plan and Non-Plan classifications have also proven useful in obtaining Union funds and loans to fund Central Sector Plan initiatives and Centrally supported Schemes. The classification has become particularly important because the majority of plan transfers (for State, Central sector, and Centrally sponsored projects) require matching contributions from the State Governments. The classification allows for a comparison of State governments' resource efforts in financing various plan designs. The classification also provides an indication of the degree of central finance for various plan initiatives.

The government has been able to indicate additional investment in various development projects by classifying all expenditures into Plan and Non-Plan heads. The distinction is critical in assessing a government's performance in terms of new programs spending from the standpoint of public policy. The distinction is helpful for plan design, execution, and monitoring since it allows one to see the government's new initiatives. The distinct classification of non-plan heads, on the other hand, reveals the type and extent of the government's maintenance spending.

The distinction between Plans and Non-Plans has important fiscal ramifications for the State. It is beneficial for economic growth to raise Plan expenditure relative to Non-Plan Expenditure on Revenue and Capital Accounts. Increased planned spending on economic services like irrigation, power, and transportation, on the other hand, is expected to boost economic growth. However, when more plan projects are finished, the cost of maintaining them rises, leading to an increase in non-plan spending. Non-Plan expenditure is encouraged by expanding the general administration. In addition, non-plan spending rises as welfare, transfer payments, subsidies, and debt service payments.

5.6.2 Plan and Non-Plan Expenditure on Revenue and Capital Accounts

The current chapter examines the increase of Plan and Non-Plan expenditures in Nagaland after discussing the Plan and Non-Plan classifications of public spending and their significance. Table 5.14 shows that Plan Expenditures in both the Revenue and Capital Accounts from 1995-96nto 2019-20. From ₹ 134.07 crores in 1995-96 to ₹ 294.81 crores in 2004-05, the Total Revenue climbed to ₹ 318.30 crores in 2014-15, and then to ₹ 500.11 crores in 2019-20. Simultaneously, Capital Account Plan expenditures climbed from ₹ 97.67 crores in 1995-96 to ₹ 376.86 crores in 2004-05, then to ₹ 661.62 crores in 2014-15 and ₹ 645.68 crores in 2019-20. Total Plan Expenditures on both the Revenue and Capital Accounts climbed from ₹ 231.74 crores in 1995-96 to ₹ 1145.79 crores in 2019-20, with a 6.72 percent Compound Annual Growth Rate. Energy, transportation, and social services have taken a large percentage of the plan's budget. During the study period, however, plan expenditure on rural development has remained one of the lowest.

Table 5.14: Plan Expenditure of the State *(₹ crores)*

Year	**Plan Expenditure**		**Total Plan Expenditure**
	Revenue Account	**Capital Account**	
1995-96	134.07	97.67	231.74
1996-97	172.44	132.39	304.83
1997-98	199.68	132.99	332.66
1998-99	209.98	151.83	361.82
1999-00	229.38	179.20	408.58
2000-01	231.00	215.85	446.85
2001-02	232.65	238.65	471.30
2002-03	242.91	339.90	582.81
2003-04	363.40	380.15	743.55
2004-05	294.81	376.86	671.67
2005-06	422.85	504.40	927.25
2006-07	453.69	695.31	1149.00
2007-08	484.89	809.47	1294.36
2008-09	543.65	853.07	1396.73
2009-10	458.76	887.83	1346.59
2010-11	589.49	1019.82	1609.31
2011-12	626.22	1184.29	1810.51
2012-13	675.62	1179.32	1854.93
2013-14	485.39	1075.71	1561.10
2014-15	318.30	661.62	979.92
2015-16	196.23	684.79	881.02
2016-17	289.91	659.64	949.55
2017-18	353.04	626.93	979.97
2018-19	341.86	764.15	1106.01
2019-20	500.11	645.68	1145.79
CAGR	**3.69**	**9.11**	**6.72**
% Share to Total Plan Expenditure	**38.4**	**61.6**	

Source: Estimation from State's Finance Accounts (various issues).

Total Non-Plan Expenditure, on the other hand, grew at a 13.40 percent Annual Compound Growth Rate during the same period, as indicated in Table 5.14. Thus, the growth rate of Total Non-Plan Expenditures is greater than the growth rate of Plan Expenditures during the same time. In 1995-96, Total Non-Plan Expenditure was ₹ 616.94 crores, which raised to ₹ 1137.76 crores in 2004-05. The budget grew from ₹ 5533.32 crores in 2014-15 to ₹ 9377.60 crores in 2019-20. This is primarily due to exorbitant administrative costs, salaries, pension benefits, debt servicing, and so forth. However, it is clear from the study that Nagaland's State Government has prioritized and emphasized Social and Economic services, which has surely contributed to the State's tremendous success.

Table 5.15: Non-Plan Expenditure of the State. *(₹ crores)*

Year	Non-Plan Expenditure		Total Non-Plan Expenditure
	Revenue Account	Capital Account	
1995-96	613.20	3.74	616.94
1996-97	581.94	2.22	584.16
1997-98	672.67	0.70	673.37
1998-99	663.76	3.95	667.71
1999-00	755.58	0.13	755.71
2000-01	878.00	8.55	886.54
2001-02	989.55	0.08	989.63
2002-03	1044.50	0.79	1045.29
2003-04	1210.11	10.98	1221.09
2004-05	1135.18	2.58	1137.76
2005-06	1378.15	13.47	1391.62
2006-07	1482.32	15.17	1497.48
2007-08	1790.30	12.01	1802.30
2008-09	2003.44	0.01	2003.46
2009-10	2269.13	12.90	2282.03
2010-11	2871.96	0.01	2871.97
2011-12	4054.08	0.04	4054.12
2012-13	4571.29	6.05	4577.34
2013-14	4904.33	19.10	4923.43
2014-15	5533.12	0.21	5533.32
2015-16	6459.26	0.00	6459.26
2016-17	6920.31	0.00	6920.31
2017-18	7602.23	0.00	7602.23
2018-19	8661.46	0.00	8661.46
2019-20	9377.60	0.00	9377.60
CAGR	**13.42**	**-4.89**	**13.40**
% Share to Total Plan Expenditure	**99.86**	**0.14**	

Source: Estimation from State's Finance Accounts (various issues).

5.7 Conclusion

When comparing the percentage shares of Revenue Expenditure among General Services, Social Services, and Economic Services, it is found that General Services has a higher percentage share. When compared to the expenditure on Social and Economic Services, it is growing at a large rate. It follows that the General Services sector receives the lion's share of expenditure. An important factor contributing to the growth in General Services spending has been the State's increased portion of payments on salaries, pension benefits and interest and debt servicing. In contrast, the State government devotes fewer resources on Social and Economic services that are beneficial to the economy. Spending on Social and Economic services will have a positively impact on the State's infrastructure development, which is the engine of economic growth. However, as a result of insufficient spending, the State's economic growth remains sluggish.

In Capital Account, considering expenditure on General Services, Social Services, and Economic Services, the percentage share of Social and Economic services is higher than the percentage share of General Services. However, as compared to Revenue Expenditure, the percentage of Capital Expenditure is low, accounting for only 15.2 percent of the Total Expenditure. Capital investment in both Social and Economic services is not appropriately supported. It is vital to increase investment in these areas for infrastructure development, which will result in long-term growth for the state.

It has been seen that expenditures in the Revenue Account have increased dramatically over the course of the study, resulting in exponential expenditure growth. Its expansion has been aided by an increase in Revenue Expenditures on General Services, Social Services, and Economic Services, among other things. It should be noted, however, that the dramatic expansion of Revenue Expenditures is not a long-term answer to the State's never-ending difficulties. The State Government of Nagaland has been unable to generate sufficient domestic resources and has become increasingly reliant on the Centre for the implementation of its developmental programs.

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CHAPTER 6

FISCAL DEFICIT AND ITS TREND IN NAGALAND

6.1 Introduction

Fiscal policy has become increasingly important in policy deliberations due to challenges such as excessive Fiscal Deficits, growing debt burdens, struggles raising tax revenues, and the committed nature of certain expenditures. These challenges are not confined to developing countries and also impact developed nations. Historically, fiscal policy has been employed to address market failures, which occur when the market mechanism fails to allocate resources efficiently and promote redistributive justice by tackling income and wealth distribution inequalities. Through measures like deficit management, debt control, tax reforms, and strategic allocation of resources, fiscal policy seeks to ensure economic stability, correct market inefficiencies, and foster a more equitable distribution of resources within the economy. Fiscal Deficit shows that the government does not have enough income to prepay its obligations. According to the Mohan (2000), if the country continues to spend more than it earns over time, this will put increasing pressure on the country's macroeconomic stability. High negative financial imbalance leads to an unpleasant scenario that the government provide additional expenses more than income through loans.

According to the Ricardian approach, Fiscal Deficits do not directly impact economic growth as individuals anticipate future tax increases or spending cuts to repay the debt, offsetting any increase in aggregate demand. As per Bernheim (1989), the studies based on the neoclassical school of thought argue that the financial deficit prevents economic growth by pushing interest rates to increase government borrowing, which attracts private investment. The neoclassical perspective argues that widening Fiscal Deficits indicate a consumption-exceeding-income scenario, reducing savings and leading to higher real interest rates, which dampen investment and hinder growth in a closed economy. In contrast, the Keynesian view suggests that Fiscal Deficits can spur growth, especially when less than full employment, as they boost effective demand by injecting additional spending into the economy. Thus, these approaches present divergent opinions on the relationship between Fiscal Deficits and growth: neutrality according to Ricardian equivalence, adverse effects on savings and investment in the neoclassical framework, and potential positive impact on demand and growth according to Keynesian theory, particularly in times of economic underutilization or below-capacity production (Trivedi and Rajmal, 2011).

The Fiscal Deficit has been much discussed in many of the literature on economic growth. A study by Sheikh et al. (2010) found a negative correlation between governmental debt and economic growth. Similarly, Ezeabasili et al. (2012) studied at how the Fiscal Deficit affected economic growth and came to the conclusion that there was an adverse relationship between the two. Gemmell (2001) conducted a study in low income, medium income and high-income nations and the findings showed that the Fiscal Deficit has a considerable adverse impact on economic growth. Hermes and Lensink (2001) conducted a thorough analysis of the effect of Fiscal Deficit financing on economic growth and came to the conclusion that deficit financing not only raises interest rates in the financial markets but also causes a decline in private investment, which has a negative impact on economic growth.

Other studies, argue that a financial deficit can stimulate domestic production and lead to economic optimism among private investors and, as a result, greater investment - what is known as the bustling or crowding-in effect. According to a study done on Kenya by Momanyi et al. (2013), Fiscal Deficits can boost economic growth because they improve productivity by constructing better infrastructure. Thus, the study supported a favourable correlation between economic growth and Fiscal Deficit. The relationship between the public debt, the budget deficit, and endogenous growth was investigated by Brauninger (2005). According to the findings, economic growth moves in an upward direction so long as the budget deficit is kept below a key level. Similarly, Adam and Bevan (2005) conducted an empirical study to investigate the connection between the Fiscal Deficit and economic growth of 45 emerging nations. According to the study's findings, a Fiscal Deficit of about 1.5 percent of Gross Domestic Product (GDP) can promote growth.

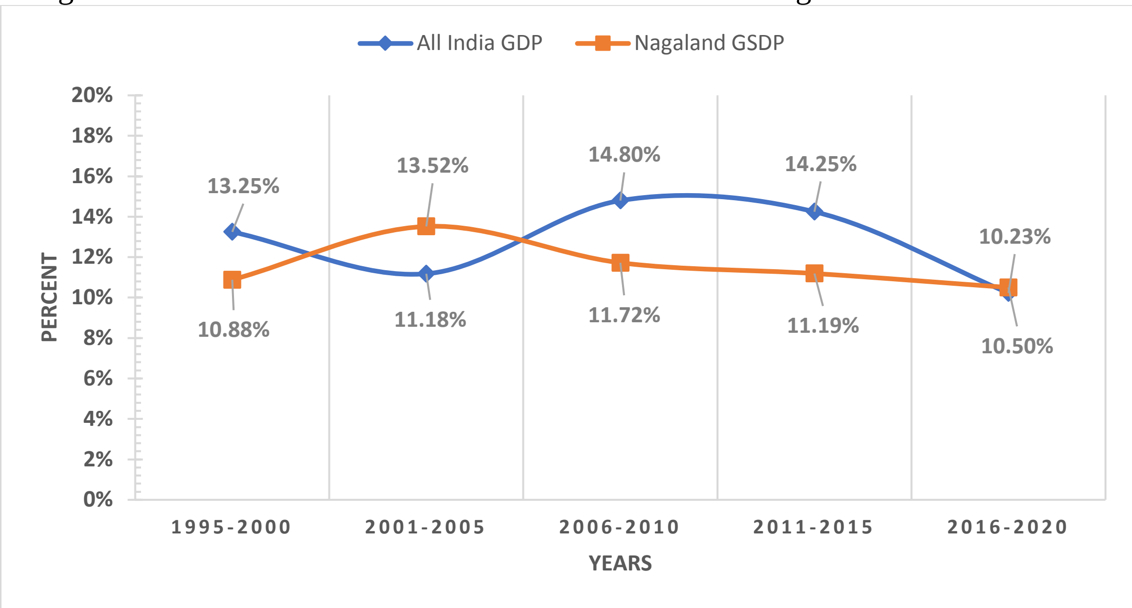
In India, the Fiscal Deficit in recent years has been a cause for concern because India's economy has been in constant deficit. The rationale for implementing a fiscal policy rule in India stems from the deterioration in fiscal performance, despite the significant economic growth achieved over the past two decades. With a GDP growth rate of 9 percent, concerns have arisen about the sustainability of this growth due to past fiscal crises and persistently high Fiscal Deficits, reaching around 10 percent of GDP, along with increasing government debt. The economy has been constrained by these factors, including unproductive expenditure and tax distortions, limiting its ability to realize its growth potential fully. Adopting a fiscal policy rule is deemed crucial to ensure sustainable economic growth and macroeconomic stability. This rule would provide guidelines to effectively manage Fiscal Deficits, control expenditure, and address tax distortions, thereby fostering long-term stability and unlocking the maximum growth potential of the Indian economy (Sucharita and Sethi, 2011). Therefore, there is a fear that high fiscal or financial imbalances will negatively affect the Country's economic growth. This study is an attempt to analyze the impact of Fiscal Deficit on GDP growth of India with special reference to Nagaland to understand whether there is any impact or not. If there is any impact, how much it is. And also, to find whether there is any relationship between Fiscal Deficit and Gross State Domestic Product (GSDP). From Table 6.1 it can be seen that India's GDP from 1995-96 to 2019-20 grew at CARG of 12.57 percent and as of Nagaland the GSDP grew at a CARG of 11.65 percent.

Table 6.1: Growth Rates of GDP of India and GSDP of Nagaland at Current Prices (1995-96 to 2019-20) (₹ Crore)

YEAR	**GDP**			**GSDP**		
	All India excluding Nagaland	% Increase	% Increase in 5 years	Nagaland	% Increase	% Increase in 5 years
1995-96	1001059.72	-	**13.25%**	1813.76	-	**10.88%**
1996-97	1154944.28	15.4%		2024.10	11.60%	
1997-98	1285103.43	11.3%		2323.83	14.81%	
1998-99	1463732.33	13.9%		2385.23	2.64%	
1999-00	1700598.73	16.2%		2802.27	17.48%	
2000-01	1791543.88	5.3%	**11.18%**	3399.30	21.31%	**13.52%**
2001-02	1924854.30	7.4%		3972.46	16.86%	
2002-03	2077898.88	8.0%		4466.76	12.44%	
2003-04	2350424.25	13.1%		4812.34	7.74%	
2004-05	2801691.64	19.2%		5838.84	21.33%	
2005-06	3195175.48	14.0%	**14.80%**	6587.68	12.83%	**11.72%**
2006-07	3742116.91	17.1%		7256.65	10.15%	
2007-08	4356173.72	16.4%		8074.95	11.28%	
2008-09	5020817.43	15.3%		9436.07	16.86%	
2009-10	5775004.02	15.0%		10526.77	11.56%	
2010-11	6911800.27	19.7%	**14.25%**	11759.37	11.71%	**11.19%**
2011-12	8619311.92	24.7%		12176.76	3.55%	
2012-13	9812447.38	13.8%		14121.27	15.97%	
2013-14	11123718.09	13.4%		16611.73	17.64%	
2014-15	12219733.83	9.9%		18400.67	10.77%	
2015-16	13572780.70	11.1%	**10.23%**	19523.95	6.10%	**10.50%**
2016-17	15320049.62	12.9%		21722.45	11.26%	
2017-18	17034573.35	11.2%		24392.96	12.29%	
2018-19	18903148.32	11.0%		26527.42	8.75%	
2019-20	20434695.82	8.1%		29715.87	12.02%	
CAGR		**12.57%**		**11.65%**		

Source: Handbook of Statistics on Indian States, RBI (various issues).

Figure 6.1: Growth Rates of GDP of India and GSDP of Nagaland at Current Prices



6.2 State Finance of Nagaland: Trends in Major Deficit Indicators

The Gross State Domestic Product (GSDP) in Nagaland has been growing, fluctuating over recent years. The compound annual growth rate of GSDP is estimated at 11.65 percent during 1995-96 to 2019-20.

The present study is an attempt to shed some further empirical light on the issue of Public Expenditure's ability to promote economic growth by focusing on the experience of an underdeveloped economy of the Indian federation, namely the State of Nagaland, where no such studies have been carried out in this pressing link between Public Expenditure and economic growth. It is an interesting case study because Nagaland has been included under Special Category States and is not financially sound. However, there has been a continuous significant increase in public expenditure. The additional spending undertaken by the Nagaland government has been partly financed through internal resource mobilization (taxation), which is relatively low, and the major part is through Grants-In-Aid from the Central government and increased government borrowing.

This trend has resulted in a recorded significant increase in State government's Revenue Deficit, Fiscal Deficit and Public Debt. From Table 6.2, the Fiscal Deficit in absolute term has continuously increased from ₹ 230 crore in 1995-96 to ₹ 250 crore in 1999-2000 and further increased to ₹ 440 crore in 2002-03. During the year 2003-05, the State Government recorded a deficit surplus of ₹ 160 crore owing to increase in Central

Tax transfers and Grants-in-Aid from the Government of India. However, the State government have experienced an increasing trend over the years. The Fiscal Deficit raised from ₹ 218 crore in 2004-05 to ₹ 1428 crore in 2019-20. In terms of percentage to GSDP, Fiscal Deficit as a percentage of GSDP which stood at 12.68 percent in 1995-96 declined to -3.32 percent in the year 2003-04. It has gradually declined to 4.81 percent in 2019-20. Similarly, the Primary Deficit in absolute term has continuously increased over the years from ₹ 150 crore in 1995-96 to ₹ 230 crore in 2002-03 and by the year 2019-20 it has skyrocketed to ₹ 615 crore. Primary Deficit as a percentage of GSDP has decreased from 8.27 percent in 1995-96 to – 8.10 percent in 2003-04. After 2003-04 Primary Deficit as a percentage of GSDP has been contained in between 0.70 percent. All these shows the extra government spending that the state government has been carrying out over the years but could not provide enough stimuli to the growth of State's income. A major chunk (80 percent of non-plan revenue expenditure) is been spend on three components – salaries, pensions and interest payments. The salary expenditure alone hovers around 23.5 percent of total revenue expenditure net of interest and pension as against 21.6 percent. The total quantum of public expenditure on servicing of public debt (i.e. interest payment) has been mounting up over the years.

In 2014-15, the State had a revenue surplus of ₹ 889 crore, which showed a positive trend during the observed period. The average revenue surplus as percentage of GSDP is 4.11 per cent. While the Fiscal Deficit accounted for ₹ 1428 crores and Primary Deficit of ₹ 615 crores in 2019-20. It is seen that the average Fiscal Deficit as percentage of GSDP is 5.69 per cent during study period. The Primary Deficit has varied during the period of observation with an annual average growth rate of 5.88 percent during 1995-96 to 2019-20, whereas, the percentage of GSDP fluctuated between 8.27 – 15.65 percent.

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

Table 6.2: Trends in Major Deficit Indicators as a Percentage to GSDP in Nagaland

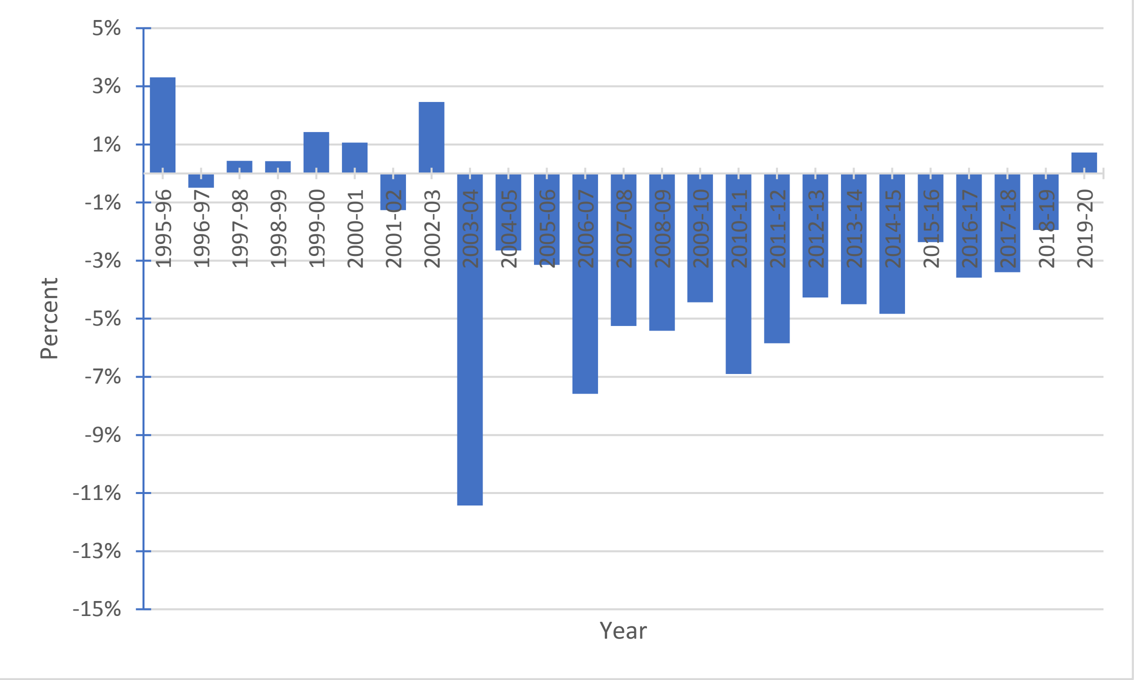
(₹ Crore)

Year	GSDP	Revenue Deficit (RD)	Fiscal Deficit (FD)	Primary Deficit (PD)	% of RD to GSDP	% of FD to GSDP	% of PD to GSDP
1995-96	1813.76	60	230	150	3.31%	12.68%	8.27%
1996-97	2024.10	-10	180	90	-0.49%	8.89%	4.45%
1997-98	2323.83	10	200	90	0.43%	8.61%	3.87%
1998-99	2385.23	10	240	110	0.42%	10.06%	4.61%
1999-00	2802.27	40	250	90	1.43%	8.92%	3.21%
2000-01	3399.30	36	360	160	1.06%	10.59%	4.71%
2001-02	3972.46	-50	370	140	-1.26%	9.31%	3.52%
2002-03	4466.76	110	440	230	2.46%	9.85%	5.15%
2003-04	4812.34	-550	-160	-390	-11.43%	-3.32%	-8.10%
2004-05	5838.84	-155	218	-31	-2.65%	3.73%	-0.53%
2005-06	6587.68	-207	306	53	-3.14%	4.65%	0.80%
2006-07	7256.65	-550	156	-124	-7.58%	2.15%	-1.71%
2007-08	8074.95	-424	397	127	-5.25%	4.92%	1.57%
2008-09	9436.07	-511	341	27	-5.42%	3.61%	0.29%
2009-10	10526.77	-467	522	159	-4.44%	4.96%	1.51%
2010-11	11759.37	-812	313	-82	-6.91%	2.66%	-0.70%
2011-12	12176.76	-711	539	122	-5.84%	4.43%	1.00%
2012-13	14121.27	-603	654	203	-4.27%	4.63%	1.44%
2013-14	16611.73	-748	459	-34	-4.50%	2.76%	-0.20%
2014-15	18400.67	-889	134	-421	-4.83%	0.73%	-2.29%
2015-16	19523.95	-462	597	11	-2.37%	3.06%	0.06%
2016-17	21722.25	-778	295	-340	-35.82%	13.58%	-15.65%
2017-18	24392.96	-828	446	-232	-3.39%	1.83%	-0.95%
2018-19	26527.42	-517	1082	311	-1.95%	4.08%	1.17%
2019-20	29715.87	214	1428	615	0.72%	4.81%	2.07%

Source: Calculated based on handbook of Statistics on Indian States and RBI.

The overall deficit shows the gap between the revenues of the Government and its Total Expenditure (including net lending to others). It indicates the borrowing requirements of the Government to be met through domestic and external sources. It is a useful measure from the view point of macro-economic balance of the economy. The extent of overall fiscal position in the finances of State Government can be indicated by three key parameters- Revenue, Fiscal and Primary Deficit. Table 6.2, shows the trends of different parameters of fiscal imbalance in respect of State finances from 1995-96 to 2019-20.

Figure 6.2: Percentage of Revenue Deficit to GSDP (1995-96 to 2019-20)



6.2.1 Revenue Deficit/Surplus

A Revenue Deficit refers to the surplus of the government's total revenue expenditure over its total revenue receipts. It specifically pertains to the revenue-related expenses and receipts of the government. The Revenue Deficit arises when the government spends more than it earns, indicating a need for sufficient revenue for the normal functioning of government departments. The government must disinvest or borrow to cover the shortfall in such cases. To address a Revenue Deficit, the government typically aims to reduce expenses, increase tax and non-tax receipts, or both. This may involve the introduction of new taxes or an increase in taxes for individuals in higher-earning brackets.

Revenue deficit = Total Revenue expenditure – Total Revenue receipts

The State government had revenue surplus throughout the period from 1995-96 to 2019-20, except for the year 2002-03 and 2019-20 with a Revenue Deficit of ₹ -110 crores and ₹ -214 crores, respectively. The highest Revenue Surplus was during the year 2014-

15 with ₹ 889 crores and the lowest was during 1996-97, with ₹ 10 Revenue Surplus. The average Revenue Surplus over the same period is ₹ 352 crores. Revenue Deficit as percentage of GSDP ranges between 3 percent to -11 percent during the period 1995-96 to 2019-20, as shown by Table 6.2 and Figure 6.2.

6.2.2 OLS Regression Analysis on Revenue Deficit

To the analyze Nagaland has an increasing trend of Revenue Deficit, regression analysis was tested on the Revenue Deficit from 1995-96 to 2019-20.

Table 6.3: Result of OLS Regression on Revenue Deficit

Variable	Coefficient	t-statistic	Prob.
Constant	53.730	.481	.635
Year	-31.185	-4.146	.000
R^2	.428		
ΔR^2	.403		

Note: *$p < 0.05$, Dependent Variable: Revenue Deficit

Based on the Ordinary Least Squares (OLS) regression analysis, there is strong evidence to suggest that the Revenue Deficit has significantly decreased over the years from 1995-96 to 2019-20. The negative coefficient for the Year variable (-31.185, t = -4.146, p < 0.001) indicates that, on average, the Revenue Deficit decreases by 31.185 units for each increase in the year. The coefficient's statistical significance supports the conclusion that the relationship between the Year and the Revenue Deficit is not due to chance. Furthermore, the model explains approximately 42.8 percent of the variation in the Revenue Deficit ($R^2 = 0.428$), suggesting a moderate level of explanatory power. Thus, it can be inferred that the Revenue Deficit has shown a decreasing trend over the specified period.

Therefore, based on the analysis, the study rejects the hypothesis that Nagaland has an increasing trend of Revenue Deficit. The regression analysis indicates a significant decreasing trend in the Revenue Deficit over the years in Nagaland.

6.2.3 Fiscal Deficit

Financing government expenditure involves combining revenue receipts and borrowing, and any remaining shortfall results in a Fiscal Deficit. This deficit represents the government spending covered through borrowings and cash balances. Countries typically express their Fiscal Deficit as a percentage of their gross domestic product (GDP) to facilitate meaningful comparisons. The gross Fiscal Deficit (GFD) represents the excess of the government's total expenditure, which includes current and capital expenses, loans net of recovery, over its revenue receipts (including external grants), and non-debt capital receipts. In essence, it signifies the overall difference between government spending and receipts. Conversely, the net Fiscal Deficit is calculated by subtracting the government's net lending from the gross Fiscal Deficit. Net lending refers to the loans provided by the government, and deducting this amount from the gross Fiscal Deficit provides a more precise measure of the government's borrowing requirements (De, 2012).

According to Gupta and Singh (2012), Fiscal Deficit refers to the excess of total expenditure over total receipts, excluding borrowings. It represents the amount the government requires to cover its expenses. A larger Fiscal Deficit implies a greater need for borrowing. It measures how much the government needs to borrow from the market when its available resources are insufficient to meet its expenditure. Various measures can be implemented to address a high Fiscal Deficit, including reducing public expenditure through subsidy cuts, decreasing spending on bonuses and leave encashment, and adopting strategies to enhance revenue. These strategies may involve expanding the tax base, restructuring existing tax systems, and selling shares in public sector units. These measures aim to decrease the Fiscal Deficit by curbing expenditure and increasing revenue sources.

Fiscal Deficit = Total expenditure – Total receipts excluding borrowings

Expanding the term Total Expenditure to include both Revenue Expenditure and Capital Expenditure and considering Total Receipts as a combination of Revenue and Capital Receipts, the previous formula is rewritten in the following manner:

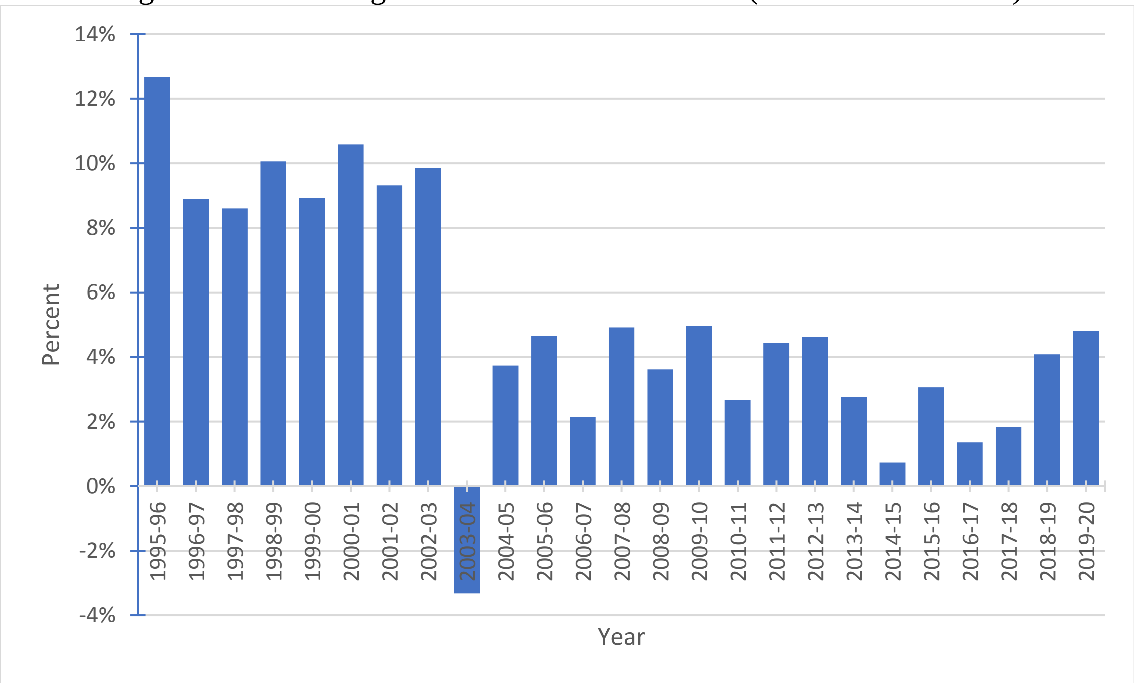
Fiscal Deficit = (Revenue Expenditure + Capital Expenditure) – (Revenue Receipts + Capital Receipts other than borrowings)

Now, by rearranging the terms, the formula is expressed as:

Fiscal Deficit = (Revenue Expenditure - Revenue Receipts) + Capital Expenditure - (Recoveries of loans + other Receipts)

The State has witnessed a huge Fiscal Deficit during 1995-96 to 2019-20, the Fiscal Deficit raised from ₹ 230 crore in 1995-96 to ₹ 1428 crores during 2019-20. The highest Fiscal Deficit was recorded during 2019-20 with ₹ 1428 crores. The average Fiscal Deficit during 1995-96 to 2019-20 was ₹ 400 crores. From Table 6.2 and Figure 6.3, it is seen that Fiscal Deficit as percentage of GSDP varies from -3 to 13 percent during the same period. During 2003-04 huge Revenue Surplus was observed largely on account of Conversion of GOI loans amounting to ₹ 365 crore into Grants-in-Aid which has also resulted in a situation of fiscal and primary surplus during the year. Due to which the State witnessed a surplus on Fiscal Deficit of ₹ 160 crores during 2003-04.

Figure 6.3: Percentage of Fiscal Deficit to GSDP (1995-96 to 2019-20)



6.2.4 OLS Regression Analysis on Fiscal Deficit

To analyze Nagaland has an increasing trend of Fiscal Deficit, regression analysis was tested on the Fiscal Deficit, spanning from 1995-96 to 2019-20.

Table 6.4: Result of OLS Regression on Fiscal Deficit

Variable	Coefficient	t-statistic	Prob.
Constant	62.390	.599	.555
Year	25.961	3.707	.001
R^2	.374		
ΔR^2	.347		

Note: $*p < 0.05$, Dependent Variable: Fiscal Deficit

The OLS Regression Analysis was conducted to examine the trend of Fiscal Deficit in the State of Nagaland from 1995-96 to 2019-20. The analysis revealed a statistically significant positive relationship between the Fiscal Deficit and the year, as indicated by the coefficient estimate of 25.961 ($p = .001$). This finding suggests that, on average, the Fiscal Deficit increased by 25.961 units for each one-unit increase in the year. The model accounted for approximately 37.4 percent of the variance in the Fiscal Deficit ($R^2 = .374$). These results reject the null hypothesis and support the alternative hypothesis that Nagaland has an increasing trend of Fiscal Deficit over the specified period. These findings provide valuable insights into the fiscal management and economic performance of the State.

Therefore, based on this analysis, it is reasonable to assert that the Fiscal Deficit has shown an increasing trend over the years studied in the context of the State of Nagaland.

6.2.5 Primary Deficit

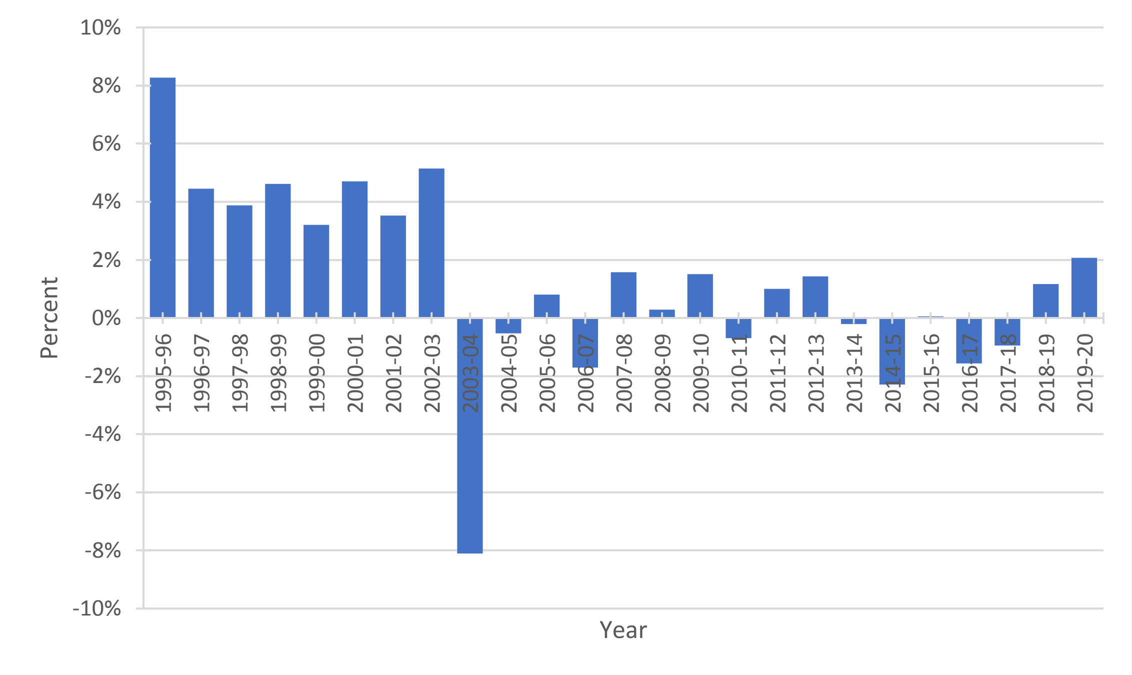
The Primary Deficit is the amount obtained by subtracting the interest payments on previous borrowings from the current year's Fiscal Deficit. In other words, while the Fiscal Deficit encompasses the borrowing requirement inclusive of interest payments, the Primary Deficit focuses solely on the borrowing requirement exclusive of interest payments (i.e., the loan amount itself). The government's borrowing needs include the accumulated debt and the interest payments associated with that debt. The resulting balance represents the Primary Deficit by deducting the "interest payment on debt" from the borrowing amount. This measure indicates how much government borrowing is allocated to expenses other than interest payments. A primary zero deficit signifies that the government relies solely on borrowing to fulfill its interest payment obligations. Calculating the Primary Deficit enables the assessment of the borrowing explicitly required for current expenditure beyond revenue. Consequently, the Primary Deficit equals the Fiscal Deficit minus the interest payments.

Primary Deficit = Fiscal Deficit – Interest payments

The State's Primary Deficit increased from ₹ 150 crores in 1995-96 to ₹ 615 crores during 2019-20. However, there was a wide fluctuation in the year wise deficit ranging from ₹ -421 crore to ₹ 615 crores. The average annual Primary Deficit was ₹ 41 crores during 1995-96 to 2019-20. Primary Deficit as a percentage of GSDP fluctuates between

-8 to 8 percent during the study period. The increasing trend in Primary Deficit has worsened the debt-GSDP ratio.

Figure 6.4: Percentage of Primary Deficit to GSDP (1995-96 to 2019-20)



6.3 Impact of Fiscal Deficit on GSDP Growth

As per different studies, Fiscal Deficit had a negative impact on the economic growth of the countries, while some studies showed that Fiscal Deficit had a positive impact on the GDP growth of countries. In this study the OLS estimator simple regression model has been used to check the impact of Fiscal Deficit on GSDP growth of Nagaland from 1990-91 to 2019-2020 and Pearson's correlation model so as to arrive at dependable conclusion. Before running the OLS estimator simple regression, to understand the stationary of the data, the Augmented Dickey-Fuller unit root test has been used.

6.3.1 Augmented Dickey-Fuller Unit Root Test

The characteristics of stationary of the series are examined by using the ADF test for both variables. The P-value is compared with the significant value of 0.05, and then the decision has been taken. If the P-value is greater than 0.05, the null hypothesis (H0) would be accepted; if it is less than 0.05, then the (H0) would be rejected. If the null hypothesis is accepted, it can be interpreted that the data are not stationer or there is a problem of unit root at a 95 percent confidence interval. And if the null hypothesis is rejected, it can be concluded that the data are stationer and there is no problem of unit root.

Table 6.5: Result of ADF Unit Root Test for variables.

H0: There is problem of unit root.									
Variables	**At Level**			**1st Difference**			**2nd Difference**		
	p-value Intercept	p-value Intercept and trend	Ho	p-value Intercept	p-value Intercept and trend	Ho	p-value Intercept	p-value Intercept and trend	**H0**
Fiscal Deficit	0.7428	0.4093	Accept	0.0000	0.0001	Reject	0.0000	0.000	Reject
GSDP	1.000	1.000	Accept	1.0000	0.0335	Accept	0.0001	0.0596	Reject

Source: Author's calculation by using E-views.

So as per the above Table 6.5, the results, show that Fiscal Deficit and GSDP growth of Nagaland had problem unit root that means at the level point the data were not stationer. Therefore, for Fiscal Deficit 1st Level difference and for GSDP the 2nd Level difference was taken to make the data stationer. After solving the problem of unit root, OLS estimator simple regression was employed to check the impact of Fiscal Deficit on GSDP growth from 1990-91 to 2019-20.

6.3.2 OLS Regression Model

Table 6.6 shows the impact of Fiscal Deficit on the growth of Gross State Domestic Product (GSDP) in Nagaland from 1990-91 to 2019-20.

Table 6.6: Result of OLS Regression Model on GSDP

Variable	Coefficient	t-statistic	Prob.
Constant	177.729	1.103	.2799
Fiscal Deficit	-0.1798	-0.422	.6760
R^2	.0068		
ΔR^2	-0.0313		

Note: *p < 0.05, Dependent Variable: GSDP

Source: Author's calculation by using E-views.

The regression analysis revealed the coefficient for Fiscal Deficit is not statistically significant (β = -0.179836, p = 0.6760), suggesting that Fiscal Deficit does not have a significant impact on GSDP growth in Nagaland. The low coefficient of determination (R^2 = .0068) indicates that only a small portion of the variation in GSDP can be explained by the fiscal deficit variable. Additionally, the negative change in R^2 (ΔR^2 = -0.0313) suggests that the inclusion of the fiscal deficit in the model does not substantially enhance its explanatory power. Therefore, it can be concluded that the Fiscal Deficit does not have a significant impact on GSDP growth in the State.

To understand the relationship between Fiscal Deficit and GDP growth, Pearson's correlation model was computed to find if there is any relationship between the variables, it is positive or negative.

6.3.2 Pearson's Correlation Model

Table shows the relationship between Fiscal Deficit and GSDP growth in Nagaland from 1991-90 to 2019-20. The Pearson's correlation model is used to check the correlation between the variables. To accept or reject any relationship between the variable or not, the hypotheses are as below:

H0: There is no significant relationship between Fiscal Deficit and GSDP growth of Nagaland.

H1: There is significant relationship between Fiscal Deficit and GSDP growth of Nagaland.

Table 6.7: Result of Pearson's Correlation Test

	Fiscal Deficit	GSDP
Fiscal Deficit	1	
GSDP	-0.083	1

Source: Author's calculation by using E-views.

The Pearson's correlation analysis revealed a correlation coefficient of -0.083, suggesting a weak and negligible association between the Fiscal Deficit and GSDP. Furthermore, the p-value of 0.676 indicate a lack of statistical significance, providing insufficient evidence to support a meaningful relationship. These findings contribute to the understanding of the interplay between Fiscal Deficit and GSDP in Nagaland, suggesting that fiscal deficit does not have a significant correlation with GSDP.

Therefore, based on the above results, the analysis concludes that there is no significant impact of Fiscal Deficit on the growth of GSDP in Nagaland.

6.4 The Nagaland Fiscal Responsibility and Budget Management Act- 2005

The State Government of Nagaland passed the Nagaland Fiscal Responsibility and Budget Management (FRBM) Act, 2005 on 11th August 2005 to ensure prudence in fiscal management and fiscal stability by achieving revenue surplus, reduction in Fiscal Deficit, prudent debt management consistent with fiscal sustainability, greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium-term framework. The Act came into force from 19th August 2005.

6.4.1 Post Liberalization (1990-91) till FRBM Act (2002-03)

The New Economic Policy brought with itself a fresh approach, the Government of India not only liberalized the licensing it also began with the disinvestment of the public enterprises and it's holding. This had a twin effect; firstly, it led to lowering the Capital Expenditure and secondly, it increased the Capital Receipts. Thus post 1991 there was steady decline in the Primary Deficit as percentage of GDP, it fell 2.3 percent in 1990-91 to 0.9 percent in 19995-96 and gradually raised from 1.0 percent in 1996-97 to 1.5 percent in 2002-2003. Whereas, in case of State of Nagaland, the Primary Deficit raised from 9.2 percent in 1990-91 to 10.0 percent in 1994-95 as seen from Table 6.8. However, from the year 1995-96 the Primary Deficit decline steadily with 8.3 percent to 5.1 percent in 2002-03.

The Revenue Deficit also experienced a positive impact courtesy the revised tax structure and controlled subsidy expenditure. As percentage of GDP the Revenue Deficit for Central Government fell from 1.2 percent in 1990-91 to 0.9 percent in 1995-96. However, since the year 1996-97 the Revenue Deficit begun to increase steadily with 1.5 percent in 1996-97 to 2.7 percent in 2002-03. On the other hand, the Government of Nagaland witnessed a gradual increase in Revenue Deficit from 1.5 percent in 1990-91 to 3.3 percent in 1995-96. However, after the year 1995-96 the Revenue Deficit witnessed a declining trend from 0.4 percent in 1997-98 to a surplus of 1.3 percent in 2001-02.

Table 6.8: Deficits of the Central Government and Nagaland as Percentage of GDP (Pre-FRBM) (1990-91 to 2002-03) (₹ Crores)

Years	India			Nagaland		
	% of Fiscal Deficit to GDP	% of Revenue Deficit to GDP	% of Primary Deficit to GDP	% of Fiscal Deficit to GSDP	% of Revenue Deficit to GSDP	% of Primary Deficit to GSDP
1990-91	4.3%	1.2%	2.3%	15.3%	1.5%	9.2%
1991-92	3.7%	1.1%	1.6%	12.7%	-1.3%	5.1%
1992-93	3.6%	0.9%	1.3%	15.3%	1.1%	8.7%
1993-94	2.7%	0.5%	0.6%	12.4%	3.6%	8.0%
1994-95	3.1%	0.8%	0.9%	15.0%	5.6%	10.0%
1995-96	3.1%	0.9%	0.9%	12.7%	3.3%	8.3%
1996-97	3.2%	1.5%	1.0%	8.9%	-0.5%	4.4%
1997-98	3.4%	1.4%	1.1%	8.6%	0.4%	3.9%
1998-99	5.0%	3.0%	2.6%	10.1%	0.4%	4.6%
1999-00	5.3%	3.2%	2.7%	8.9%	1.4%	3.2%
2000-01	4.9%	3.1%	2.1%	10.6%	1.1%	4.7%
2001-02	4.9%	3.1%	1.7%	9.3%	-1.3%	3.5%
2002-03	4.8%	2.7%	1.5%	9.9%	2.5%	5.1%

Source: Handbook of Statistics on Indian States, RBI (various issues).

Figure 6.5: Deficit Trend of the Central Government as Percentage of GDP (Pre-FRBM) (1990-91 to 2002-03)

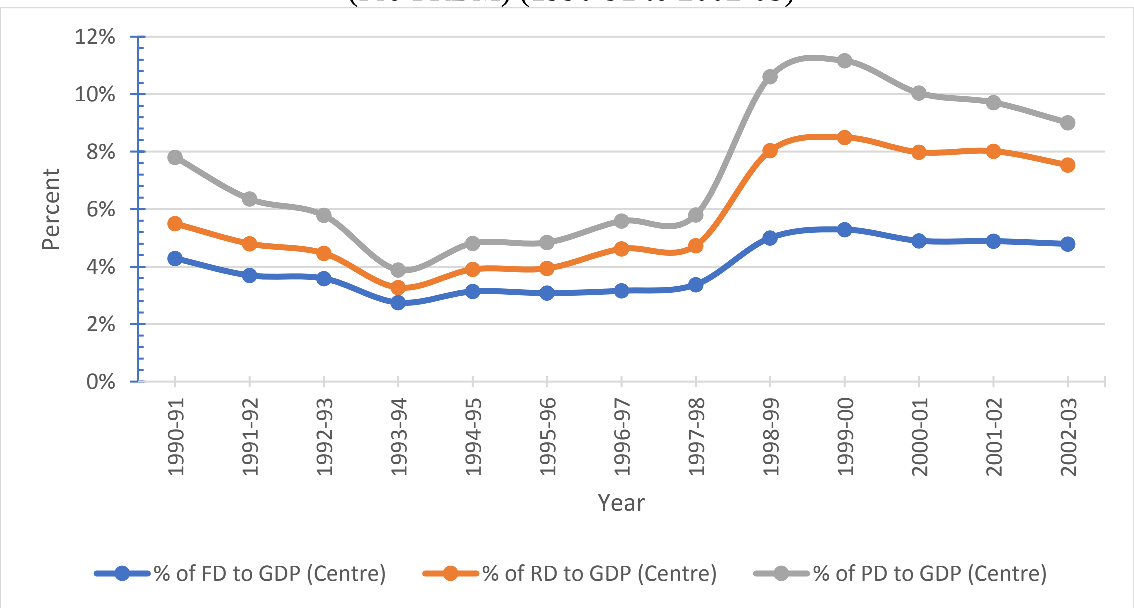


Figure 6.6: Deficit Trend of Govt. of Nagaland as Percentage of GSDP (Pre-FRBM) (1990-91 to 2002-03)

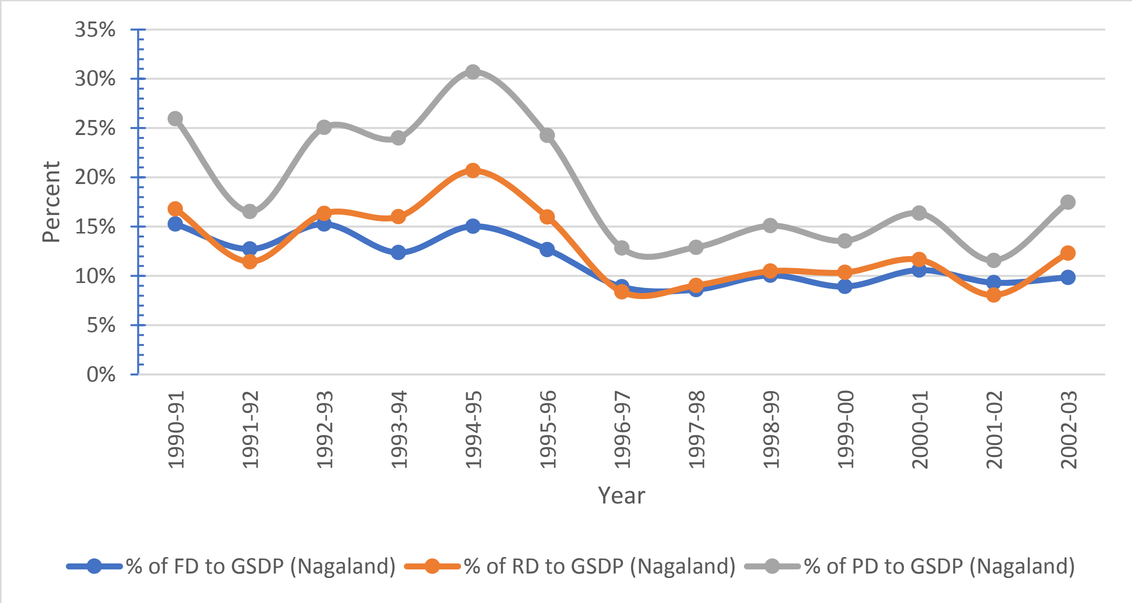


Figure 6.7: Fiscal Deficit Trend of Centre and Nagaland as Percentage of GSDP (Pre-FRBM) (1990-91 to 2002-03)

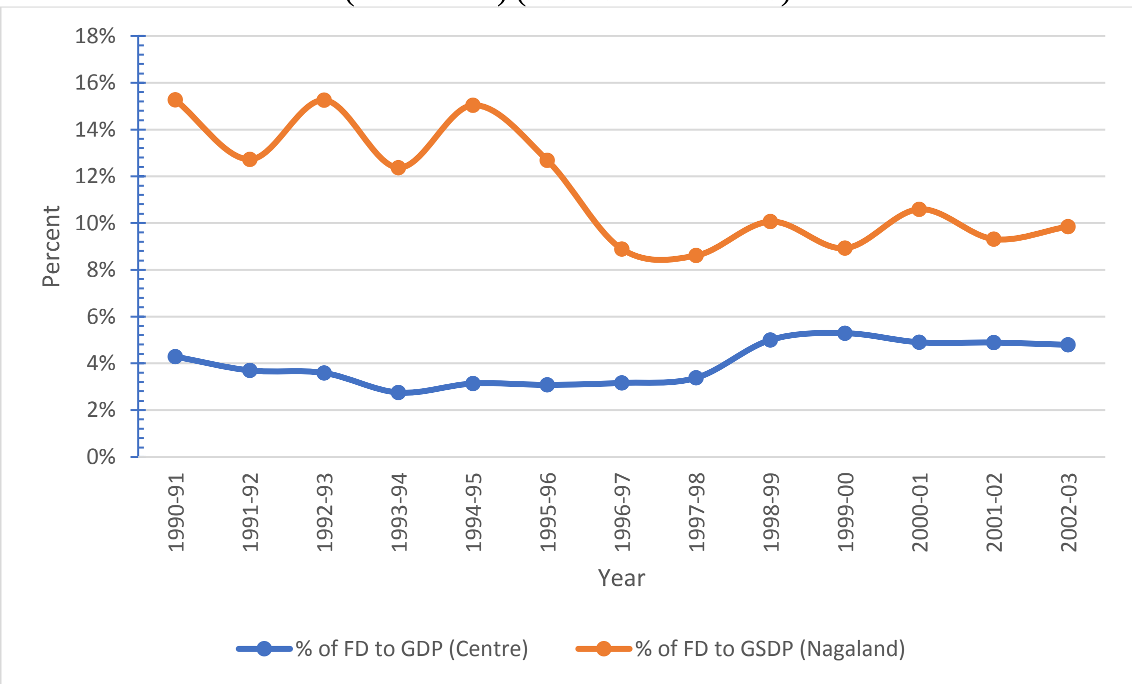


Figure 6.8: Revenue Deficit Trend of Centre and Nagaland as Percentage of GSDP (Pre-FRBM) (1990-91 to 2002-03)

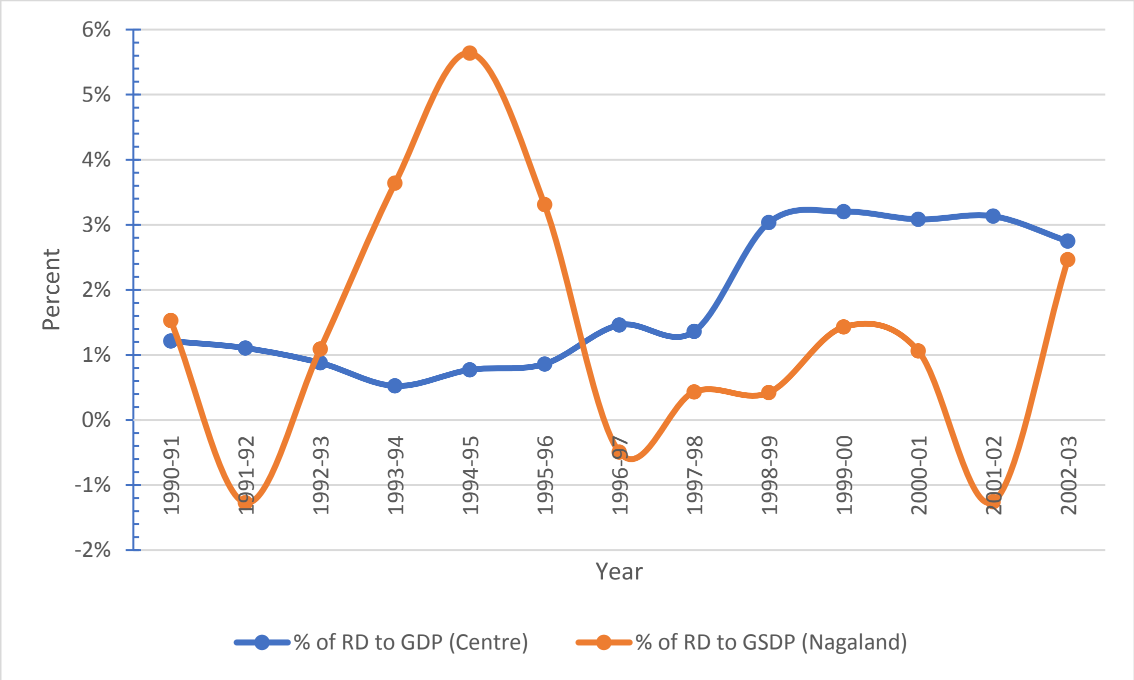
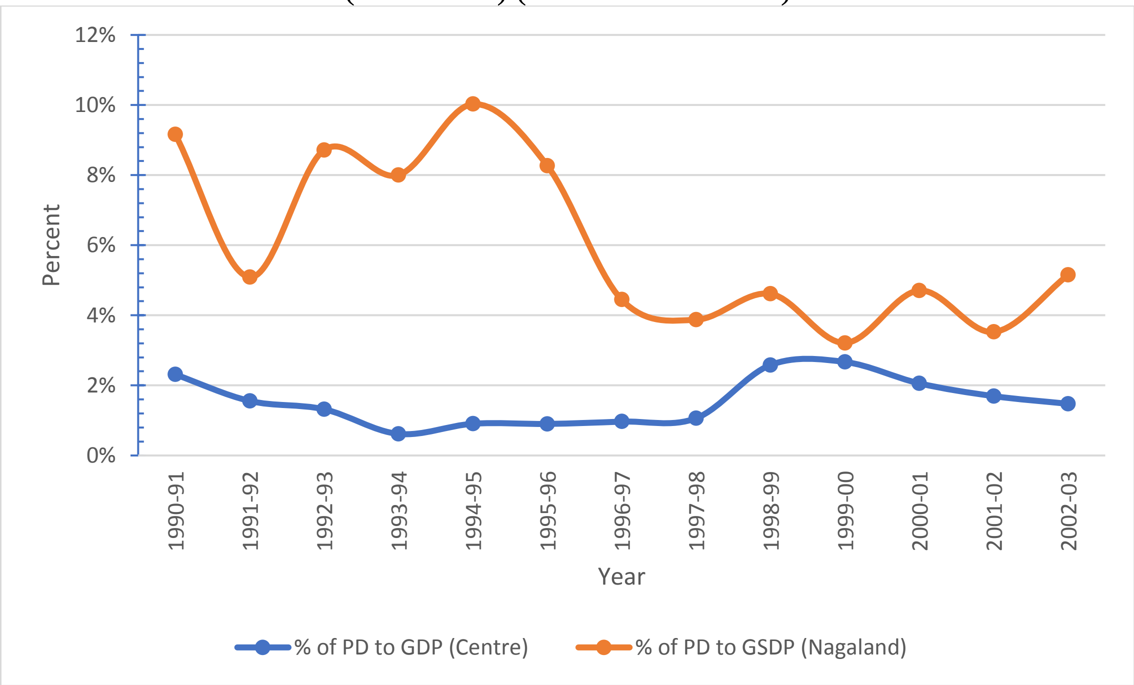


Figure 6.9: Primary Deficit Trend of Centre and Nagaland as Percentage of GSDP (Pre-FRBM) (1990-91 to 2002-03)



As seen, from the high 4.3 percent in the latter end of 1990s, the Fiscal Deficit of Central Government reduced to 3.1 percent in 1994-95 and the downward trend continued up to 1997-98 when the Fiscal Deficit stood at 3.4 percent of GDP. Since 1997-98, Fiscal Deficit had again started increasing. It stood at 5.0 percent in 1998-99. The period from

1996-97 to 2002-03 was characterized by large rise in public debt involving large interest payments year on year which led to the diversion of resources from investment to debt servicing. Unlike the Centre, the Government of Nagaland has experienced a decline trend from high of 15.3 percent in 1990-91 to 8.9 percent in 1996-97 and 9.9 percent in 2002-03.

The Fiscal Deficit situation from 1990s to 2002s; Indian economy faced with the problem of large Fiscal Deficit and the large borrowings of the Government led to such a precarious situation that Government was unable to pay even for three weeks of imports resulting in Economic Crisis of 1991. Consequently, Economic reforms were introduced in 1991 and fiscal consolidation emerged as one of the key areas of reforms. After a good starting the early nineties, the fiscal consolidation faltered after 1997-98. The Fiscal Deficit started rising after 1997-98. The Government of India introduced Fiscal Responsibility and Budget Management (FRBM) Act, 2003 to check the deteriorating fiscal situations.

6.4.2 Post Fiscal Responsibility and Budget Management (FRBM) Act, 2003 till 2019-20

The Fiscal Responsibility and Budget Management (FRBM) Bill was introduced in Parliament in December 2000 in order to restore fiscal discipline. The Bill was referred to the Parliamentary Standing Committee on Finance, which suggested some changes in the original draft. On the recommendation of the Standing Committee, necessary amendments were made in the FRBM Bill April 2003 and after being passed by both the Houses of Parliament, it received the assent of the President on August 26, 2003. The Fiscal Responsibility and Budget Management (FRBM) Act, 2003, was brought into force on July 5, 2004. However, the Government of Nagaland enacted the Act only on 19th August 2005.

The FRBM Act gave a medium-term target for balancing current revenues and expenditures and set overall limits to the Fiscal Deficit at 3 percent of GDP to be achieved according to a phased deficit reduction roadmap. The FRBM Act enhanced budgetary transparency by requiring the government to place before the Parliament on an annual basis reports related to its economic assessments, taxation and expenditure strategy and three-year rolling targets for the revenue and fiscal balance. It also required quarterly progress reviews to be placed in Parliament. The Act aimed at reducing the gross Fiscal

Deficit by 0.5 percent of GDP in each financial year beginning on April 1, 2000. As a result of the efforts taken, Fiscal Deficit as a proportion of GDP started declining.

Table 6.9: Deficits of the Central Government and Nagaland as Percentage of GDP (Post-FRBM) (₹ Crores)

Year	**India**			**Nagaland**		
	% of Fiscal Deficit to GDP	% of Revenue Deficit to GDP	% of Primary Deficit to GDP	% of Fiscal Deficit to GSDP	% of Revenue Deficit to GSDP	% of Primary Deficit to GSDP
2003-04	5.1%	2.7%	1.7%	-3.3%	-11.4%	-8.1%
2004-05	3.9%	1.3%	0.8%	3.7%	-2.7%	-0.5%
2005-06	2.8%	0.1%	0.1%	4.6%	-3.1%	0.8%
2006-07	2.1%	-0.8%	-0.5%	2.1%	-7.6%	-1.7%
2007-08	1.8%	-1.1%	-0.6%	4.9%	-5.3%	1.6%
2008-09	2.7%	-0.3%	0.6%	3.6%	-5.4%	0.3%
2009-10	3.3%	0.4%	1.3%	5.0%	-4.4%	1.5%
2010-11	2.3%	-0.2%	0.5%	2.7%	-6.9%	-0.7%
2011-12	2.0%	-0.3%	0.4%	4.4%	-5.8%	1.0%
2012-13	2.0%	-0.3%	0.4%	4.6%	-4.3%	1.4%
2013-14	2.3%	0.0%	0.7%	2.8%	-4.5%	-0.2%
2014-15	2.7%	0.3%	1.1%	0.7%	-4.8%	-2.3%
2015-16	3.1%	0.0%	1.5%	3.1%	-2.4%	0.1%
2016-17	3.5%	0.2%	1.8%	1.4%	-3.6%	-1.6%
2017-18	2.4%	0.1%	0.7%	1.8%	-3.4%	-1.0%
2018-19	2.4%	0.1%	0.8%	4.1%	-1.9%	1.2%
2019-20	2.6%	0.6%	0.8%	4.8%	0.7%	2.1%

Source: Handbook of Statistics on Indian States, RBI (various issues).

As seen from Table 6.9, Fiscal Deficit was 5.1 percent during 2003-04 for the Centre, which declined to 2.0 percent and 2.6 percent during 2011-12 and 2019-20 respectively. Consequently, the Revenue Deficit also declined from 2.7 percent in 2003-04 to negative 0.3 percent in 2011-12 to 0.6 percent in 2019-20. The Primary Deficit maintained a downward trend over the same period from 1.7 percent in 2003-04 to 0.8 percent in 2019-20. Similarly, the State of Nagaland witnessed a downward trend in all its major fiscal indicators. In 2003-04 the State Fiscal Deficit was negative 3.3 percent and remained at 0.7 percent during 2019-20. The Revenue Deficit was negative 11.4

percent in 2003-04 and experienced a steady upward trend throughout the period with 0.7 percent in 2019-20. The Primary Deficit was negative 8.1 percent in 2003-04 and ended with an increasing trend of 2.1 percent in 2019-20.

Figure 6.10: Deficit Trend of the Central Government as Percentage of GDP (Post-FRBM) (2003-04 to 2019-20)

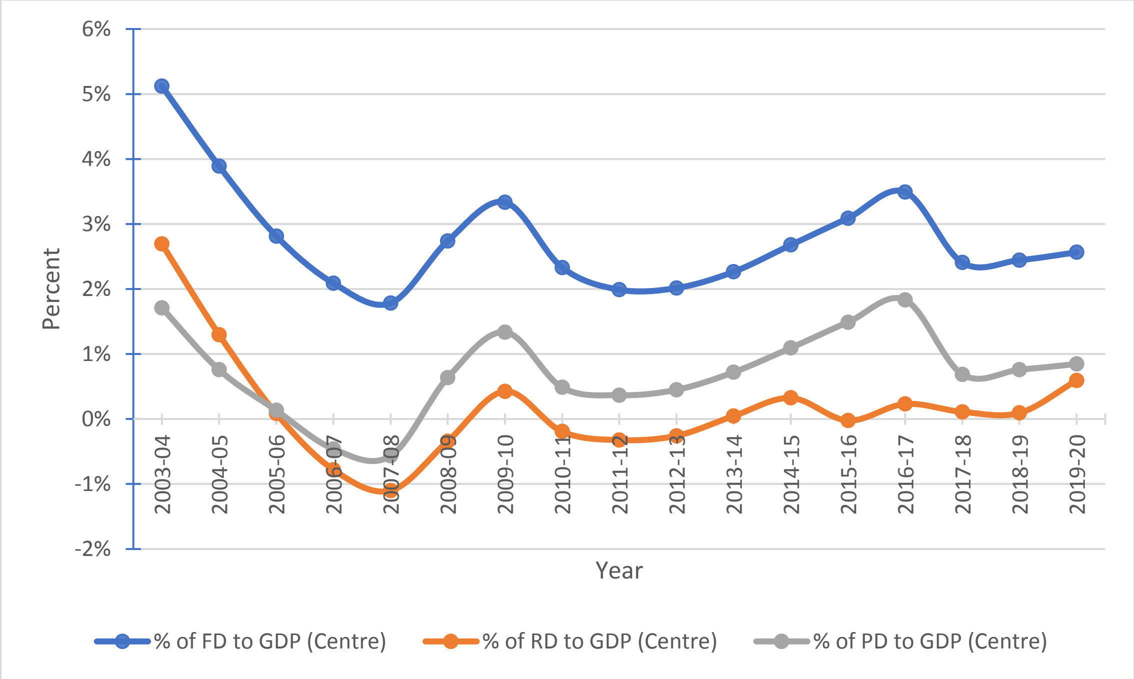


Figure 6.11: Deficit Trend of Govt. of Nagaland as Percentage of GSDP (Post-FRBM) (2003-04 to 2019-20)

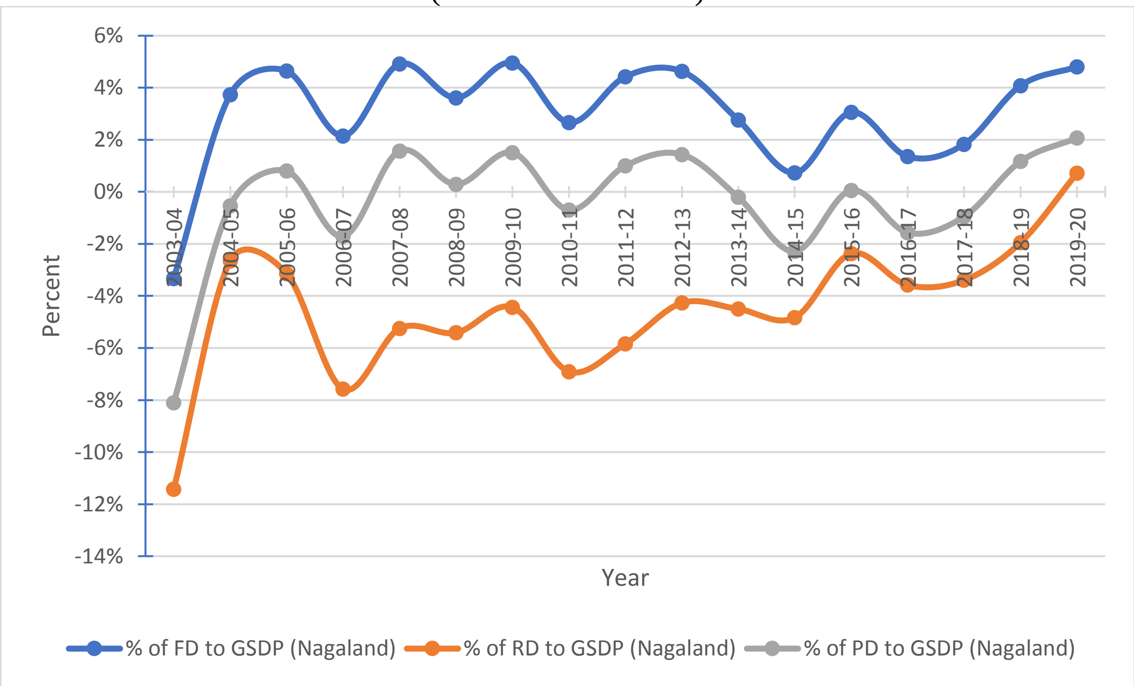


Figure 6.12: Fiscal Deficit Trend of Centre and Nagaland as Percentage of GSDP (Post-FRBM) (2003-04 to 2019-20)

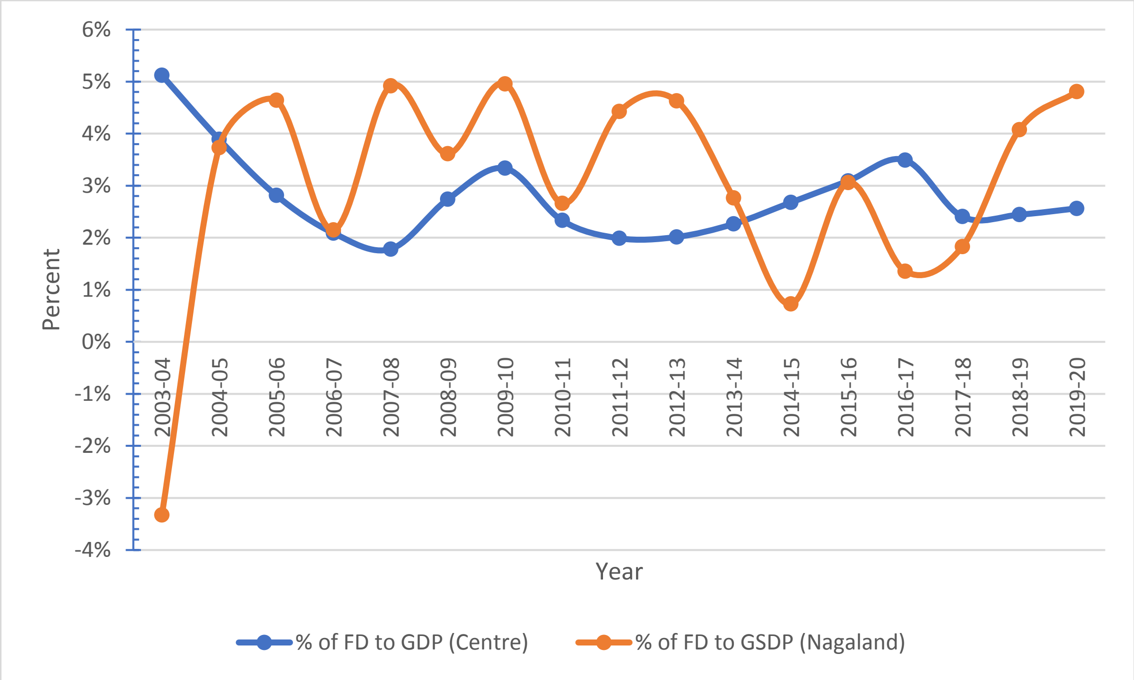


Figure 6.13: Revenue Deficit Trend of Centre and Nagaland as Percentage of GSDP (Post-FRBM) (2003-04 to 2019-20)

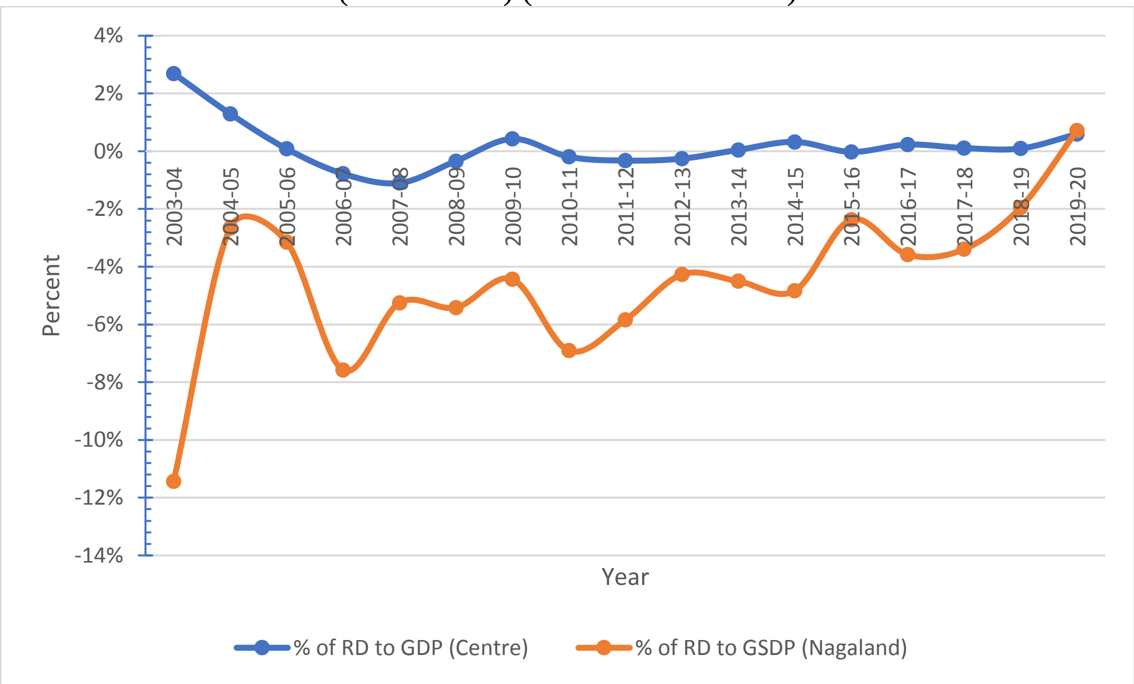
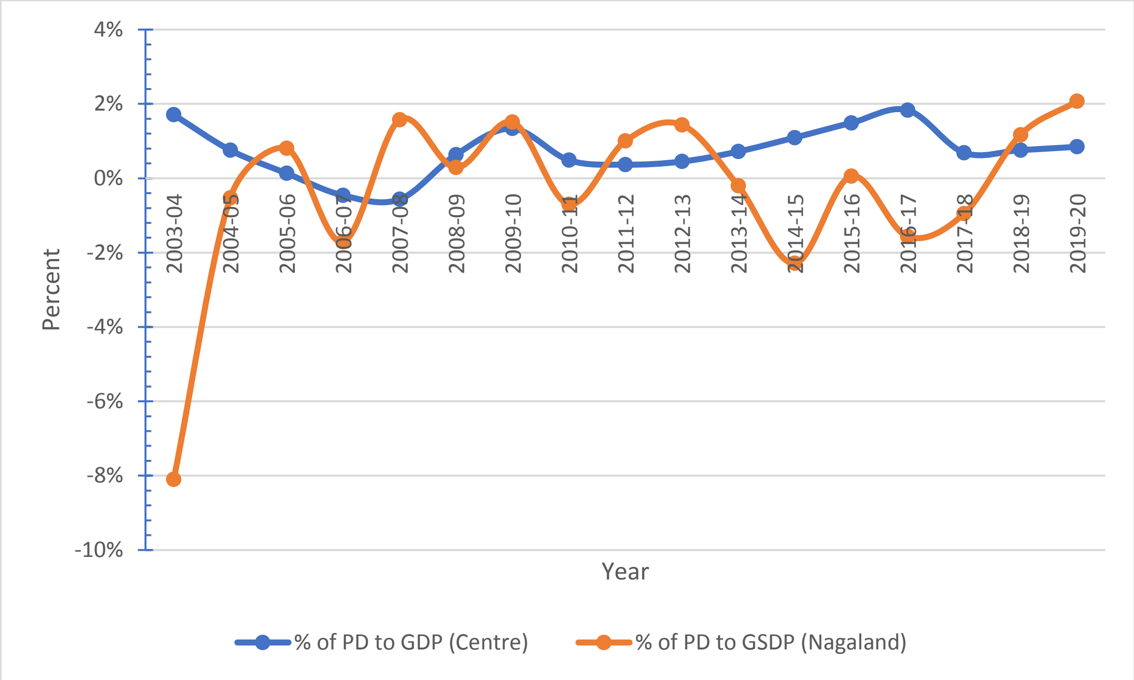


Figure 6.14: Primary Deficit Trend of Centre and Nagaland as Percentage of GSDP (Post-FRBM) (2003-04 to 2019-20)



The trend of major deficit indicators for the Centre and Nagaland is evaluated through Fiscal Deficit, Revenue Deficit, and Primary Deficit as a percentage of GSDP before and after the implementation of the Fiscal Responsibility and Budget Management (FRBM) Act. Revenue Deficit indicates the extent to which Current Receipts are not able to cover Revenue Expenditure in terms of borrowing to finance. Basically, government consumption expenditure requires to be financed through Capital Receipts. These capital receipts, excluding non-debt capital receipt, consist of net borrowing, which is called Fiscal Deficit. The Primary Deficit is equal to Fiscal Deficit (a net inflow of borrowed funds) minus interest payments, which represent outflow of borrowed funds in the form of transfer payments. From Table 6.9, it is observed that there has been a positive impact of FRBM in case of Nagaland as compared to Centre.

The impact of the FRBM Act is have been noticed for the State of Nagaland during the post-FRBM period in all major fiscal indicators. The State was able to reduce Fiscal Deficit after the implementation of the FRBM Act and witnessed a shift from Revenue Deficit to Revenue Surplus State after the FRBM Act. In case of Primary Deficit, the State have shifted from a Primary Deficit state to a Primary Surplus State. Thus, the State have a favorable impact of the implementation of the FRBM Act.

6.4.3 Impact of the FRBM Act on Fiscal Deficit

The Nagaland FRBM Act was implemented to bring fiscal balance. An attempt has been done to examine whether the enactment of the FRBM Act has brought the fiscal balance in terms of reduction in Fiscal Deficit. Simple Ordinary Least Square (OLS) method has been applied to examine the impact of FRBM Act on fiscal balance. Fiscal Deficit to GSDP ratio has been taken as the indicator of fiscal balance. The study regress Fiscal Deficit to GSDP ratio against GSDP growth rate and FRBM to find out the impact of the FRBM Act on fiscal balance. In this analysis, the FRBM variable was treated as a dummy variable, taking a value of 1 for years with the FRBM Act and 0 for other years.

Table 6.10: Result of OLS Regression of FRMB Act on Fiscal Deficit to GSDP Ratio

Variable	**Coefficient**	**t-statistic**	**Prob.**
Constant	9.4891	6.5281	0.0000
GSDPGR	0.0637	0.8708	0.3915
FRBM	-6.7660	-5.5106	0.0000
R^2	.5637		
ΔR^2	.5314		

Note: *p < 0.05, Dependent Variable: Fiscal Deficit to GSDP Ratio, GSDPGR = GSDP Growth Rate

Source: Author’s calculation by using E-views.

The OLS regression analysis revealed significant findings regarding the impact of the Fiscal Responsibility and Budget Management (FRBM) Act (2005) on the fiscal balance. The coefficient for the FRBM dummy variable was negative and statistically significant (β = -6.7660, $p < 0.05$), indicating that the implementation of the FRBM Act has effectively decreased the Fiscal Deficit during the post-FRBM period compared to the pre-FRBM period. However, the GSDP growth rate was found to be statistically insignificant (β = -0.0006, $p > 0.05$), suggesting no significant relationship with the Fiscal Deficit to GSDP ratio. The regression model explained approximately 56.4 percent of the variance in the Fiscal Deficit to GSDP ratio (R^2 = 0.531). This finding suggests that the FRBM Act has successfully achieved its objective of fiscal discipline and management, resulting in a reduction of the fiscal deficit relative to the size of the economy.

Therefore, the analysis provides evidence that the implementation of the FRBM Act in Nagaland has had a significant impact on reducing the Fiscal Deficit. The coefficient for the FRBM variable suggests that the FRBM Act contributed to a decrease in the Fiscal Deficit in the State.

6.5 Conclusion

The period to 1991 saw large Fiscal Deficit and its monetization spill over to the external sector, pushed by the Gulf-war the balance of payments situation turned precarious and led to the introduction of new economic policy. Post 1991 period had private sector share the burden of long-term development and contribute to capital receipts in the form of disinvestment. This coupled with tax reforms had the Fiscal Deficit in control until 1996-97. Later, the Asian crisis of 1996-97 led it to move higher and Fiscal Deficit reached unjustified levels by 2003. As a pragmatic solution to the problem FRBM Act of 2003 was introduced which set out a phased reduction roadmap, this put the Indian economy on the right track however was faced with a hiccup in the form of 2008 global credit crisis. India weathered the storm of the credit crisis well and then resumed the task of lowering the Fiscal Deficit through tax reforms and fiscal consolidation. These efforts bore fruits and have ensured Fiscal Deficit reach more comfortable levels.

Overall, during 1990-91 to 2002-03 it was seen that the periods of crisis led to the burgeoning of the deficit to unsustainable levels and prompted the government to introduce and adopt economic reforms to ensure that the deficit stood at more reasonable levels. However, since 2003-04 the government has been more proactive and has undertaken fiscal policy reforms to ensure a steady reduction in Fiscal Deficit as a percentage of GDP leading to a more resilient economy.

The analysis conducted in this study aimed to examine the trend of fiscal deficit and its impact on Gross State Domestic Product (GSDP) growth in the State of Nagaland. The findings provide valuable insights into the fiscal management and economic performance of the State. The results indicate that Nagaland has experienced a significant increase in Fiscal Deficit over the years, with a continuous upward trend observed. However, the regression analysis suggests that Fiscal Deficit does not have a significant impact on GSDP growth in Nagaland.

Furthermore, the study explores the implementation of the Nagaland Fiscal Responsibility and Budget Management (FRBM) Act, 2005, which aimed to ensure prudence in fiscal management and stability. The analysis reveals that the FRBM Act has effectively contributed to reducing the fiscal deficit in Nagaland. The implementation of this act has positively impacted the fiscal balance, leading to a decrease in the Fiscal Deficit relative to the size of the economy.

The implementation of fiscal policy rules, such as the FRBM Act, plays a crucial role in controlling fiscal imbalances and promoting macroeconomic stability. In the case of Nagaland, the FRBM Act has successfully achieved its objective of reducing the fiscal deficit and improving fiscal discipline. These findings provide valuable insights for policymakers and stakeholders in formulating effective fiscal policies to ensure long-term economic growth and stability in Nagaland. However, regardless of the positive impact of the FRBM Act on State’s fiscal balance, the State has still witnessed an increasing trend of Fiscal Deficit.

According to the factors identified, several causes contribute to the high Fiscal Deficit in the State of Nagaland. First, excessive Government spending is a significant factor. The State's expenditure, including investments in infrastructure development projects, social welfare programs, and administrative costs, surpasses its Revenue generation. This imbalance between Expenditure and Revenue inflow contributes to the Fiscal Deficit.

Secondly, Nagaland's economic dependency on Central Government transfers and grants plays a crucial role. The State heavily relies on external funding sources for its fiscal resources. Any reduction or delay in Central Government allocations can directly impact Nagaland's Fiscal Deficit, further exacerbating the financial situation.

Furthermore, Nagaland faces challenges associated with limited revenue sources. The State's Revenue base heavily relies on a few sectors such as agriculture, tourism, and small-scale industries. Insufficient diversification and low tax compliance can result in lower revenue generation, thus contributing to the Fiscal Deficit.

Infrastructure challenges also contribute to the Fiscal Deficit. As Nagaland aims to develop its infrastructure, significant investments are required. However, attracting private investments or accessing long-term financing for infrastructure projects can be challenging, further impacting the Fiscal Deficit.

Additionally, the cost of debt servicing, including interest payments and repayment of past loans, consumes a substantial portion of the State's Revenue. This financial obligation adds to the Fiscal Deficit and limits the available resources for other developmental projects.

Lastly, political and governance factors play a role. Inadequate financial management practices, lack of transparency, corruption, and inefficiencies within the public sector can impact Revenue generation and Expenditure control, leading to a higher Fiscal Deficit.

Addressing these causes is crucial for Nagaland to achieve fiscal stability and sustainability. Implementing measures to improve Revenue generation, control Expenditure, promote economic diversification, and enhance fiscal management practices are vital steps to address the high Fiscal Deficit and establish a solid foundation for sustainable economic growth in the State.

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CHAPTER 7

SUMMARY AND CONCLUSION

7.1 Implications of the Study

This study analyses the State Finance of Nagaland in light of the fiscal imbalance the State has experienced in recent years and its persistent backwardness. The disparity between State budget Revenue Receipts and Expenditures has been widening for quite some time, resulting in a growing deficit. Nagaland is one of the most indebted States in the Nation. Increasing Revenue Expenditures hampered providing appropriate funding for development activities and Capital Expenditures. Diverse research on State Finances has emphasized the relevance of Centre-State financial interactions in minimizing vertical and horizontal inequity. Nonetheless, a detailed study of the State's Finances has yet to be conducted, especially for Nagaland.

The liberalization process, initiated in 1991, gave States numerous opportunities to attract capital investments in vital areas. States must possess a well-developed infrastructure and skilled labor to seize such opportunities. A robust fiscal policy that includes enough revenue production and a well-defined expenditure policy would go a long way toward fostering the development of a state. This study examines three significant areas of Nagaland's State finances. First, the extent to which the State has exploited its revenue potential; second, the State's Expenditure pattern and a study of the various types of deficits; and third, the effect of the Fiscal Deficit on the State's GSDP.

The State Finance of Nagaland reflect the State of its economy. The State faces the unenviable burden of generating sufficient funds to meet the need to enhance the social sector through providing educational, health, and other services. Moreover, long-term investments in irrigation and infrastructure are required to put the State on the path to progress. With these considerations in mind, the State finances of Nagaland have been evaluated in terms of its receipts, expenditure pattern, and the impact of the Fiscal Deficit on GSDP for twenty-five years, from 1995-96 to 2019-20. Previous chapters have covered a detailed analysis of the States' Revenue Receipts, including an estimate of the growth rate of Revenue Receipts and its various components, an analysis of the structure of the Revenue Receipts and Tax and Non-Tax Revenues, and an examination of the Revenue Receipts' determinants. The objective is to examine the growth pattern of each State's Revenue Receipts during the past twenty-five years, from 1995-1996 to 2019-2020. Calculating the yearly compound annual growth rate and deriving buoyancy coefficients for Tax Revenue and Own Tax Revenue to GSDP. The structural pattern of

State Revenue Receipts, Tax Revenue, and Non-Tax Revenue is also investigated during the study period. Significant findings from the Study are listed below.

7.2 Key Findings

The key findings section of the conclusion chapter will briefly summaries the crucial findings and insights gained from the research. It will highlight the key findings, trends, correlations, or patterns identified through data analysis and interpretation.

7.2.1 Findings related to Objective 1

The overall budgetary position of the State finance in Nagaland provides some important findings. The analysis of Tax Revenue growth revealed that Nagaland had made significant progress in diversifying its Revenue sources and improving tax collection mechanisms. Taxes on Sales and Trade emerged as the primary contributor to Tax Revenue, with a steady increase in Revenue from sales and trade activities. The implementation of GST and taxes on vehicles also showed substantial growth, reflecting Nagaland's efforts to adapt to the changing economic landscape. This diversification and growth in Tax Revenue demonstrate the State's commitment to enhancing its revenue base.

Furthermore, the growth of Non-Tax Revenue in Nagaland signifies the State's endeavors to supplement its Revenue through various sources other than taxes. The significant growth observed in Social Services, Economic Services, and General Services within Non-Tax Revenue highlights Nagaland's commitment to the welfare of its citizens and overall economic development. These findings demonstrate Nagaland's efforts to optimize various Revenue streams and ensure financial stability to support its economic growth.

Comparing Tax buoyancy coefficients with other Indian states, Nagaland's exceptional performance in generating Tax Revenue becomes evident. The State has demonstrated steady growth in Tax Revenues, outperforming several States in tax buoyancies. Nagaland's relatively high Non-Tax buoyancy coefficient indicates its success in mobilizing Non-Tax Revenues. However, there is room for improvement to match the higher Non-Tax buoyancy coefficients exhibited by States like Orissa and West Bengal. The variations in Non-Tax buoyancy coefficients emphasize the need for Nagaland to enhance its Revenue-generating mechanisms and optimize Non-Tax avenues to support financial stability and economic growth.

The study on Public Expenditure reveals that Nagaland has experienced a consistent upward trend in Total Public Expenditure over the past twenty-five years. The growth in Revenue Expenditure has been the primary driver of overall Public Expenditure, with limited resources allocated for development due to higher payments for administrative services, interest, debt payments, and pensions. The disparity between Revenue and Capital Expenditure suggests a need for Nagaland to strike a better balance between current expenditures and investments in capital assets to support economic development effectively.

Analyzing the State's Fiscal Deficit, it is evident that implementing the Nagaland Fiscal Responsibility and Budget Management Act (2005) has brought fiscal balance to the state. The Act has reduced the Fiscal Deficit; however, the State has still witnessed an increasing trend of Fiscal Deficit, emphasizing for continued monitoring and prudent fiscal management. The study demonstrates the effectiveness of the FRBM Act in promoting financial stability and responsible budget management in Nagaland.

The overall budgetary position indicate that Nagaland has made progress in enhancing its Revenue sources, managing Public Expenditure, and implementing Fiscal reforms. However, there are areas for improvement, such as optimizing Non-Tax Revenues, achieving a better balance between Revenue and Capital expenditures, and addressing the challenges posed by Fiscal Deficits. These insights contribute to a comprehensive understanding of the budgetary position of State Finance in Nagaland and provide a foundation for informed policy decisions and further research in the field.

7.2.2 Findings related to Objective 2

The analysis of Tax Revenue growth reveals exciting insights into the composition and performance of Nagaland's revenue sources. Most of the State's Tax Revenue comes from its own initiatives, with Taxes on Sales and Trade being the most significant contributor at 54.8 percent. This tax category exhibited a Compound Annual Growth Rate (CAGR) of 15.43 percent, indicating a steady increase in revenue from sales and trade activities. Additionally, Taxes on Vehicles and the implementation of GST showed substantial growth, with CAGRs of 17.29 percent and 80.78 percent, respectively. These figures reflect Nagaland's efforts to diversify its revenue sources, improve tax collection mechanisms, and adapt to the changing economic landscape. The State's focus on expanding its tax base and implementing efficient tax regimes has contributed to the overall growth of Tax Revenue.

The growth of Non-Tax Revenue in Nagaland highlights the State's attempts to supplement its revenue through various sources other than taxes. The Non-Tax Revenue composition consists of General Services, Social Services, Economic Services, Interest Receipts, Dividends, and Profits. General Services, which account for 17 percent of the Non-Tax Revenue, experienced a CAGR of 8.82 percent. This growth is attributed to the State's efforts to enhance administrative capabilities and increase income from services provided by the government. Social Services, contributing 21 percent to Non-Tax Revenue, witnessed an impressive CAGR of 24.82 percent, indicating the State's commitment to investing in the welfare of its citizens. Economic Services, comprising the majority (59 percent) of Non-Tax Revenue, exhibited a CAGR of 11.17 percent, showcasing the State's focus on promoting economic activities and overall development. Lastly, Interest Receipts, Dividends, and Profits accounted for 4 percent of Non-Tax Revenue and displayed a stable CAGR of 7.91 percent. These findings demonstrate Nagaland's efforts to diversify its revenue streams and optimize various sources to ensure financial stability and support its economic growth.

The comparison of Tax Buoyancy coefficients among other Indian States highlights Nagaland's exceptional performance in generating tax revenue. With a Tax Buoyancy coefficient of 1.481, Nagaland's tax revenues have grown steadily over the research period. Compared to other states, Nagaland outperforms Arunachal Pradesh, Manipur, Meghalaya, and Mizoram regarding tax buoyancies. Examining Non-Tax Buoyancy, Nagaland demonstrates a relatively high coefficient of 1.193, indicating that its Non-Tax Revenues have grown over the years under stud. While Nagaland's performance in Non-Tax Revenue mobilization is commendable, states like Orissa and West Bengal exhibit even higher non-tax buoyancy coefficients. Conversely, states like Telangana, Sikkim, and Chhattisgarh have lower non-tax buoyancy coefficients, implying slower growth in non-tax revenues than their GSDPs. The variations in non-tax buoyancy coefficients emphasize the need for States to enhance their revenue-generating mechanisms and optimize non-tax avenues to support financial stability and economic growth.

7.2.3 Findings related to Objective 3

Public expenditure, or more specifically, State government expenditure, is India's leading indicator of economic growth. While many recent studies have proposed various roles for public expenditures, most of them have concluded that it significantly impacts the Nation's gross domestic product. The present study took a slightly divergent approach to elucidate State government expenditure by analyzing its trends across diverse expenditure sectors. The study recognizes the importance of categorizing total expenditure under various headings, such as revenue and capital expenditure, development/non-development expenditure and plan/non-plan expenditure. According to the overall pattern of the State's Total Public Expenditures, the Capital Account only makes up 15.2 percent of the Total Public Expenditure, while the Revenue Account accounts for 84.8 percent. The surge in Revenue Expenditure was due to higher payments for administrative services, interest, debt payments, and payments for pensions and retirement benefits. The State Government is thus left with limited resources for development.

Over the study period, which spans twenty-five years, Nagaland's Total Public Expenditure demonstrated a compound annual growth rate of 12.36 percent. This expenditure increased steadily from ₹ 935.89 crores in 1995-96 to ₹ 2,064.06 crores in 2004-05 and further climbed to ₹ 7,785.58 crores in 2014-15 and ₹ 12,843.34 crores in 2019-20. Government expenditure in Nagaland has exhibited a consistent upward trend with few deviations. One significant trend observed is the substantial growth in Revenue Expenditure, which has been the primary driver of the overall increase in public spending in Nagaland. From ₹ 834.48 crores in 1995-96, Revenue Expenditure rose to ₹ 1,684.63 crores in 2004-05 and further increased to ₹ 6,762.41 crores in 2014-15 and ₹ 11,637.02 crores in 2019-20. The Compound Annual Growth Rate (CAGR) for Revenue Expenditure stood at 12.40 percent during the study period. Revenue Expenditure consistently constituted a more significant percentage of the total public spending, accounting for approximately 84.8 percent of the Total Expenditure, compared to only 15.2 percent for Capital Expenditure.

On the other hand, Capital Expenditure demonstrated an upward trajectory but accounted for a smaller proportion of the Total Expenditure compared to Revenue Expenditure. Capital Expenditure increased from ₹ 101.41 crores in 1995-96 to ₹ 379.44 crores in 2004-05 and further climbed to ₹ 1,023.17 crores in 2014-15 and ₹ 1,206.32

crores in 2019-20, with a CAGR of 12.00 percent. However, it constituted only approximately 15.2 percent of the Total Expenditure on average. This disparity between Revenue and Capital Expenditure indicates that Nagaland's government has been allocating a larger share of its spending toward the Revenue Account, leaving a smaller portion for investment in capital assets. The increased spending on Revenue Expenditure can be attributed to various factors such as pensions, wages, salaries, dearness allowances, dearness relief, and interest payments. Periodically updated Pay Commissions have influenced these expenditures and contributed to Revenue Expenditure growth. Conversely, the sectors driving increased Capital Expenditure are social services and economic services. Social Services accounted for 26.6 percent, and Economic Services accounted for 27.3 percent of Development Expenditure respectively.

Within the Revenue Account, specific areas of expenditure deserve attention. Administrative Services constituted a significant portion, accounting for 22.2 percent of the Total Revenue Expenditure. Expenditure on pensions and retirement benefits represented 11.8 percent of the Total Revenue Expenditure, while interest payments and debt servicing accounted for 9.8 percent. Social Services expenditure constituted 26.6 percent of the Total Revenue Account spending, with notable allocations to education, sports, arts, culture, health, and family welfare. Economic Services expenditure comprised 27.3 percent of the Total Revenue Expenditure, primarily directed toward agriculture, rural development, energy, and other economic sectors.

Turning to Capital Expenditure, General Services accounted for 16.0 percent of the Total Capital Expenditure, while Social Services represented 31.8 percent. Economic Services, crucial for the state's development, constituted the majority of Capital Expenditure, accounting for 52.1 percent of the Total. Within Economic Services, agriculture and allied activities, rural development, and energy were prominent investment areas.

An important observation is that the Revenue Account constituted a significant share of 84.8 percent of the Total Public Expenditure, while the Capital Account only accounted for 15.2 percent. This discrepancy indicates that Nagaland's economic development has been hindered by the lack of investment in capital assets, potentially exacerbating poverty levels.

Furthermore, a regression analysis examining the relationship between Public Expenditure on Economic Services and Gross State Domestic Product (GSDP) demonstrated a strong positive association. A 1 percent increase in Revenue Expenditure on Economic Services corresponded to an estimated 0.958 percent increase in GSDP, indicating that investments in economic sectors contribute to higher economic growth.

The study highlights a steady growth in Total Public Expenditure in Nagaland, primarily driven by increasing Revenue Expenditure. However, allocating a more significant proportion to the Revenue Account and a smaller share to the Capital Account raises concerns regarding the state's economic development and the ability to invest in essential capital assets. Addressing this imbalance could contribute to sustained economic growth and poverty reduction in Nagaland.

7.2.4 Findings related to Objectives 4 and 5

After administering the State government's revenue and expenditure levels, the study assessed the extent of State’s Fiscal Deficit from 1995-1996 to 2019-2020. Nagaland has experienced a continuous increase in Public Expenditure, significantly impacting the State Government's financial position. This growth in Public Expenditure has led to a substantial rise in Nagaland's Fiscal Deficit and public debt. Over the period from 1995-96 to 2019-20, the Revenue Deficit as a percentage of Gross State Domestic Product (GSDP) has varied between 3 percent and -11 percent.

However, the regression analysis reveals an interesting finding - a significant decreasing trend in the Revenue Deficit over the specified period. The finding indicates that the Revenue Deficit in Nagaland has been gradually decreasing over the years, contrary to the hypothesis of an increasing trend. These findings challenge the perception of a worsening Revenue Deficit situation and provide evidence of a declining trend instead.

In contrast to the declining Revenue Deficit, the Fiscal Deficit in Nagaland has shown an increasing trend. It has grown from ₹ 230 crore in 1995-96 to ₹ 1428 crore in 2019-20. While the Fiscal Deficit as a percentage of GSDP declined from 12.68 percent in 1995-96 to -3.32 percent in 2003-04, it gradually increased to 4.81 percent in 2019-20. In terms of the impact on GSDP growth, the regression analysis indicates that Fiscal Deficit does not have a significant influence on the economic growth of Nagaland. Implementing the Nagaland Fiscal Responsibility and Budget Management Act (FRBM)

2005 has brought fiscal balance to the State. It has reduced the Fiscal Deficit, transforming Nagaland from a Revenue Deficit to a Revenue Surplus State and from a Primary Deficit to a Primary Surplus State. The study demonstrates the effectiveness of the FRBM Act in promoting financial stability and responsible budget management in Nagaland. The study also looked at how the FRBM Act affected the Fiscal Deficit and discovered that Nagaland's implementation of the FRBM Act significantly reduced the Fiscal Deficit.

7.3 Suggestions and Recommendations

Based on the research findings, the following suggestions and recommendations are proposed to improve the budgetary position and fiscal management of State Finance in Nagaland.

7.3.1 State's Revenue Receipts

The State's fiscal outlook is bleak, as it is characterized by enormous Fiscal Deficits resulting from high Revenue Expenditures, poor Revenue mobilization, and as well as high debt and low Capital investment. Immediate strengthening of the State's Tax Revenue bases and components is required. There is no dispute regarding the significance of Fiscal Reforms and corrections to cut Expenditures and raise Revenue. Improving the Revenue-collecting process by intelligent oversight of government expenditures is a potential solution to this budgetary dilemma. The States' Total Revenue Receipts have been consistently increasing during the research period. Despite the increase in the proportion of Central Taxes to Gross Central Tax Revenue, Nagaland's State Government continues to rely heavily on the Centre due to its incapacity to mobilize its resources. However, the Government's unwillingness to levy adequate user fees on Social and Economic services and declining returns from departmental and non-departmental economic sources are the primary reasons for the low and declining percentage of Non-Tax Revenues.

Nagaland has several challenges in generating sufficient Revenue to meet its growing demands. However, there are opportunities for Revenue generation in areas such as tourism, agriculture, and infrastructure. The State government needs to take a multi-pronged approach to improve Revenue generation, which includes exploring alternative Revenue sources, improving the tax collection system, investing in infrastructure, promoting tourism, and focusing on the agriculture and horticulture sectors. By adopting a disciplined approach to fiscal management, the Government can effectively tackle the challenges and capitalize on the opportunities to improve Revenue generation in Nagaland.

1. Diversify the economy: Nagaland needs to diversify its economy beyond the traditional sectors of agriculture and tourism. The State should encourage the growth of industries such as textiles, food processing, and renewable energy. The State can offer incentives such as tax holidays and subsidies to attract private investment.
2. Promote eco-tourism: Nagaland has a rich cultural heritage and biodiversity. The State can promote eco-tourism by developing infrastructure for adventure sports, wildlife safaris, and cultural tourism. The State can also leverage technology to offer virtual tours of its tourist attractions.
3. Increase revenue from forest resources: Nagaland has significant forest resources that can be used for generating revenue. The State can explore the possibilities of forest carbon credits, timber exports, and forest-based tourism. The State can also incentivize the local communities for the sustainable management of forest resources.
4. Implement e-governance: E-governance can help in streamlining the revenue generation process by reducing corruption, increasing transparency, and improving efficiency. The State can implement an e-governance system for tax administration, land records, and business registration. This will also make the process of revenue generation more citizen-friendly.
5. Strengthen tax administration: Nagaland needs to strengthen its tax administration by improving tax compliance and expanding the tax base. The State can use technology to monitor tax collections and reduce tax evasion. The State can also introduce a single-window system for tax administration, making it easier for businesses to comply with tax regulations.
6. Encourage entrepreneurship: Nagaland has a young and educated workforce, which can be leveraged for entrepreneurship. The State can provide incentives for startups and small businesses, such as access to credit, incubation centers, and mentorship programs. The State can also promote a culture of innovation and entrepreneurship by organizing startup events and competitions.
7. Develop infrastructure: Nagaland needs to improve its infrastructure to attract investment and tourists. The State can focus on developing road and air

connectivity, power supply, and telecommunications. The State can also build industrial clusters and SEZs (Special Economic Zones) to attract investment.

8. Optimize Non-Tax Revenue Sources: Continue diversifying Revenue sources by optimizing Non-Tax Revenue avenues by exploring opportunities to increase income from general services, social services, economic services, interest receipts, dividends, and profits. The state should focus on maximizing revenue potential from these sources through effective management and allocation of resources.
9. Learn from Best Practices: Study and adopt best practices from states with higher tax buoyancy coefficients and successful revenue mobilization efforts. States like Orissa and West Bengal can serve as valuable benchmarks for optimizing revenue-generating mechanisms and identifying innovative approaches to enhance non-tax revenues.

7.3.2 State’s Public Expenditure

The State's increased share of payments for salaries, pension benefits, interest, and debt service has significantly contributed to the growth of General Services expenditures. In contrast, the State government allocates fewer resources to economic-beneficial social and economic services. Social and economic service expenditures will favor the State's infrastructure development, which is the engine of economic growth. However, the State's economic growth remains sluggish due to a lack of resources. Throughout the investigation, it has been observed that expenditures in the Revenue Account have climbed considerably, resulting in exponential growth. It should be underlined, however, that the massive rise in Revenue Expenditures is a short-term solution to the State's ongoing fiscal problems. The Nagaland State Government has been unable to produce adequate local resources and has relied more on the Central government to carry out its development projects.

In order to meet the socio-economic goals of planning for the long-term development of the State, the current assessment of Nagaland's State finances over the past nearly two decades reveals an urgent need to increase development expenditures under the Capital Account.

1. Balance Revenue and Capital Expenditure: To promote balanced economic development, the Government of Nagaland to allocate a more significant

proportion of its total expenditure towards capital investment. Capital expenditure will develop essential infrastructure and productive assets, fostering long-term economic growth and reducing poverty.

2. Enhance Investment in Capital Assets: Increase investments in critical sectors such as transportation, energy, education, healthcare, and rural development. Investment in Capital assets will improve the quality of public services, boost productivity, and attract private-sector investments, thereby stimulating overall economic development.
3. Improve Efficiency in Revenue Expenditure: While revenue expenditure is essential for the functioning of the government, efforts should be made to enhance efficiency and minimize non-productive spending by regularly reviewing expenditures, cost-cutting measures, and better utilization of resources.
4. Prioritize Social Services: Given the substantial contribution of social services to development expenditure, the Government of Nagaland should continue to allocate significant resources to sectors like education, healthcare, sports, arts, culture, and family welfare. These investments play a crucial role in human capital development and improving the population's overall well-being.
5. Strengthen Economic Services: Economic services, including agriculture, rural development, and energy, are vital for the economic growth and sustainability of Nagaland. The government should prioritize these sectors by allocating sufficient funds, implementing effective policies, and promoting innovation and entrepreneurship to drive economic diversification and employment generation.
6. Increase Investment in Infrastructure: Infrastructure development is critical for attracting private investments, expanding industries, and improving connectivity within Nagaland. The government should focus on enhancing physical infrastructure, such as roads, power supply, and telecommunications, to facilitate economic activities and create an enabling environment for businesses.
7. Improve Public Financial Management: Implement robust financial management practices, including budgetary discipline, transparency, and accountability, to ensure the optimal utilization of public funds. Monitoring and evaluating expenditure programs and projects can help identify inefficiencies, eliminate wasteful spending, and redirect resources toward priority areas.
8. Foster Public-Private Partnerships (PPPs): Encourage partnerships between the public and private sectors to leverage private investments in infrastructure

development, service delivery, and other sectors. PPPs can help bridge the resource gap and bring expertise and efficiency, promoting sustainable development.

9. Foster Research and Innovation: Encourage research and innovation in public expenditure management and economic development strategies by collaborations with academic institutions, think tanks, and experts, promoting data-driven policies and practices.

7.3.3 State’s Fiscal Deficit

During the period from 1995-96 to 2019-20, the State experienced a significant Fiscal Deficit, which rose from ₹ 230 crore in 1995-96 to ₹ 1428 crore in 2019-20. The lowest Fiscal Deficit occurred in 2003-04, with a negative value of ₹ 160 crores, indicating a surplus. Conversely, the highest Fiscal Deficit of ₹ 1428 crore was recorded in 2019-20. The average Fiscal Deficit during this period was approximately ₹ 400 crores. The Fiscal Deficit as a percentage of GSDP varied from -3 percent to 13 percent over the same timeframe. In 2003-04, a substantial revenue surplus was observed due to the conversion of Government of India loans into Grants-in-Aid, resulting in a Fiscal and Primary surplus situation. Regression analysis revealed an increasing trend of 27.237 percent in the Fiscal Deficit each year.

The State's fiscal adjustment necessitates a concerted effort by the Government to lower the Fiscal Deficit and enhance the State's financial foundations. The State's finances can be improved by increasing tax income, bolstering non-tax sources, and altering expenditure patterns.

1. Instead of increasing tax rates, State tax reforms should focus on modifying the tax structure itself. The tax reforms should simplify the rate structure, expand the revenue base, and provide an efficient and responsive tax administration. Unplanned approaches should give way to tax reforms with a long-term perspective regarding revenue collection.
2. Other individual taxes, such as excise duty, vehicle tax, goods tax, and stamps and registration duty, have increased over the past few years. These taxes would generate more revenue if they were administered with greater rigor and if their tax regulations were simplified. Considering the tiny number of theatres and other entertainment venues in Nagaland, it does not appear likely

that the entertainment tax will generate significant revenue. Nonetheless, tax avoidance is common in many regions and may be curbed. State tax reforms should also prioritize allocating revenues from agricultural income and professional tax.

3. During the time covered by the study, the State's Non-Tax Revenues decreased significantly. Particularly for irrigation and power, user fees should be revised. The State Road Transport Corporation, which has been generating a net loss, requires efficient management to increase its income. The government should also pay immediate attention to the decline in earnings from forest products.
4. Restructuring governmental expenditures are crucial for resolving the current budgetary issues. Only selected groups, i.e., underprivileged segments of the population, will be considered for subsidies. Social sectors, infrastructure, transport, and communication expenditures should be prioritized. Administrative expenses in the State must be reduced.
5. Considering the revenue restriction, the State Government may be unable to make any significant capital investments. Priority should be given to attracting private and international capital investment to grow vital sectors of the State's economy. Future cost overruns could be mitigated by maximizing the utilization of existing assets and completing ongoing projects.
6. Strengthen Fiscal Discipline: Continue adhering to the Nagaland Fiscal Responsibility and Budget Management Act (FRBM) principles to maintain fiscal discipline and promote responsible budget management by setting realistic targets for fiscal deficit reduction and adhering to them strictly.
7. Enhance Monitoring and Evaluation: Establish a robust monitoring and evaluation framework to assess the impact of fiscal policies and programs. Regular evaluation of the effectiveness and efficiency of fiscal measures will provide insights for policy adjustments, ensuring that resources are utilized optimally to achieve desired outcomes.
8. Encourage Public Participation and Awareness: Promote public participation and awareness regarding fiscal matters to foster a sense of ownership and responsibility. Engage citizens in budgetary processes, disseminate information about public finances, and educate the public about the importance of fiscal responsibility and sustainable budget management.

9. Strengthen Capacity and Institutional Framework: Invest in building the capacity of government officials involved in fiscal management and establish solid institutional frameworks through training programs, knowledge-sharing platforms, and institutional reforms to enhance the effectiveness and efficiency of fiscal management practices.

7.4 Limitation and Future Scope

The present study, which explores the role of State finance at the State level, has analyzed a variety of legislative, administrative, financial, and governmental structure issues. The study has significantly contributed to the existing body of knowledge through its in-depth examination of both State Revenue and Expenditure trends. However, the present analysis has given minimal consideration to the interaction between the Central government and individual State governments to determine the pattern of State grants.

In the context of future study and the breadth of this topic, future studies can focus on the new link between the Centre and the States by examining the trends in grants between the two levels. The administration focuses on tax reforms and improved targeting of social expenditures to achieve fiscal reduction while sustaining inclusive growth, according to future expectations of the Centre's policies.

The preceding recommendations require independent, in-depth research. The present analysis is limited in that it can only examine the Revenue and Expenditure components of the State Finance. Micro-level analyses of individual taxes, such as the sales and state excise taxes, would be highly informative and vital. Similarly, on the expenditure side, it would be worthwhile to analyze subsidies and user fees.

7.5 Conclusion

This research has provided a comprehensive analysis of the State Finances in India, with a particular focus on Nagaland. By examining the State's Revenue Receipts, Public Expenditure, and Fiscal Position for twenty-five years, from 1995-96 to 2019-20, this study has shed light on the financial dynamics and challenges faced by Nagaland in particular, while contributing to the broader understanding of State Finances in India.

This study has presented several key findings through rigorous data analysis and in-depth examination of relevant literature. Firstly, Nagaland had witnessed steady increase in its Revenue Receipts, influenced by external factors and internal economic conditions. Secondly, the study uncovered the patterns and trends in Public Expenditure, highlighting the sectors that have consistently received priority attention and those that require further investment. Additionally, the research has provided valuable insights into Nagaland's fiscal position, emphasizing the importance of fiscal discipline and effective management of resources.

The implications of this research extend beyond the boundaries of Nagaland. By analyzing the State's unique challenges, this study contributes to the existing knowledge of State Finances in India. The findings underscore the need for policy interventions and reforms at both the State and National levels to address the financial constraints faced by Nagaland and similar regions. A comprehensive understanding of State Finances is crucial for formulating effective fiscal policies that promote sustainable development, regional balance, and social welfare.

This study has practical implications for policymakers, government officials, and financial institutions. The recommendations from this research highlight the importance of adopting measures to enhance revenue generation, rationalize public expenditure, and improve fiscal management in Nagaland. Furthermore, the study identifies the areas that require further investigation and suggests avenues for future research, including the impact of socio-economic factors on State Finances, fiscal federalism's role, and financial reforms' effectiveness in improving fiscal stability.

This research on "State Finances in India with special reference to Nagaland" has explored the degrees of the State's Revenue Receipts, Public Expenditure, and Fiscal Position over a significant period. It has provided valuable insights into the financial landscape of Nagaland and its implications for the broader context of State Finances in India. The findings and recommendations presented here aim to inform policy decisions, facilitate sustainable development, and contribute to the body of knowledge in the field. This research is a foundation for further studies, fostering a deeper understanding of State Finances and driving positive change in fiscal management and economic growth in Nagaland and beyond.

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APPENDIX

APPENDIX A

Table A-1

Result Multiple Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.999[a]	.998	.998	.04540

a. Predictors: (Constant), LNGIA, LNUT, LNNTR, LNTR

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.970	4	4.993	2.422E3	.000[a]
	Residual	.041	20	.002		
	Total	20.012	24			

a. Predictors: (Constant), LNGIA, LNUT, LNNTR, LNTR

b. Dependent Variable: LNTRR

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.907	.223		8.540	.000
	LNTR	.265	.049	.328	5.404	.000
	LNNTR	-.008	.055	-.008	-.152	.881
	LNUT	.134	.017	.191	7.955	.000
	LNGIA	.524	.062	.539	8.509	.000

a. Dependent Variable: LNTRR

APPENDIX B

Table B-1

Result of OLS Regression Analysis on Economic Services and GSDP

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.972[a]	.945	.943	.20785

a. Predictors: (Constant), Expenditure

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.168	1	17.168	397.394	.000[a]
	Residual	.994	23	.043		
	Total	18.162	24			

a. Predictors: (Constant), Expenditure

b. Dependent Variable: GSDP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.601	.322		8.075	.000
	Expenditure	.958	.048	.972	19.935	.000

a. Dependent Variable: GSDP

APPENDIX C

Table C-1

Result of OLS Regression Analysis on Revenue Deficit

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.654[a]	.428	.403	271.20462

a. Predictors: (Constant), Year

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1264286.678	1	1264286.678	17.189	.000[a]
	Residual	1691694.762	23	73551.946		
	Total	2955981.440	24			

a. Predictors: (Constant), Year

b. Dependent Variable: Revenue Deficit

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	53.730	111.821		.481	.635
	Year	-31.185	7.522	-.654	-4.146	.000

a. Dependent Variable: Revenue Deficit

APPENDIX D

Table D-1

Result of OLS Regression Analysis on Fiscal Deficit

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.612[a]	.374	.347	252.49371

a. Predictors: (Constant), YEAR

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	876150.001	1	876150.001	13.743	.001[a]
	Residual	1466320.639	23	63753.071		
	Total	2342470.640	24			

a. Predictors: (Constant), YEAR

b. Dependent Variable: fiscaldeficit

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	62.390	104.106		.599	.555
	YEAR	25.961	7.003	.612	3.707	.001

a. Dependent Variable: fiscaldeficit

APPENDIX E

Table E-1

Result of OLS Regression Analysis on Impact of Fiscal Deficit on GSDP

Dependent Variable: GSDP
Method: Least Squares
Sample (adjusted): 1993 2020
Included observations: 28 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	117.7290	106.6852	1.103517	0.2799
FISCALDEFICIT	-0.179836	0.425464	-0.422682	0.6760

R-squared	0.006825	Mean dependent var	109.1996
Adjusted R-squared	-0.031374	S.D. dependent var	545.8383
S.E. of regression	554.3348	Akaike info criterion	15.54216
Sum squared resid	7989465.	Schwarz criterion	15.63732
Log likelihood	-215.5903	Hannan-Quinn criter.	15.57125
F-statistic	0.178660	Durbin-Watson stat	2.371855
Prob(F-statistic)	0.676003		

APPENDIX F

Table F-1

Result of Pearson's Correlation

Descriptive Statistics

	Mean	Std. Deviation	N
fiscaldefifict	47.4286	250.74252	28
gsdp	1.0920E2	545.83830	28

Correlations

		fd2	gsdp2
fiscaldeficit	Pearson Correlation	1	-.083
	Sig. (2-tailed)		.676
	N	28	28
gsdp	Pearson Correlation	-.083	1
	Sig. (2-tailed)	.676	
	N	28	28

APPENDIX G

Table G-1

Result of OLS Regression of FRBM Act on Fiscal Deficit to GSDP Ratio

Dependent Variable: FD_GSDP
Method: Least Squares
Sample: 1991 2020
Included observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.489184	1.453577	6.528161	0.0000
GSDPGR	0.063745	0.073201	0.870827	0.3915
FRBM	-6.766078	1.227818	-5.510653	0.0000

R-squared	0.563782	Mean dependent var	6.766667
Adjusted R-squared	0.531470	S.D. dependent var	4.782752
S.E. of regression	3.273759	Akaike info criterion	5.304394
Sum squared resid	289.3725	Schwarz criterion	5.444514
Log likelihood	-76.56592	Hannan-Quinn criter.	5.349220
F-statistic	17.44783	Durbin-Watson stat	1.672421
Prob(F-statistic)	0.000014		

Note: FD_GSDP: Ratio of Fiscal Deficit to GSDP, GSDPGR: GSDP Growth Rate

APPENDIX H

Table H-1: Tax Revenue and Non-Tax Revenue of All States from 1999-00 to 2019-20 (₹ Crores)

Sl. No.	States	1999-00		2000-01		2001-02		2002-03		2003-04		2004-05		2005-06		2006-07	
		Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax
1	Andhra Pradesh	12351.90	4452.72	14531.23	4944.01	15612.10	6232.95	17529.31	6577.48	20007.95	9287.48	22313.01	6436.49	26158.26	8692.93	32792.21	11453.28
2	Arunachal Pradesh	354.64	665.35	136.36	824.03	94.36	963.48	193.30	1218.32	228.76	1093.62	242.06	1259.78	334.24	1515.17	425.38	2166.79
3	Assam	2673.54	2167.40	3092.62	2545.02	3262.86	2702.00	3748.87	3044.47	4538.92	2162.12	5297.65	4639.62	6288.98	5756.39	7382.31	6284.64
4	Bihar	9969.52	3842.08	9508.75	1875.97	8610.37	1608.11	9488.26	2080.50	10894.65	7533.74	12464.52	3249.63	13981.69	3855.02	17324.79	5758.39
5	Chhattisgarh	-	-	1259.62	623.29	3168.93	677.16	3677.35	1739.95	4154.62	2371.08	5104.09	2144.78	6559.73	2278.78	8244.50	3205.11
6	Goa	554.41	673.49	620.14	863.09	1206.77	1195.37	7168.10	1116.20	880.16	880.75	1018.60	801.42	1341.19	827.68	1603.65	1006.11
7	Gujarat	9826.77	4073.57	10620.57	5118.02	10734.86	5251.20	10883.87	6991.46	13200.68	6945.15	20264.94	5087.94	19070.54	5996.33	22890.58	8111.64
8	Haryana	4042.88	1723.88	4656.36	1917.53	5421.44	2179.11	6306.27	2350.75	6824.55	2944.81	11149.07	3089.53	10279.62	3573.70	12223.40	5729.03
9	Himachal Pradesh	1541.25	2174.04	1058.75	1986.83	1240.63	1586.28	1235.16	2423.59	1434.89	2466.15	1789.20	2845.31	1990.28	4568.35	2285.54	5549.68
10	Jammu & Kashmir	1809.24	3704.35	1392.77	4033.92	2475.17	5271.78	1684.26	5380.65	1976.94	6528.97	2402.78	7361.76	2853.17	8687.07	3390.98	8589.62
11	Jharkhand	-	-	-	-	4268.69	1830.94	4584.14	2822.34	4427.72	3015.77	4876.05	2431.13	5121.51	3081.26	6946.13	3198.34
12	Karnataka	9877.15	3029.30	11616.50	3206.22	12476.65	2844.60	13225.91	2942.84	16206.01	5525.82	19950.76	6618.90	22844.97	7507.08	28675.36	8911.58
13	Kerela	6728.73	1213.03	7455.87	1274.98	7537.68	1518.71	9017.74	1616.14	10493.15	2058.10	11368.60	2131.89	12296.82	2997.70	15153.86	3032.76
14	Madhya Pradesh	9056.86	4146.82	10422.86	3244.21	8108.18	3092.80	9893.29	3497.11	10879.71	3878.47	12849.65	6893.60	15456.05	5140.74	18561.67	7132.61
15	Maharashtra	19873.62	5395.85	22507.95	7058.97	23756.40	6336.54	25079.42	6023.63	29110.92	8048.00	34200.78	6812.55	38522.24	9916.05	46122.00	16073.36
16	Manipur	427.76	642.09	212.59	832.03	193.15	983.63	253.28	1074.71	303.05	1295.14	368.41	1374.34	437.10	1971.86	557.89	2304.84
17	Meghalaya	444.75	498.90	282.82	849.33	300.80	822.56	320.97	967.96	398.00	1298.11	476.77	1069.35	603.23	1143.69	751.92	1390.26
18	Mizoram	335.77	617.93	101.88	726.34	62.85	804.95	122.56	899.05	159.25	1129.06	195.35	1306.52	280.89	1372.77	355.67	1613.27
19	Nagaland	551.62	592.41	139.00	1280.83	175.69	1319.92	159.96	1238.87	214.94	1638.79	238.47	1601.05	354.04	1913.17	435.96	2336.55
20	Orissa	3452.53	2432.11	4788.00	2114.02	5115.61	1932.38	5677.42	2761.35	6393.15	3287.02	8154.26	3695.93	9879.03	4205.68	12285.49	5747.14
21	Punjab	4586.06	2881.80	5614.55	3762.31	5430.72	3497.90	6360.01	4711.17	7311.02	6365.49	7846.98	5960.50	10216.82	6749.64	10582.91	6212.22
22	Rajasthan	6715.74	3073.87	8136.58	4265.20	8553.53	3599.76	9316.44	3765.42	11094.12	4608.94	12720.43	5043.16	15180.30	5658.89	18368.61	7223.57
23	Sikkim	148.60	1363.22	137.59	725.01	165.22	1641.96	182.73	1897.80	175.02	1058.03	224.30	1668.10	329.34	1634.98	395.96	1720.59
24	Tamil Nadu	13585.93	2741.60	15066.00	3250.67	15879.76	2938.27	17389.27	3447.47	19376.67	3473.85	23593.43	4858.09	28338.76	5621.21	34165.01	6748.21
25	Telangana	-	-	-	-	-	-	-	-	-	-	-	-	–	–	-	-
26	Tripura	631.29	807.22	361.80	1276.26	391.12	1476.26	432.79	1447.27	545.00	1748.28	622.74	1954.15	700.48	2323.63	857.33	2476.03
27	Uttarakhand	-	-	924.22	509.97	1246.98	1485.99	1393.24	1825.09	1644.14	2506.42	1964.33	2121.26	2794.51	2742.50	3645.61	3727.60
28	Uttar Pradesh	16879.81	4615.31	20025.47	4717.83	20519.31	5078.60	23598.68	4222.51	26302.96	6557.12	30747.81	6869.56	37061.03	8288.12	46216.29	14383.24
29	West Bengal	8085.24	2125.86	10153.16	4369.02	10823.85	3714.57	11633.13	2892.32	14166.83	3237.67	16309.34	3608.84	17056.71	6669.18	20200.38	5627.93

Source: RBI: Handbook of Statistics on Indian States (various issues)

APPENDIX H - Continue

Table H-1: Tax Revenue and Non-Tax Revenue of All States from 1999-00 to 2019-20 (₹ Crores)

Sl. No.	States	2007-08		2008-09		2009-10		2010-11		2011-12		2012-13		2013-14		2014-15	
		Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax
1	Andhra Pradesh	39977.69	14164.86	45159.79	17698.66	47317.43	17360.92	60376.30	20620.01	71034.56	22519.13	80145.82	23684.46	86255.42	24463.41	57917.27	32755.19
2	Arunachal Pradesh	535.96	2467.05	3855.96	3257.65	648.84	3646.02	935.17	4486.91	1156.62	4342.44	1274.43	4487.09	1480.36	43400.70	1572.13	7563.91
3	Assam	8277.71	7047.20	9340.10	8736.93	10326.25	9558.24	13898.48	9106.48	16921.76	10533.63	18851.47	11839.51	20569.44	11643.35	21733.52	16447.97
4	Bihar	21852.45	6357.25	23865.24	9115.44	26292.25	9234.58	33848.23	10684.09	40547.33	10772.84	48153.47	11413.20	54789.79	14128.86	57713.29	20704.24
5	Chhattisgarh	9653.10	4225.57	10851.63	4811.13	11503.91	6649.74	14430.33	8289.22	17032.69	8834.69	20251.81	9326.27	22222.93	9827.33	24070.29	13862.52
6	Goa	1752.64	1191.27	2108.99	1419.28	2189.76	1910.51	2723.78	2718.16	3231.61	2547.70	3716.87	2128.55	4431.01	2018.76	4796.50	2892.18
7	Gujarat	27311.66	8378.19	29282.89	9392.82	32631.16	9041.20	43018.07	9345.57	52032.59	10926.38	62765.75	12462.79	66074.30	13901.44	71636.16	20341.63
8	Haryana	13252.18	6498.56	13379.90	5072.40	14993.97	5998.69	19092.12	6471.55	23081.01	7476.58	26621.13	7012.40	28909.84	9102.23	31182.66	9615.99
9	Himachal Pradesh	2751.83	6389.73	3079.98	6228.01	3436.15	6910.21	5357.73	7352.88	6106.29	8436.58	6908.17	8689.95	7612.44	8098.64	8584.33	9259.12
10	Jammu & Kashmir	3954.36	9946.35	4746.37	11064.60	4954.59	14598.20	6549.56	15684.10	8240.59	16542.37	9702.80	16514.06	10414.85	16713.14	10811.18	18127.41
11	Jharkhand	8345.49	3266.58	11107.81	4999.28	11323.74	8517.03	12307.00	7794.73	14123.82	8295.64	16411.72	8357.83	18319.11	7817.68	19836.82	11727.74
12	Karnataka	32765.99	8385.15	34799.43	8491.25	37938.58	11217.12	47979.43	10226.79	57551.00	12255.27	66400.70	11775.53	76411.81	13130.72	84834.46	19307.69
13	Kerela	17720.64	3386.15	20265.70	4246.47	22023.80	4085.60	26863.54	4127.41	31708.96	6301.41	36917.26	7220.04	39463.70	9713.24	43158.79	14791.68
14	Madhya Pradesh	22221.14	8467.59	24380.64	9196.57	28349.79	13044.91	37057.86	14796.33	45192.58	17411.50	51386.86	19040.42	56267.43	19481.81	60674.11	27966.68
15	Maharashtra	55125.63	24457.52	60048.35	21222.34	67354.43	19555.84	86446.88	19420.94	10095.18	20334.34	118640.44	24306.73	125228.39	24593.41	132693.93	32721.53
16	Manipur	697.84	2810.42	750.88	3121.74	793.59	3079.53	1257.62	4172.32	1522.10	4131.45	1650.66	5169.10	1911.52	5371.27	2043.72	5954.55
17	Meghalaya	883.17	1558.21	964.67	1845.98	1056.67	2390.67	1467.73	2792.75	1741.73	2912.75	2040.18	3496.16	2251.26	4015.47	2320.88	4107.37
18	Mizoram	440.88	1598.87	478.01	2175.12	502.12	2461.40	720.85	2653.85	1006.45	3005.37	1009.11	3527.64	1087.86	3676.99	1177.19	4333.91
19	Nagaland	531.14	2464.88	577.86	2823.02	614.54	3105.22	916.78	4083.21	1107.08	4479.31	1257.09	4947.20	1334.66	5163.24	1451.29	6199.65
20	Orissa	14702.59	7264.60	16275.16	8334.85	17500.99	8929.21	21689.53	11586.62	25671.86	14595.16	28999.14	14937.77	32138.83	16808.02	36009.51	20988.37
21	Punjab	11874.16	7363.46	13234.20	7478.60	14183.58	7973.00	19879.05	7729.42	22395.31	3840.46	26646.37	5404.78	28510.66	6592.88	30273.17	8749.68
22	Rajasthan	21802.33	8978.29	23942.17	9526.63	25672.40	9712.60	33613.75	12314.45	40354.10	16656.66	47605.50	19307.51	52150.77	22319.60	58489.91	32837.00
23	Sikkim	542.98	2156.45	563.39	2107.86	598.33	2656.06	804.52	2242.78	905.56	2767.07	1133.96	2659.36	1287.54	3038.90	1336.87	3125.08
24	Tamil Nadu	37684.37	9836.13	42195.17	12847.34	45302.86	10541.27	58696.15	11491.47	72232.26	12969.88	85773.97	13053.74	89570.87	18465.55	95480.57	26939.87
25	Telangana	-	-	-	-	-	-	-	-	-	-	-	-	–	–	37476.88	13564.91
26	Tripura	1021.32	2677.02	1129.02	2947.76	1233.38	4386.63	1744.70	3423.90	2165.58	4311.32	7050.30	4552.47	2704.16	4946.01	2904.39	6335.34
27	Uttarakhand	4166.45	3724.64	4551.50	4083.38	5109.05	4377.08	6865.55	4742.62	8481.66	5209.76	9687.12	6060.09	10928.72	6391.81	12130.77	8115.78
28	Uttar Pradesh	54247.06	14425.41	59564.69	18266.04	65674.27	30746.67	84573.90	26609.87	102964.38	27905.32	115596.21	30307.77	129358.77	38854.97	140795.33	52626.27
29	West Bengal	23855.40	6311.98	25740.93	11163.47	28548.14	8373.51	37083.69	10180.50	43525.97	15229.07	54034.76	14260.99	59005.58	13876.21	64006.91	22507.30

Source: RBI: Handbook of Statistics on Indian States (various issues)

APPENDIX H - Continue

Table H-1: Tax Revenue and Non-Tax Revenue of All States from 1999-00 to 2019-20 (₹ Crores)

Sl. No.	States	2015-16		2016-17		2017-18		2018-19		2019-20	
		Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax	Tax	Non Tax
1	Andhra Pradesh	61800.33	26847.47	70445.27	28539.22	78487.57	26574.52	90818.00	23852.85	85843.32	25190.70
2	Arunachal Pradesh	7610.65	2942.49	9097.05	2682.52	10054.36	3720.24	11504.18	4691.78	10216.30	4672.25
3	Assam	26891.38	15566.32	32268.20	16951.61	35517.06	18613.88	41140.70	22338.46	38250.13	26244.95
4	Bihar	74371.86	21751.24	82622.85	22962.13	88219.87	29226.86	103011.27	28782.19	93564.31	30668.22
5	Chhattisgarh	32791.32	13276.39	37754.37	15930.88	40649.49	18997.58	44885.94	20208.98	42323.69	21545.01
6	Goa	5899.13	2653.12	6560.36	3004.61	7275.63	3777.90	7749.72	3688.26	7289.69	4067.19
7	Gujarat	78339.84	19142.74	83278.10	26563.71	92331.70	30959.57	103592.07	32409.48	99239.59	43604.17
8	Haryana	36425.31	11131.24	40623.15	11873.66	48396.90	14297.98	50835.94	15049.18	49936.48	17921.66
9	Himachal Pradesh	10306.98	13133.50	11382.75	14881.59	11908.98	15458.08	13002.58	17947.73	12301.38	18436.53
10	Jammu & Kashmir	15139.67	20640.93	17307.73	24670.75	21448.05	27063.60	23816.15	27414.56	16268.81	36340.51
11	Jharkhand	2744.77	13190.65	32441.17	14612.76	33497.07	19258.96	38658.19	17493.49	37364.49	21052.65
12	Karnataka	99533.53	19283.79	111716.07	21497.72	118882.34	28117.31	132724.54	32254.12	133281.79	42161.01
13	Kerela	51685.82	17346.84	57401.40	18210.33	63292.69	19727.46	69682.27	23172.20	66724.19	23500.48
14	Madhya Pradesh	78611.49	26899.11	90257.75	33049.04	95663.92	39211.47	108479.58	41912.20	105341.30	42302.05
15	Maharashtra	154714.06	30321.62	17033.12	34361.92	205151.07	38502.50	229490.58	49505.69	225167.20	58022.37
16	Manipur	3692.86	4587.25	4343.80	4785.32	4945.27	5412.57	5744.64	4817.06	5248.89	5435.27
17	Meghalaya	4333.28	2709.85	5097.06	3841.89	5773.24	3500.25	6682.31	3036.31	6103.03	3310.50
18	Mizoram	2706.52	3969.88	3242.44	4155.86	3642.96	4937.24	4229.66	4809.38	3748.78	5909.48
19	Nagaland	2967.82	5075.75	3543.38	5898.90	3991.42	7027.80	4638.84	67986.94	4225.31	7197.98
20	Orissa	46100.75	22840.69	51173.89	23125.50	59185.88	26018.42	65672.06	338745.76	62768.45	38799.30
21	Punjab	34699.38	6823.99	37346.39	10639.03	41040.19	11969.39	43579.42	18689.67	40340.64	21234.11
22	Rajasthan	70628.85	29656.27	77927.52	31098.48	87633.42	39673.76	99232.69	38640.33	123915.78	44819.69
23	Sikkim	2437.09	1347.19	2721.75	1888.54	3322.99	1889.80	3687.59	2232.77	3265.97	1575.31
24	Tamil Nadu	100829.94	28177.93	110479.17	29751.96	120836.31	25443.44	136172.93	37568.23	133854.69	40671.21
25	Telangana	52325.35	23808.48	63284.34	19533.62	72939.90	15884.20	83234.95	18185.21	83585.08	18958.74
26	Tripura	4598.27	4828.47	5331.12	4314.33	5744.10	4323.85	6654.86	5376.03	6313.58	4688.02
27	Uttarakhand	14710.98	6523.46	17308.87	7580.09	17249.84	9854.73	20199.68	11016.75	18414.99	12307.58
28	Uttar Pradesh	172079.95	54995.99	195394.21	61480.94	218332.14	60443.31	256888.32	73089.19	240644.14	125749.05
29	West Bengal	79656.01	30076.19	90091.62	27740.83	102041.67	29228.71	116508.00	29467.25	108717.77	34196.44

Source: RBI: Handbook of Statistics on Indian States (various issues)

APPENDIX I

Table I-1: Gross State Domestic Product of All States from 1999-00 to 2019-20 (D Crores)

Sl. No.	States	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1	Andhra Pradesh	128797.12	144723.02	156710.69	167096.09	190016.51	134766.88	147606.42	174064.28	212360.71	237383.49	273326.61
2	Arunachal Pradesh	1611.77	1787.47	2104.12	2071.20	2367.72	3487.51	3755.15	4107.99	4810.00	5687.32	7474.45
3	Assam	34833.19	36814.16	38313.08	43407.00	47304.60	53397.71	59384.58	64692.21	71076.19	81073.67	95974.57
4	Bihar	50173.76	57242.08	57656.70	64965.47	66173.88	77781.16	82490.20	100737.14	113679.95	142279.12	162922.94
5	Chhattisgarh	27248.73	25846.16	29539.35	32492.65	38802.09	47862.29	53381.10	66874.89	80255.11	96972.18	99364.26
6	Goa	6329.75	6757.14	7097.26	8099.61	9301.35	12713.31	14326.61	16522.84	19564.96	25413.83	29125.54
7	Gujarat	109861.00	111139.00	123573.00	141534.00	168080.00	203373.00	244736.00	283693.00	329285.00	367912.00	431262.00
8	Haryana	51374.90	58183.35	65505.23	72527.91	82861.76	95795.12	108884.57	128732.34	151595.90	182522.15	223600.25
9	Himachal Pradesh	14112.47	15661.18	17148.18	18904.72	20721.00	24076.58	27127.35	30274.27	33962.54	41483.10	48188.59
10	Jammu & Kashmir	15659.81	16699.53	18039.35	20325.91	22194.43	27304.62	29919.85	33230.11	37098.63	42314.84	48384.51
11	Jharkhand	34323.08	32092.54	35068.73	37967.35	42449.22	59757.72	60900.54	66934.75	83949.59	87793.93	100620.68
12	Karnataka	101247.45	108361.70	112846.50	120888.76	130989.74	166747.13	195904.07	227237.06	270628.79	310312.33	337558.50
13	Kerela	69168.47	72658.83	77923.75	86894.76	96698.03	119264.00	136841.76	153784.88	175141.08	202782.79	231998.67
14	Madhya Pradesh	80132.10	79203.35	86744.96	86831.92	102838.64	112926.89	124275.99	144576.81	161479.39	197276.20	227556.64
15	Maharashtra	247830.22	252282.83	273187.82	299478.70	340600.05	415479.69	486765.62	584497.66	684816.58	753969.15	855750.51
16	Manipur	3260.16	3111.70	3369.22	3506.30	3979.24	5133.36	5717.58	6137.22	6782.53	7399.36	8254.26
17	Meghalaya	3578.14	3960.94	4478.26	4763.42	5279.99	6559.33	7265.15	8625.18	9734.73	11617.04	12709.11
18	Mizoram	1550.06	1737.42	1946.53	2165.79	2324.98	2681.97	2971.15	3289.98	3815.51	4577.11	5259.85
19	Nagaland	2802.27	3399.30	3972.46	4466.76	4812.34	5838.84	6587.68	7256.65	8074.95	9436.07	10526.77
20	Orissa	42986.08	43350.95	46755.74	49712.61	61007.93	77729.43	85096.49	101839.47	129274.45	148490.71	162946.43
21	Punjab	67161.97	74677.45	79610.70	82249.20	90088.60	96838.51	108636.68	127122.91	152245.32	174039.13	197499.81
22	Rajasthan	82719.71	82434.91	91770.88	88550.05	111606.45	127745.65	142236.14	171042.73	194822.14	230949.32	265824.85
23	Sikkim	895.80	1013.69	1136.04	1275.91	1429.72	1739.15	1992.90	2161.22	2506.09	3229.08	6132.76
24	Tamil Nadu	134185.20	146795.94	148861.18	158155.25	175370.80	219003.22	257833.45	310525.73	350818.64	401336.05	479733.42
25	Telangana	-	-	-	-	-	89946.28	108334.79	126970.70	152451.99	189381.94	203508.33
26	Tripura	4866.73	5499.19	6370.07	6733.25	7550.59	8903.53	9826.02	10914.23	11797.07	13572.64	15402.70
27	Uttarakhand	175159.35	181512.21	190268.90	206855.47	226972.48	260840.66	293171.67	336316.79	383025.52	444684.86	523394.18
28	Uttar Pradesh	12620.90	14501.09	15825.77	18473.20	20438.78	24785.67	29967.53	36795.42	45855.67	56024.76	70730.05
29	West Bengal	135376.10	143724.87	157144.28	168000.00	189258.51	208656.36	230244.95	261681.87	299482.75	341942.48	398880.38

Source: RBI: Handbook of Statistics on Indian States (various issues)

APPENDIX I - Continue

Table I-1: Gross State Domestic Product of All States from 1999-00 to 2019-20 (D Crores)

Sl. No.	States	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
1	Andhra Pradesh	319863.94	379402.03	411403.71	464272.01	524975.64	604228.62	684415.87	786135.42	873721.11	966099.05
2	Arunachal Pradesh	9021.44	11062.69	12546.62	14581.07	17959.41	18509.16	19902.12	22474.78	25334.87	30033.97
3	Assam	112687.96	143174.91	156864.24	177745.22	195723.15	227958.83	254382.36	283164.89	309336.32	346850.68
4	Bihar	203554.99	247143.96	282367.93	317101.34	342950.94	371601.79	421051.50	468746.31	527975.82	582516.45
5	Chhattisgarh	119419.76	158073.82	177511.33	206833.18	221118.11	225162.99	262801.75	282283.44	318101.13	344955.35
6	Goa	33605.36	42366.66	38120.02	35921.10	47814.18	55053.85	62976.31	69352.05	71853.34	75032.09
7	Gujarat	521518.88	615606.07	724495.36	807623.19	921773.15	1029009.74	1167155.58	1329094.77	1492155.71	1617143.20
8	Haryana	260621.28	297538.52	347032.01	399268.12	437144.71	495504.11	561424.17	638832.08	698188.88	762043.60
9	Himachal Pradesh	57452.26	72719.83	82819.79	94764.16	103772.32	114239.41	125633.64	138551.09	148383.27	159161.70
10	Jammu & Kashmir	58072.57	78255.55	87137.73	95618.74	98366.75	117167.95	124848.00	139708.86	159859.45	NA
11	Jharkhand	127281.05	150917.59	174723.69	188566.71	218525.17	206612.80	236249.72	269816.14	305695.20	310305.36
12	Karnataka	410703.16	606009.81	695413.05	816666.15	913923.03	1045168.10	1207607.72	1333240.00	1476496.28	1615456.53
13	Kerela	263773.30	364047.88	412313.00	465041.21	512564.05	561993.61	634886.40	701588.26	788285.58	824374.20
14	Madhya Pradesh	263395.73	315561.59	380924.80	439483.44	479939.04	541067.51	649822.81	726283.92	831023.88	938602.13
15	Maharashtra	1049150.08	1280369.44	1459628.63	1649646.63	1779137.93	1966224.58	2198185.15	2352781.50	2567897.06	2734551.53
16	Manipur	9137.19	12914.60	13743.24	16182.04	18129.05	19530.67	21293.89	25789.23	27388.07	31297.02
17	Meghalaya	14582.56	19917.75	21872.02	22938.24	23234.53	25117.36	27438.62	29508.30	32175.82	34770.40
18	Mizoram	6387.88	7258.69	8361.93	10293.37	13509.40	15138.86	17191.91	19385.33	21912.08	21128.48
19	Nagaland	11759.37	12176.76	14121.27	16611.73	18400.67	19523.95	21722.45	24392.96	26527.42	29715.87
20	Orissa	197529.90	230987.08	261699.60	296475.38	314249.95	328549.50	392803.67	440395.32	498611.26	532432.03
21	Punjab	226204.07	266628.27	297733.82	332146.94	355101.82	390087.44	426988.10	471013.61	512509.69	537031.05
22	Rajasthan	338348.43	434836.64	493551.24	551031.02	615641.56	681482.26	760587.27	832529.23	911674.14	999050.36
23	Sikkim	7411.57	11165.10	12338.42	13861.90	15406.72	18033.94	20687.19	25970.82	28402.43	31441.00
24	Tamil Nadu	584896.26	751485.76	854825.35	968530.45	1072677.97	1176500.03	1302638.58	1465050.91	1630209.15	1743143.96
25	Telangana	263897.74	359434.11	401593.61	451580.40	505848.79	577902.06	658325.34	750050.28	857427.15	950286.76
26	Tripura	17867.73	19208.41	21663.20	25592.83	29533.46	35937.73	39479.40	43715.80	49823.32	54151.12
27	Uttarakhand	600285.72	724050.44	822392.92	940356.44	1011789.66	1137807.94	1288700.23	1439925.50	1582180.05	1700272.74
28	Uttar Pradesh	83969.11	115327.57	131612.84	149074.39	161438.92	177163.02	195124.84	220222.13	230327.41	236987.91
29	West Bengal	460958.94	520485.05	591464.45	676848.06	718081.66	797299.80	872527.23	974699.78	1102282.75	1207822.61

Source: RBI: Handbook of Statistics on Indian States (various issues)