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Public Finance and Management in Nagaland: A Case Study

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ABSTRACT

Financial resources across the globe are scarce and limited in nature. These resources are to be optimally and efficiently used by any developing country for promoting the socio-economic development in the prevailing highly competitive environment in all sectors. Among all the resources, finance to country is like blood to body which will pose a primary question of survival. It is therefore the responsibility of the Government in power to manage these resources efficiently by framing suitable fiscal policies and planning. In order to take suitable managerial decisions, appropriate financial statements are also prepared periodically for predicting the future fund positions. India is striving very hard right from independence to ensure effective financial management through its periodic economic planning and control. In North Eastern Region, Nagaland State has also been making constant efforts to manage its financial resources for enhancing its socio-economic growth.

This paper is an attempt to analyze the financial statements, to examine the trend of public financial management in Nagaland, to suggest suitable remedies to ensure managerial efficiency in public finance. The outcome of this paper is expected to assist the government in framing appropriate policies for efficient financial management in the State of Nagaland.

Key Words: Public Finance, Financial Management, Financial Resources, Nagaland

INTRODUCTION

In the recent era of liberalization and globalization, technological developments play a key role in growth and development of any country. In such a globally competitive environment, all the available scare resources are to be put at optimal use for its survival and growth in the long run. Of these resources, finance is a very crucial and scarce input which signifies, literarily, capital in monetary form (funds) lent or borrowed through financial markets or institutions. The goals of our country at macro level can be realistic only when the public finance is efficiently managed/allotted and productively used in all the infrastructural and developmental affairs at micro level.

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Public Finance is concerned with the income and expenditure of public bodies and the principles, problems and policies relating to these matters. While making economic policies, a Government, like India, through its fiscal policies, usually formulates a strategy for raising revenue through taxation and deciding on the level and pattern of expenditure to increase its managerial efficiency for attaining the broader goals of the economy. In generating revenue, the system of fiscal federalism (taxation and public expenditure) is being adopted in India, in which revenue raising powers and control over expenditure are vested in various (State) levels of government within a nation, ranging from the national government to the smallest unit of local government.

In spite of constant efforts on the part of Indian government to minimize the deficit in current and capital accounts, our country continues to face financial crunch and deficits. Though the size of Indian economy (GDP) is the 11th largest in the world, it has been explicatory in the Indian interim budget for the fiscal 2014-2015 presented in February, 2014 that the fiscal deficit was at 4.6% in 2013-14, (4.19% has been anticipated in the succeeding year) and revenue deficit was 3% in 2013-14. Simultaneously, the Current Account deficit was USD 45 billion as against USD 88 billion in 2012-2013 (Nagaland Post (2014): 18 February, Vol.XXIV, No.72).

SIGNIFICANCE OF THE STUDY

It becomes frequently a wearisome job at all levels of government (Central/State) for generation of revenue and allocation of limited fund over the priority sectors for use on short term, medium term and long term basis. Thus, financial management in public finance draws immediate attention of the policy makers and government. It is the most important and excellent tool by which funds are raised from various sources. It also provides designing and implementation of plans for effective utilization of funds so raised. In general, it has three major aspects such as investment policy, financial policy and dividend policy. Here, it is very significant to focus on financial policy and budgeting to judge the worthiness of the activities/ projects being undertaken by the Government to ensure efficient management of public finance. In the absence of proper management of funds, the overall growth and development of the nations will adversely be affected which will be a hurdle to compete with other nations in the prevailing competitive global environment in all sectors.

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Consequently, it would also be impossible to make optimum use of funds. It is, therefore, obvious that the problem of According to the Election Commission of India, Nagaland was among five states in the country, declared as the most 'expenditure sensitive' states (Nagaland Post (2014): 13 March, Vol.XXIV, No.95). Despite the Government of the State is making continuous and sincere efforts for allocation of funds on priority areas for development, public financial management warrants still greater attention for better tomorrow. No significant studies have been carried out on this front so far in the State which necessitates and demands a critical investigation on the part of researchers, policy makers and government agencies for considerable contribution to the overall growth and development of our country.

OBJECTIVES OF THE STUDY

The main objectives of the study are;

- to analyze the financial statements of the State Government,
- to examine the trend of public financial management in the State, and

financial management is pertinent for investigation not only for a particular State or region but for the country as a whole.

- to suggest suitable remedies to ensure managerial efficiency in public finance.

REVIEW OF LITERATURE

Some of the major studies on public financial management (PFM) in India are enumerated as under;

According to reports from the Second Administrative Reforms Commission, 2009 and PEFA, 2010, while the PFM systems (Swarup, 1990), recent studies point out that there is still considerable scope to improve the efficiency of government spending and public service delivery in India by strengthening the institutional framework for Public Financial Management.

In terms of the annual audit reports of appropriation accounts by the CAG which reveals that, given the complexity of budgeting in the public sector where political choice plays a crucial role in decision making, fulfilling the basic objectives of budgeting functions remains arduous and depends heavily on the effectiveness of institutions to achieve better fiscal outcomes.

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The Indian approach has been to supplement a line-item budget with a ministry-by-ministry performance budget for the same budget session. The general budget presented in the Parliament can best be described as a traditional budget (Wildavsky, 1978) and displays the characteristic problems.

This system allows substantial adjustments in the budget during the year indicating the absence of a hard budget constraint (Jena, 2010). In addition, departments surrender substantial amounts of unspent money under various programmes at the end of the financial year. In addition, departments surrender substantial amount of unspent money under various programmes at the end of the financial year.

Unspent provisions are indicative of lack of effectiveness in programme management at department level in a strict annual budget cycle. Revenue projection has always remained a challenge as the movement of economy and changes in tax administration determine the actual revenue collection (Jena, et al). He suggested in his study, as concluding remarks, that the capacity and willingness of the Government to internalize and adopt changes at State Level and the political involvement and willingness to steer the changes are also essential.

RESEARCH METHODOLOGY

The study is purely based on secondary data. The data is collected from the published reports and documents by the Government of Nagaland. Relevant data from books, magazines, newspapers and internet have also been used to supplement it. Simple and appropriate statistical tools have been used for analysis and interpretation.

PATTERN OF RECEIPTS AND EXPENDITURE OF THE STATE

A Government or Governmental Organization normally does not aim at profit. Therefore, it does not prepare a trading and profit and loss account. However, the Government or Organization has to know whether its income or fund is sufficient to know its expenses and whether its financial position is sound enough for its future growth and development. In addition to preparation of Receipts and Payments Account, Income and Expenditure Account and Balance Sheet, it also generally prepares a budget for each head of account in advance, compares the actual expenditure, identifies deviations and initiates remedial measures to minimize such variations.

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This exercise helps the Government to know whether they have surplus or deficit budget. Consequently, wherever necessary, revises the budgets and fixes the responsibilities with the departmental officials concerned for further course of action.

Table 1 represents the Receipts and Expenditure Account (budget) of the Government under multifarious heads of account during the period, 2008-2010 as under;

TABLE 1: RECEIPTS AND EXPENDITURE IN NAGALAND (IN LAKHS) DURING THE PERIOD, 2008-2010

Items	Budget 2008-09	Actual 2008-09	Budget 2009-10	Actual 2009-10
[1]	[2]	[3]	[4]	[5]
Consolidated Fund				
Revenue Receipts	326560.87	340088.55	390988.98	395334.24
Expenditure met from Revenue	267794.75	288954.00	317009.14	353443.88
Surplus/Deficit of Revenue account	58766.12	51134.55	73979.84	41890.36
Capital Receipts	99785.92	83869.16	132848.26	133259.55
Expenditure met from Capital including Loans and Advances (Net)	155465.71	124451.41	210670.53	209191.31
Surplus/Deficit on Capital Account	-55679.79	-40582.25	-77822.27	-75931.76

Source: Extract from Nagaland State Budget, Department of Finance, Nagaland, 2011

The revenue receipts of the State encompasses the heads of account such as Taxes, Land Revenue, State Excise duties, Taxes on vehicles, Sales Tax, Taxes on Goods and Passengers, Stamps & Registration, Other taxes and Duties etc.,

Besides, the financial statements of the State also comprise the receipts from debt services, general services, Social and Community services, Economic services, Public Debts, Loans and Advances from State/Central Government.

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VARIANCE ANALYSIS

As explained earlier, budget is a plan expressed in quantitative terms. Actual expenditure incurred against the budgeted figures under different heads of account are normally compared periodically. This act facilitates to identify the deviations from the formulated plans/budgets. Corrective actions, thereafter, will be initiated in order to remedy the problems to ensure the outcome in conformity with the plans. Budgets are, thereafter, revised accordingly for optimal utilization of funds and fixing the responsibilities with the responsible executives either for minimizing the expenditure (deficit) and/or creating avenues for enhancing the inflow of revenue (surplus).

TABLE 2: STATEMENT OF SURPLUS OR DEFICIT OF REVENUE ACCOUNT (RS. IN LAKHS) DURING THE PERIOD, 2008-2010

Item	**Budget 2008-09**	**Actual 2008-09**	***Variance**	**Budget 2009-10**	**Actual 2009-10**	***Variance**
[1]	[2]	[3]	[4]	[5]	[6]	[7]
Consolidated Fund						
Revenue Receipts	326560.87	340088.55	-13527.68	390988.98	395334.24	-4345.26
Expenditure met out of Revenue	267794.75	288954.00	-21159.25	317009.14	353443.88	-36434.74
Surplus (+)/Deficit of Capital Account (-)	58766.12	51134.55	7631.57	73979.84	41890.36	32089.48

*Calculated figures based on the receipts and expenditure account

Table 2 indicates that revenue receipts (budgeted) have increased from Rs.326560.87 lakhs to Rs.340088.55 (actual) lakhs during the period, 2008-2009 resulting in a net increase of Rs.13527.68 lakhs. The same figures of revenue receipts, budgeted and actual, stood as 390988.98 lakhs and 395334.24 lakhs respectively during the period, 2009-2010 resulting in a net increase of Rs.4345.26 lakhs.

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When we analyze the expenditure met out of revenue, the budgeted expenditure during the period, 2008-2009 was Rs.267794.75 lakhs against which actual expenditure of Rs.288954.00 lakhs was incurred entailing the net increase of Rs.21159.25 lakhs. During the period, 2009-2010, the expenditure was budgeted to Rs.353443.88 lakhs but the actual expenditure rose up to 353443.88 lakhs Similarly, the status of surplus or deficit in capital account also warrants an analysis as under; leaving a net hike in expenditure to a tune of Rs.36434.74 lakhs.

The comparative analysis further exhibits that there is an increase of fund (surplus) to a tune of Rs.7631.57 lakhs during 2008-2009 and subsequently rose up to 32089.48 lakhs in 2009-2010 which is more than 4 (four) times of the position at the preceding period.

TABLE 3: STATEMENT OF SURPLUS OR DEFICIT OF CAPITAL ACCOUNT (RS. IN LAKHS) DURING THE PERIOD, 2008-2010

Item	Budget 2008-09	Actual 2008-09	*Variance	Budget 2009-10	Actual 2009-10	*Variance
[1]	[2]	[3]	[4]	[5]	[6]	[7]
Consolidated Fund						
Capital Receipts	99785.92	83869.16	-15916.76	132848.26	133259.55	-411.29
Expenditure met out of Capital including Loans and Advances (Net)	155465.71	124451.41	31014.30	210670.53	209191.31	1479.22
Surplus (+)/Deficit of Capital Account (-)	-55679.79	-40582.25	-15097.54	-77822.27	-75931.76	-1890.51

*Calculated figures based on the receipts and expenditure account

Table 3 shows that there has been a decline in capital receipts (Budgeted - Actual) amounting to Rs.15916.76 lakhs since the budgeted receipts and actual receipts were ranging from 99785.92 to 83869.16 lakhs during the period, 2008-2009. However, there has been a further declining trend in succeeding period, 2009-2010 as it shows a net decrease of receipts of Rs.411.29 lakh.

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Whereas, the expenditure met out of capital receipts is Rs.31014.30 lakhs (Rs.155465.71- 124451.41) during the year, 2008-2009. This was less than the budgeted one. But, the expenditure met out of the provision is less by Rs. 1479.22 lakhs (210670.53-209191.31) in 2009-2010 which is comparatively reflects a positive trend towards minimizing the capital account deficit.

The net deficits of capital account during the periods, 2008-2009 and 2009-2010 were Rs.15097.54 lakhs (55679.79-40582.25) and Rs.1890.51 (77822.27-75931.76) respectively which is also appears to be favourable for deficit minimization endeavor.

FINDINGS OF THE STUDY

The key findings emerged from the study are;

The revenue receipts (budgeted) of the State have increased from Rs.326560.87 lakhs to Rs.340088.55 (actual) lakhs during the period, 2008-2009 resulting in a net increase of Rs.13527.68 lakhs. The same figures of revenue receipts, budgeted and actual, stood as 390988.98 lakhs and 395334.24 lakhs respectively during the period, 2009-2010 resulting in a net increase of Rs.4345.26 lakhs.

The budgeted expenditure (out of revenue) during the period, 2008-2009 was Rs.267794.75 lakhs against which actual expenditure of Rs.288954.00 lakhs was incurred entailing the net increase of Rs.21159.25 lakhs. During the period, 2009-2010, the expenditure was budgeted to Rs.353443.88 lakhs but the actual expenditure rose up to 353443.88 lakhs leaving a net hike in expenditure to a tune of Rs.36434.74 lakhs.

There was an increase of fund (surplus) to a tune of Rs.7631.57 lakhs during 2008-2009 and subsequently rose up to 32089.48 lakhs in 2009-2010 which is more than 4 (four) times of the position at the preceding period.

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LIMITATIONS OF THE STUDY

At micro level, this study has been carried out which is purely on secondary data. Published data has been used for analysis and interpretation. No primary data is put at use. It does not study the problems and challenges hindering the efficiency of financial management in the State. At macro level, a study on this front may be undertaken by analyzing the financial statements of the State for longer duration. Managerial and Operational problems may provide future directions for research. A comparative study, within and outside the North Eastern Region, may also be taken up to add knowledge to the growing body of literature in budgeting and financial management.

SUGGESTIONS

Based on the analysis and interpretation, the following suggestions are made;

The State may take initiatives to monitor the capital and revenue receipts such as taxes, stamp duties and registration etc., and regulate its pattern of expenditure and pooling of investments.

More efforts may be triggered upon by the government to tap the potential sources of income/revenue such as Road Transport services, Forestry, power projects etc.,

New sources of revenue such as tourism development, entrepreneurship development, development of small scale and cottage industries etc., may be encouraged in the State to minimize the net capital and revenue deficits.

Economic services such as fisheries, minor irrigation, tourism, agricultural programmes etc., may be promoted to ensure a hike in revenue and capital receipts.

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Formulation of appropriate fiscal, industrial and trade policies followed by effective monitoring and evaluation may be ensured for effective and efficient financial management.

Productive areas/projects/sectors of revenues may be identified within and outside the State for investment. Thus, new financing structures may be created for long term funds.

Trade and business activities within and outside the State may be encouraged to augment its earnings.

Cooperation from all the State/Central Governments and the public may be sought for successful implementation of the policies.

CONCLUSION

On account of the dearth of scarce resources of a country, optimal and efficient allocation/use of the limited resources becomes very significant to boost its economy in the facet of globalization. Proper management and control of such resources are therefore inevitable for a developing country like India. Current and Capital Account Deficits have, therefore, become the matters of concern. Individual contributions of all the States towards the Indian economy vary depending upon their geographical and infrastructural developments. On this front, North Eastern Region has a better scope for development in multifarious arenas such as tourism, forestry, entrepreneurship development etc.,

The State of Nagaland has also a tremendous potential for development of these areas. The State may improve its financial management by paying greater attention on key decision areas such as financing, investment and dividend decisions through its suitable policies followed by constant monitoring for corrective measures. Further, identifying new sectors for generating the revenue of the State will be of immense help to minimize the current account and capital account deficits. If so, the State will cross its break-even-point (Revenue = Expenditure), as a business firm normally experiences, and enter into an angle of incidence (profit margin) for its growth and development in the long run. This will certainly pave a way for minimizing the revenue and capital account deficits and promoting the scope of increasing surplus for promoting the wellbeing of society at large. In turn, this will assist the socio-economic development of the country as well.

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The overall growth and development of the State does, thus, highly depend on its efficiency in financial planning, management and control through appropriate short and long term policies and strategies.

Any government is formed by the people and for the people and therefore, it is essential to shoulder a joint responsibility together (people and the government) for solidarity to attain the broader goals of the economy. This is absolutely necessary especially while implementing the fiscal policies of the government which cannot succeed in its venture without adequate cooperation from its people for ensuring a sound financial management in the State.

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