GOVERNMENT OF NAGALAND

MEMORANDUM

TO

THE FOURTEENTH FINANCE COMMISSION

FINANCE DEPARTMENT
Nagaland : Kohima

September, 2013

EXECUTIVE SUMMARY OF THE MEMORANDUM TO THE 14TH FINANCE COMMISSION

1. Chapter-1 outlines the historical background of the State of Nagaland. It highlights the impact of the introduction of modern education and how it sensitised the Nagas to the concepts of sovereignty and nationalism that led to the formation of institutions like the Naga Club in 1918, how it was renamed as the Naga National Council in 1946 and how they declared Naga independence on 14th August 1947.

2. This chapter also discusses the violent political movement that ensued and the dialogue with the Naga political leaders resulting in the signing of the Sixteen Point Agreement between the Naga People's Convention and the Government of India which was followed by the enactment of "The State of Nagaland Act 1962", making Nagaland the 16th State of the Indian Union on 1st December 1963.

3. The socio-economic background of the State is narrated in Chapter-2. It highlights the basic features of the State such as size, population, literacy etc. Other features of the State's economy such as status of banking and access to institutional credit, the GSDP and Per Capita Income of the State and the rates of growth in these areas, changing trends etc. are discussed.

4. Factors leading to the grant of special category status to Nagaland, initially along with Jammu & Kashmir and Assam, are depicted in Chapter-4, and how these factors still continue to exist only in case of Nagaland vis-a-vis the other Special Category States. It also brings out the non-viable nature of state finances which has aggravated because of the persistent climate of insurgency, and how it has compelled the State Government to spend much of its time and resources in maintaining law and order rather than concentrating on developmental activities, how lack of private or self employment in the State has led to a situation in which the State Government is the virtual sole employer and how successive Governments over the years have been compelled to create and maintain unreasonably large number of Government employees with the intent of providing employment and weaning away the youth from the path of insurgency.

5. The chapter also highlights how despite the situation prevailing in the State of Nagaland not having improved, rather further deteriorated, how the Government of India unilaterally abrogated the commitment made in Clause 11 of the Sixteen Point Agreement when, in the year 1989-90, it stopped the practice of covering the BCR gap of the State Government through additional Central plan grants and how the normative approach adopted by the Thirteenth Finance Commission has further aggravated the financial position of the State.

6. A summary of the State's Own Tax and Non-Tax Revenue, Revenue Receipts of the departmentally run utilities of Power and Road Transport (NST) and Non-Plan Revenue Expenditure during the years 2007-08 to 2012-13 is provided in Chapter-5. The projected Non-Plan Revenue Deficit during the years 2015-16 to 2019-20 is also summarised for consideration of the 14th Finance Commission.

7. Chapter-6 deals with the basic approach towards devolution of funds to the States, particularly the principles on which such devolution may be based.

8. Chapter-7 deals with the subject matter of Maintenance of Capital Assets. It lays stress on the severe resource constraints faced by the State and how it adversely affects the maintenance of buildings, roads & bridges, water supply, power infrastructure etc. Moreover, environmental factors such as unstable and weak soil conditions, high rainfall and consequent landslips/landslides which impinge on the escalating needs for maintenance are also outlined.

9. Views of the State Government on Goods and Service Tax are elaborated in Chapter-11. Issues such as the need on the part of the Central Government to give firm assurance/commitment to the State for 100% compensation in case of revenue loss suffered by the State during the initial period of implementation of the Goods and Services Tax has been clearly spelled out. The need for creation of a GST Compensation Fund have also been suggested.

10. Status of Thirteenth Finance Commission Grants is given in Chapter-12. The State Government urges that the guidelines and criteria for the recommended grants may be simplified to make the grants more accessible by the State.

11. Chapter-13 gives brief notes on the proposals submitted to the 14th Finance Commission for Up-gradation and State's Specific Needs. A total of 25 project proposals at an estimated cost of Rs. 1394.97 crore (Rupees one thousand three hundred ninety four crore ninety seven lakh only) is submitted for consideration of the Commission.

Chapter – 1

Nagaland: A Historical Background

1. The State of Nagaland is located in the North Eastern part of India. It is bounded by Assam in the west, Myanmar in the east, Arunachal Pradesh and part of Assam in the north and Manipur in the south. It consists of eleven administrative districts inhabited by 16 major tribes each with their own distinct dialect and customs. Nagaland is well endowed with forest and mineral resources such as marble, limestone, petroleum and natural gas, nickel, cobalt, chromium, basalt and coal. It also has favourable agro-climatic conditions suitable for different varieties of fruits and vegetables. Agriculture is the predominant activity of the State.

2. Upto the early 19^{th} century, the Nagas existed as primitive tribals living independently in their isolated mountain top villages amidst the dense forests. Their only contact with the outside world was with the Ahoms of Assam with whom they sometimes ventured to trade for salt and metals. The mid-nineteenth century witnessed the advent of the British who brought a portion of the Nagas under their administrative control basically to protect their tea interest in Assam. Gradually, the American missionaries were allowed to not only preach a new religion but also to bring education and modernisation to these primitive tribal people.

3. The introduction of modern education enabled the Nagas to pick up new concepts of sovereignty and nationalism that led to the formation of institutions like the Naga Club in 1918. The Club tendered a memorandum before the Simon Commission demanding the exclusion of the Nagas from the proposed constitutional reform in British administration in India. In the year 1946, the Club was re-named the Naga National Council, and became a platform for demand of a separate sovereign political status, marking the beginning of a protracted political movement which is continuing till today. The NNC declared Naga independence on 14^{th} August 1947, a day ahead of India's independence.

4. The political movement became a violent one and had escalated to such an extent that the Government of India had to eventually deploy the Indian Armed Forces to contain the situation. Special legislations such as the Armed Forces Special Powers Act of 1958 were also enacted to specifically deal with the Naga political movement. These measures failed to solve the problem, and only served to escalate it further. After many years and innumerable loss of lives and dialogue with the Naga political leaders, the Sixteen Point Agreement was signed between the Naga People's Convention and the Government of India. This led to the enactment of "The State of Nagaland Act 1962" (Act No. 27 of 1962) in the Indian Parliament, and Nagaland became the 16^{th} State of

the Indian Union on 1st December 1963. The first elections to the Nagaland Legislative Assembly were held in January 1964. Thus Nagaland was born as a State more out of political compulsions rather than administrative exigencies, and remains the only State created by an agreement. Article 11 of the Sixteen Point Agreement provides for Central assistance for meeting the cost of development in Nagaland and grant-in-aid to meet the cost of administration, which is hereby reproduced; quote "To supplement the revenue of Nagaland, there will be need for the Government of India to pay out of the Consolidated Fund of India: lump sum towards meeting the cost of development in Nagaland, and a grant-in-aid towards meeting the cost of administration." Unquote. Copies of the Sixteen Point Agreement and Article 371A of the Constitution of India containing special provisions for the State of Nagaland are given at **Annexures 1A and 1B**.

5. The insurgency movement of Nagaland dates back to the early 1950s and was the first of its kind in India. Even after the signing of the Sixteen Point Agreement and attainment of statehood, the insurgency movement has continued unabated. In recent times, there has been a marked improvement in the position following the signing of the 'Ceasefire Agreement' between the Government of India and the two main insurgent groups in 1997 and 2001 which are continuing till date. Nevertheless, sporadic incidences of factional clashes continue to take place, compelling the State Government to spend much of its time and resources in maintaining law and order rather than concentrating on developmental activities. The Shillong Accord which was signed earlier in 1975 with the underground representatives also failed to bring the insurgency movement to an end.

6. Having lived under the shadow of insurgency for more than half a century in an environment of uncertainty and tension, the people are yearning for peace. This is being reflected in the increasing voice of the people in the media, in the form of public rallies, in the efforts made by the Church and Naga civil society under the banner of Forum for Naga Reconciliation to find peace and reconciliation among the factions, and outburst of the people against the excesses committed by the militant groups and clashes in civilian areas. The cease-fire and the recent developments in the peace talks have brought about visible change in the atmosphere in the State. Life is limping back to normal with the considerable reduction in incidences of violence. Nevertheless, instances of extortion, illegal tax-collection, intimidation, inter-factional clashes etc. still exist, casting a shadow on the State and affecting its socio-economic growth, particularly the efforts towards industrialisation of the State and exploration and development of its rich mineral resources till date. It is in this backdrop the people of the State look forward to a lasting political settlement that will bring insurgency to an end, and help the State to move forward to make up for the years lost.

Chapter – 2

Socio-economic Background

1. Geographically, Nagaland has an area of 16,579 sq kms with a population of 19.79 lakhs and a population density of 119 per sq. km as per Census 2011. Out of this, 71.03% of the people live in the rural areas. The State is connected by air through the only airport at Dimapur and by rail through the only railhead at Dimapur. Agriculture is the mainstay of the State's economy. However, owing to the hilly terrain, small size of holdings and predominance of traditional practices, agriculture in the State is essentially of subsistence nature with poor productivity and low economies of scale. This has a negative impact on the State's economy as well as industrial activity, putting the entire burden of providing employment on the State Government.

2. Recently, the State Government has declared the objective of achieving "food security for all" by 2025. This is sought to be achieved by promoting sustainable agriculture, strengthening extension services, encouraging double cropping and farm mechanization to enhance productivity and by providing quality inputs and through various technological interventions. Steps are also being taken to strengthen post harvest management and marketing facilities. An area of emphasis will be on high value low volume crops

3. In recent years, the State has also taken up various initiatives to promote commercial activities such as horticulture, floriculture, sericulture, beekeeping, promoting plantations and developing the bamboo sector. These initiatives have yielded positive results. The State has also framed specific policies to promote vegetable and fruit growing areas. Nagaland is also emerging as one of the front-runner States in the country in developing bamboo as a resource and enterprise.

4. Nagaland has a very favourable literacy rate of 79.55% as per 2011 census. This was 66.59% in 2001. It is particularly known for the presence of rich social capital and strong community spirit. Nagaland is particularly known for the initiatives taken to strengthen grass-roots level institutions in the form of communitisation and the successful institution of the Village Development Boards which are unique to the State.

5. One factor that has a negative impact on the State's economy is the low access of people of the State to institutional credit. Against the total credit mobilisation of Rs. 6870.59 crore as of March 2013, total advances by Banks stood at Rs. 1993.38 crore during the same period. This translates to a low CD ratio of 34.46 as against the national average of about 60. Further, majority of the credit mobilisation (Rs. 5652.56 crore or 82.27%) and advances (Rs. 1467.34 crore or 73.61%) are confined to the three districts of Kohima,

Dimapur and Mokokchung. An area of concern is the poor flow of credit to the priority sector. One of the main factors responsible for this is the traditional land holding system and absence of proper land records and *patta* systems in most parts of the State that make it difficult for land to be offered as collateral for loans. Another reason for the poor credit flow is the low level of banking coverage. As on date, there are 31 Blocks in the State that do not have any physical banking coverage.

6. As per the Quick Estimates, the GSDP of Nagaland at current prices in 2012-2013 is estimated at Rs. 14,777.85 crore with a per capita income of Rs 71,184. During the period 2011-12 and 2012-13, the State's per capita income saw a growth of 8.48 percent. During the last decade Per Capita Income of the State witnessed a growth of 10.42 percent, more than double the amount of Rs. 32,784 in 2004-2005 to Rs. 71,184 in 2012-13. The State is estimated to have registered a growth rate of 6.58 per cent during 2012-13 in terms of gross state domestic product at constant 2004-05 prices, as against growth of 5.73% in 2011-12 and 9.35% in 2010-11. In the context of decadal growth, the State achieved an average growth of 7.5% per annum. The rates of growth of the primary, secondary and tertiary sectors compare favourably with the national growth rates.

7. Improvement in the growth of GSDP is mainly attributable to growth in agriculture in the primary sector, construction in the secondary sector and trade, hotels restaurant, banking and insurance, real estate and dwellings and services in the tertiary sector. With a percentage contribution of about 20 percent in the GSDP and growth rate of 4.0 percent during 2012-13, agriculture remains a major contributor to the State's economy after the service sector which has a percentage share of about 58 percent.

8. The share of the primary sector, secondary sector and tertiary sector in the State's GDP is 25.34 percent, 17.22 percent and 57.59 percent respectively. The transition in the structural composition of the GSDP in recent years and the declining contribution of the Agri and Allied sectors to the GSDP is in conformity with the economic theory that as the economy progresses, share of the secondary and tertiary sectors will increase while the share of the primary sector will decrease.

9. The recent legislation on mining, land and its resources is likely to increase the contribution of the mining sector to the State's economy. The manufacturing sector is also expected to experience growth on account of the ongoing revival of the Tuli Paper Mill. Construction, trade, hotel and restaurants segment, banking and insurance sector have also witnessed considerable growth during the last decade. The efforts being made by the State to promote tourism, to make the Hornbill festival an international event

with its forward and backward linkages of supply and demand and the numerous construction activities both centrally sponsored and State sponsored in the pipeline are further expected to add to the growth.

10. Nagaland had done reasonably well during the 11th Plan period. A look at the GSDP figures for the period from 2007-08 to 2011-12 indicates that the State had sustained a growth of 7.44% during this period. The agriculture sector grew at 4.05% and the mining and quarrying sector at 10.23%. In the secondary sector, construction and manufacturing grew at 11.38% and 11.84% respectively. The tertiary sector recorded a growth of 7.93%, with the hospitality sector recording a growth of 8.52%.

11. In such a backdrop, the human development indices are showing good improvement, other than in the districts of Tuensang and Mon which continue to be areas of concern and will require concerted efforts in the years to come. The State will endeavour to sustain the healthy economic growth achieved during the 11th Plan period and strive to attain a growth rate of 10.09% during the 12th Plan period. Given the positive rates of growth in the secondary and tertiary sectors, efforts will be made to attract investments in economic activities that will generate both employment as well as jobs to absorb the huge population of growing educated unemployed in the State. A key area of focus will be the mining and quarrying sector with a projected growth rate of 10.24%, with focus on exploitation of the State's rich mineral resources.

12. For the 12 Plan period, Government of Nagaland have taken steps to ensure inclusive economic growth with special emphasis on the Agri and Allied sectors, expanding power connectivity including air, surface and railway transport, human resource development including skill development, development of backward and under developed areas and planned urban centres among others. Focus will also be given to make the planning process more integrated, directed and cohesive.

Chapter – 3

Basic Position of the State in Key Areas

1. In recent times, Nagaland has done well in the areas of sports, music, health and in the infrastructure sectors. In the area of sports, Nagaland has been performing consistently at the regional and national level sports events winning a good number of medals. Sportspersons from the State have also participated and won medals at international level sports events. These are mostly the results of consistent efforts by the State to provide infrastructure and facilities to the youth in all parts of the State and the continuous efforts made to identify and nurture talents at the district level. In the field of music, the State Government have been making sustained efforts to develop music as an industry keeping in mind the huge potential and natural musical talents of the Nagas. The last few years have seen the increasing presence of Naga musicians in various competitions at the national level. Naga musicians have also performed at several events abroad in countries like Thailand, Indonesia and Norway. These are areas where our youth have strength and potential, and the State Government will continue to invest time, efforts and resources to build up on these strengths in the coming years also.

2. In the health sector, achievements of the State in the Monitorable Health Indicators are highlighted below: –

   (a) IMR is has been brought down from 44 (2011-12) per 1000 to 21 per 1000 (2012-13) as per Sample Registration Survey 2012, correlated with the Hospital Information Management System (HMIS). The All India average for the same period (2012-13) is 44.

   (b) Maternal Mortality Ratio of Nagaland was 160 for the period 2012 as per SRS 2012 compared to the All India figure of 212. This has been brought down to 67 during 2012-13 (Source – Deptt. of Eco & Stats, Government of Nagaland & SRS 2012).

   (c) Total Fertility Rate during 2011-12 of Nagaland was 2 as per SRS 2012 and National Family Health Survey-3 compared to the All India figure of 2.6.

   (d) Child sex ratio of 0-6 years during 2011-12 for Nagaland was 944 (source SRS & NHFS) compared to the All India ratio of 914 during the same period (2011-12).

   (e) Anaemia among women from 15-49 years is 44.3 as against the All India figure of 57.9 (NHFS-3, NHFS & Park Textbook of Preventive & Social Medicine).

(f) Anaemia among pregnant women of 15-49 years is 16.8 for Nagaland (HMIS) against the All India figure of 58.7 (NHFS-3).

(g) Malnutrition of children 0-3 years if 0.66% according to ICDS 2011-12. All India figures are not available.

3. Nagaland was recently awarded the "Most Improved State" amongst the small States in the area of "Infrastructure Development" at the "9th State of the States Awards" 2012 organized by the India Today Group in New Delhi. Nagaland was also ranked fourth in the category of the 'Most improved in governance' and third in the 'most improved in consumer market'. Nagaland has also been in the forefront among the States in India in developing bamboo as a resource and enterprise, and is making significant headway in developing the tourism sector. The Hornbill Festival of the State has now become globally well known and is attracting increasing visitors both from mainland India and abroad. The State was recently awarded the 'Krishi Karman Award' for the year 2011-12 for the best performing State under foodgrain production among the category of smaller States.

4. Despite all these positive indicators, the State has not been successful in attracting investment and have experienced little economic growth and development mainly on account of the climate of insurgency that continues to prevail. While the ceasefire agreements entered into by the Government of India with the various factions have brought about an atmosphere of relative calm for about a decade, potential investors continue to shy away from the State because insurgency continues to remain. Even concessions of taxes and duties offered under the North East Industrial Policy of the Government of India as well as the Nagaland Industrial Policy have not yielded any tangible results.

5. Nagaland today faces a peculiar situation where the lack of economic and industrial activity and a relatively weak services sector make the State Government virtually the sole employer. As a result, successive Governments over the years have been compelled to maintain a large number of Government employees, mainly with the intent of providing meaningful employment and weaning away the youth from the path of insurgency. These initiatives include in recent years the setting up of seven (7) India Reserve Battalions of Police including one (1) *Mahila* Battalion which earned accolades for their performance in New Delhi during the Commonwealth Games. Presently, the State has about 1,20,819 Government employees as on 31.03.2013, excluding work charged employees. This translates into a high ratio of 1:17 of the population of the State. The justifications for the high number of employees and other official communications in this matter are given in **Annexures 4A and 4B**. In the absence of any viable alternative, the State has few options but to continue with this **position**.

Chapter – 4

Special Category Status of the State: Problems and Need for Special Dispensation

1. Nagaland is one of the first three states, the other two being Jammu & Kashmir and Assam, that were granted special status in 1969 when the Fifth Finance Commission sought to provide certain disadvantaged states with preferential treatment in the form of Central assistance and tax breaks. The rationale for special status was that certain states cannot mobilise resources for development because of inherent features, such as: (i) hilly and difficult terrain; (ii) low population density or sizeable tribal population; (iii) strategic location along borders with neighbouring countries; (iv) economic and infrastructural backwardness; and (v) non-viable nature of state finances. While eight more states have been granted special status over the years, Nagaland is the only state which continues to have all the features enunciated for grant of special status. The only other state coming closest to Nagaland is perhaps Jammu and Kashmir; but the 'non-viable nature of state finances' is not as pronounced in case of Jammu and Kashmir as in the case of Nagaland.

2. The non-viable nature of state finances, considered as a vital feature for granting special status by the Fifth Finance Commission, not only continues in the case of Nagaland but has become more and more aggravated because of the persistent climate of insurgency. In fact, insurgency movement is not only continuing unabated but another dimension has been added due to increase in factional groups. The State Government has therefore, been compelled to spend much of its time and resources in maintaining law and order rather than concentrating on developmental activities. On the other hand, no investors from outside the State are keen to invest in Nagaland for obvious reasons. Even local investors do not find the prevailing situation conducive to investment. The inevitable result is that there are no productive economic activities worth the name, and the scope of private employment or self employment in the State is highly limited.

3. This lack of private or self employment in the State has led to a situation in which the State Government finds itself today as being virtually the sole employer. Successive Governments over the years have therefore been compelled to create and maintain an unreasonably large number of Government employees mainly with the intent of providing some employment and of weaning away the youth from the path of insurgency. These initiatives include the recent setting up of seven India Reserve Battalions of Police, including one Mahila Battalion**,** in addition to the eight (8) Nagaland Armed Police Battalions set up during the initial years of statehood.

4. It may be of interest to note that the commitment made in clause 11 (eleven) of the Sixteen Point Agreement was unilaterally abrogated by the Central Government when, in the year 1989-90, it stopped the practice of covering the BCR gap of the State Government through additional Central plan grants. Since that time, the financial position of the State has deteriorated steadily.

5. The normative approach adopted by the Thirteenth Finance Commission has further aggravated the financial position of the State. In applying the normative approach in regard to the State of Nagaland, the Thirteenth Finance Commission appears to have been unable to appreciate the fact that the situation in the State is far from normal, and that the special status which was conferred to the State should have been protected rather than measuring Nagaland with the same yardstick applied to the developed states in the mainland. Nagaland has been hit hard by the following stipulations applied by the Thirteenth Finance Commission:-

   (i) While computing the non-plan revenue deficit of Nagaland for the years 2010-11 to 2014-15, the Thirteenth Finance Commission applied the cap on salary expenditure at 35% of total revenue expenditure net of interest payment and pension. Due to the circumstances explained earlier, the State Government has to maintain an unreasonably large number of employees – the actual salary expenditure hovering between 62 and 65 percent of total revenue expenditure net of interest payment and pension.

   (ii) The two departmentally run utilities of Power and Road Transport incur heavy revenue losses each year. These losses have been omitted by the Thirteenth Finance Commission from the computation of Non-Plan Revenue Deficit of the State. The argument appears to be that these utilities, being run on commercial basis, should be able to strike a balance between their revenue receipts and revenue expenditure. However, on account of various unavoidable factors, the main political problem notwithstanding, breaking even by these two entities departmentally run by the Government of Nagaland has not been possible, nor it is likely to be possible in the near future. Therefore, it will only be fair to make an exception in case of Nagaland, to include the annual gap between the receipts and expenditure of the Nagaland Power Department and Nagaland State Transport for the purpose of computation of the overall Non-Plan Revenue Deficit of the State of Nagaland.

6. The normative approach adopted by the Thirteenth Finance Commission resulted in huge Non-Plan Revenue Deficit of the State of Nagaland remaining uncovered by the NPRD grants and consequently, leading to huge escalation of the BCR Gap every year, rendering it very difficult to obtain a reasonable State Plan Outlay year after year.

7. The following Table will show the gap between the Non-Plan Revenue Deficit for the years 2010-11 to 2014-15 as assessed by the Thirteenth Finance Commission vis-à-vis the forecasts made by the State Government as well as the latest position:

(Rs. crore)

Items	2010-11	2011-12	2012-13	2013-14	2014-15	Total 2010-15
A. State's Own Revenue Receipts						
A.1. FC-XIII assessment	235.34	274.86	381.14	415.30	453.66	1760.30
A.2. State's Forecast to FC-XIII	202.56	218.77	236.27	255.19	275.60	1188.39
A.3. Actuals/Latest Estimates (LE)	324.90	429.65	349.12	392.15	440.73	1936.55
B. Non-Plan Revenue Expenditure (included loss of Power and Road Transport)						
B.1. FC-XIII assessment	2474.11	2593.84	2985.27	3125.39	3280.69	14459.30
B.2. State's Forecast to FC-XIII	3230.02	3681.85	4458.82	5071.87	5792.60	22235.16
B.3. Actuals/Latest Estimates (LE)	3218.85	3946.93	4443.68	4834.81	5511.87	21956.14
C. Non-Plan Revenue Deficit						
C.1. FC-XIII assessment (B.1-A.1)	2238.77	2318.98	2604.13	2710.09	2827.03	12699.00
C.2. State's Forecast to FC-XIII (B.2-A.2)	3027.46	3463.08	4222.55	4816.68	5517.00	21046.77
C.3. Actuals/LE (B.3-A.3)	2893.95	3517.28	4094.56	4442.66	5071.14	20019.59
D. Non-Plan Revenue Deficit under-assessed by FC-XIII						
D.1. with ref. to State's Forecast(C.2-C.1)	788.69	1144.10	1618.42	2106.59	2689.97	8347.77
D.2. With ref. to Actuals/LE (C.3-C.1)	655.18	1198.30	1490.43	1732.57	2244.11	7320.59

8. The unenviable situation in which the State of Nagaland landed owing to the unsympathetic treatment meted out by the Thirteenth Finance Commission was brought to the notice of the Prime Minister of India and the Union Finance Minister amongst others. After due deliberations, the Central Government was kind enough to agree to open a new window in the Scheme of Financing (SOF) the Annual Plans, viz: Special Central Assistance (un-tied) to cover the actual BCR gap left uncovered by the Thirteenth Finance Commission. However, adequate budgetary support could not be provided to fully cover the BCR gap, consequently pushing the State to more serious financial difficulties. The letter written by the Chief Minister to the Prime Minister on May 3, 2010 **(Annexure-4A**), the aide-memoire by the Chief Minister at the meeting convened by the Union Finance Minister on June 5, 2012 (**Annexure-4B**) and the record of discussions in the meeting of June 5, 2012 (**Annexure-4C**) will make the position clear.

Chapter – 5

Assessment of Revenue Receipts and Revenue Expenditure

1. We strongly iterate the need for realistic assessment of State's Own Revenue Receipts and Non-Plan Revenue Expenditure as opposed to the assessment of the same adopting a normative approach as was done by the Thirteenth Finance Commission. We also reiterate that while the normative approach may be good enough for States which function under normal circumstances by and large, it is not workable in a State like Nagaland where the insurgency problem is yet to be resolved.

2. We may add that while assessing the Revenue Gaps, factors like topography, the historically weak tax base, high cost of administration in the hilly terrain, etc., should be taken into account.

3. The State of Nagaland has, over the last six years (2007-08 to 2012-13), witnessed a Compound Annual Growth Rate of 14.30 percent in Own Tax Revenue while the same has been 5.11 percent in Own Non-Tax Revenue (excluding Power and Road Transport). On the other hand, the Compound Annual Growth Rate in respect of Power and Road Transport has been 2.06 percent. The receipt under Power has been erratic over the years mainly on account of shortage of available energy in most of the years while during the years 2008-09 surplus energy was available for sale outside the State. Year-wise details may kindly be seen at **tables No: 5.1, 5.2, 5.3** below :

Table No. 5.1: State's Own Tax Revenue

(Rs. crore)

Year	Professional Tax	Stamp & Registration	State Excise	Sales Tax (VAT)	Taxes on Vehicles	Others	Total	Annual Growth
1	2	3	4	5	6	7	8	9
2007-08	17.71	1.02	2.83	94.79	12.30	2.72	131.37	10.38
2008-09	19.86	1.01	3.34	114.70	14.14	2.97	156.02	18.76
2009-10	22.54	0.91	3.14	132.22	16.73	4.97	180.51	15.70
2010-11	24.57	1.35	3.00	167.22	23.92	7.26	227.32	25.93
2011-12	27.02	1.47	3.36	231.12	34.58	6.33	303.88	33.68
2012-13	31.90	1.39	3.70	222.55	29.95	3.49	292.98	-3.59

Table No. 5.2: Non-Tax Revenue

(Rs. crore)

Year	Water Supply	House Rent on Govt Quarter	Forestry	Others (Excluding Power & NST)	Total	Annual Growth
1	2	3	4	5	6	7
2007-08	1.07	2.11	4.81	33.65	41.64	0.39
2008-09	0.98	2.97	4.78	50.96	59.69	43.35
2009-10	0.94	3.43	7.70	28.30	40.37	-32.37
2010-11	1.29	3.63	10.18	82.48	97.58	141.71
2011-12	1.62	4.38	8.86	110.91	125.77	28.89
2012-13	1.24	7.39	11.88	35.63	56.14	-55.36

Table No. 5.3: Revenue Receipt of Power & NST

(Rs. crore)

Year	Power	Road Transport (NST)	Total	Annual Growth
1	2	3	4	5
2007-08	69.47	8.37	77.84	56.75
2008-09	111.49	9.38	120.87	55.28
2009-10	75.17	10.81	85.98	-28.87
2010-11	74.01	11.55	85.56	-0.49
2011-12	94.28	12.90	107.18	25.27
2012-13	75.00	12.96	87.96	-17.93

4. As has been elaborated in the preceding chapter, levels of non-plan revenue expenditure as well as the annual growth thereon has been very high mainly on account of salary and pension. The large committed liabilities of the State Government in regard to salary and pension are unavoidable for reasons since explained in the preceding paras. Lack of own resources have led to heavy borrowings for plan funding during the pre-FC-XIII years as a result of which our interest liability is quite high. The Compound Annual Growth Rate of non-plan revenue expenditure over the years 2007-08 to 2012-13 has been 13.79 percent. A detailed statement giving the year-wise non-plan revenue expenditure (broken into Salaries, Pension, Interest and other expenditure) during the years 2007-08 to 2012-13, BE 2013-14 and estimates for the years 2014-15 to 2019-20 is appended in **Table 5.4.** below :-

Table No. 5.4: Non-Plan Revenue Expenditure

(Rs in crore)

Year	Salaries	Pension	Interest Payment	Others	Grand Total	Annual Growth
1	2	3	4	5	6	7
2007-08	1152.45	259.73	289.64	385.57	2087.39	
2008-09	1248.20	228.96	334.53	534.21	2345.90	12.38
2009-10	1437.79	279.06	384.71	562.28	2663.84	13.55
2010-11	2035.07	335.97	420.33	513.04	3304.41	24.05
2011-12	2301.25	586.68	446.39	719.79	4054.11	22.69
2012-13	2588.72	664.10	483.29	795.53	4531.64	11.78

5. While making the projections to the Fourteenth Finance Commission, the State Government has taken care to realistically assess its revenue receipts and revenue expenditure. Therefore, the Commission may kindly provide for the resultant Non-Plan Revenue Deficit by awarding adequate NPRD grants after adjusting the recommended devolution. The following table (**Table No. 5.5)** indicates the Non-Plan Revenue Deficit for the years 2015-16 to 2019-20 as projected in the statements furnished to the Fourteenth Finance Commission:

Table No. 5.5 : Projected Non-Plan Revenue Deficit for 2015-16 to 2019-20

(Rs. crore)

Item		2015-16	2016-17	2017-18	2018-19	2019-20	Total 2015-20
1	State’s Own Revenue Receipts						
Of which-							
Tax Revenue		431.65	492.07	560.96	639.48	729.00	2853.16
Non-Tax Revenue (including Power & NST)		210.97	224.68	239.29	254.85	271.41	1201.20
Grand total:		**642.62**	**716.75**	**800.25**	**894.33**	**1000.41**	**4054.36**
2	Revenue Expenditure (including Power & NST)						
Of which-							
Salaries		3753.71	4274.00	4866.92	5542.63	6312.71	24749.97
Pension		1043.00	1226.00	1443.00	1702.00	2011.00	7425.00
Interest Payment		653.60	702.45	746.76	804.52	853.06	3760.39
Others		883.41	1029.10	1114.20	1292.92	1438.12	5757.75
Grand total:		**6333.72**	**7231.55**	**8170.88**	**9342.07**	**10614.89**	**52308.00**
3	Non-Plan Revenue Deficit (2-1)	**-5691.10**	**-6514.80**	**-7370.63**	**-8447.74**	**-9614.48**	**-37638.75**

Chapter – 6

Basic Approach Towards Devolution of Funds

1. Nagaland believes that devolution of funds from the Centre to the States must necessarily be based on the concept that the federal financial system should be so oriented that surplus of the Union are passed on to the States which are in acute need, particularly to those whose capacity to create assets of their own are severely limited. Under the Constitution, the Centre has been charged with the responsibility of vital matters such as national defence, foreign affairs and communications etc. whereas the burden of socio-economic development mainly falls on the State Governments whose sources of revenue are generally inelastic. This is more so in the case of states like Nagaland whose sources of revenue are limited by its highly undeveloped and backward condition. This results in inherent imbalances between resources and responsibilities. The responsibilities are not less in Nagaland, where the population is sparse and the areas to be covered by the administrative set-up, police, education, health and other agencies for socio-economic development are large.

2. Another point that merits consideration is the fact that states having high Non-Plan revenue gaps tend to have gaps in capital resources also. This is due to the fact that the investments from loans do not generally bring in adequate returns for servicing the debts, both in regard to payment of interest and repayment of capital. The returns from investment are to a large extent, determined by the level of economic activity in the area. Consequently, the basic constraints and limitations responsible for the backwardness of a state also tend to diminish the returns from capital in that state. Therefore, we suggest that the principle of devolution of funds from the Centre to the states be so oriented to cover the non-plan revenue and capital gaps in backward states in accordance with their needs.

3. Various Commissions have laid stress to population as a major factor for determining the principles for distribution of tax proceeds. We are of the view that backwardness as measured by extent and quality of infrastructure and cost of development of infrastructure and difficult nature of the terrain should also be given adequate weightage with population. Further, much reliance should not be placed on the concept of per capita income as an index of economic development. Rather, suitable criteria of backwardness in terms of income generation from various factors of production in the difficult and hilly areas of the state should be worked out.

4. We are all aware of the wide variations in economic growth between different states. Such variations cannot be attributed to the policies followed by the

individual states or to the special initiative or lack of it shown by the people of the states. Accordingly, in our view, the following major factors which circumscribe growth in some of the states should be taken special note of: -

(i) Geographical location of states like Nagaland, which act adversely and keep them away from the centres of developed communication, commerce and industry, and the geographically unstable soil structure of the Himalayan foothills in the north-east region, which is a major constraint for infrastructure development.

(ii) Inadequate infrastructure and communication facilities resulting in absence of industry, leading to a situation where states like Nagaland are totally import-dependent and entirely consuming state.

(iii) Historical factors like lack of capital, absence of scientific knowledge and industrial technology.

(iv) Imbalances caused by the policy of locating major projects on the sole consideration of immediate gains and not on long term social benefits; and

(v) Absence of marketing and financial institutions.

5. Keeping in mind the economic disparities in different regions and states of the country, we appeal to the Fourteenth Finance Commission to take concrete steps to break the vicious circle of backwardness breeding backwardness and pave the way for tangible economic advancement of such backward areas. The devolution of resources from the Centre based on the award of the Finance Commission directly affects the capacity of the states to contribute towards their own plan outlay. In the absence of adequate funds from Finance Commission Awards, the plan sizes will continue to be limited, forcing the state to remain backward.

Chapter – 7

Maintenance of Capital Assets

(Roads & Bridges and Buildings)

1. The State Government had submitted to the 12th and 13th Finance Commission that severe resource constraint has been adversely affecting the maintenance of its Capital Assets viz: buildings, roads and bridges, water supply and power infrastructure. While the submissions of the state were taken note of, funds commensurate to the needs were not provided for.

2. The State Government projected to the 12th and 13th Finance Commissions requirement of funds for maintenance of capital assets amounting to Rs. 253.61 crore and Rs. 4653.11 crore respectively. The detailed break-up of the projections are indicated at **table A & B** below. There was substantial increase in projected requirement of maintenance funds from the 12th to the 13th Finance Commission, particularly in the Roads and Bridges sector. While increase in the assets was a contributing factor, another reason was inadequate provision for maintenance over the years, which was aggravating the deterioration of the assets. In fact, lacks of proper maintenance has already rendered many of the capital assets beyond repair, and require to be replaced. Moreover, environmental factors such as unstable and weak soil conditions and impacted by high rainfall and consequent landslips/landslides had also aggravated the escalating needs for maintenance. Successive State Governments were also becoming more cognizant of the need for maintenance.

A: 12th Finance Commission

(Rs.in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1	Buildings	3.69	3.87	4.06	4.27	4.48	20.37
2	Roads & Bridges	6.10	6.40	6.72	7.06	7.41	33.69
3	Water Supply	3.73	3.92	4.12	4.32	4.54	20.63
4	Power	8.02	8.42	8.84	9.28	9.75	44.31
5	Others	24.36	25.58	26.86	28.20	29.61	13.61
	Total:	**45.90**	**48.19**	**50.60**	**53.13**	**55.79**	**253.61**

B: 13th Finance Commission

(Rs.in crore)

Sl. No.	Particular	2010-11	2011-12	2012-13	2013-14	2014-15	Total
1	Buildings	67.08	73.79	81.17	89.28	98.21	409.53
2	Roads & Bridges	393.91	433.30	476.63	524.29	576.72	2404.85
3	Water Supply	48.68	53.55	58.90	64.79	71.27	297.19
4	Power	58.27	64.10	70.51	77.56	85.31	355.75
5	Others	194.23	213.65	235.02	258.52	284.37	1185.79
	Total:	**762.17**	**838.39**	**922.23**	**1014.44**	**1115.88**	**4653.11**

3. Funds released for maintenance for Buildings and Roads and Bridges by the 12th and 13th Finance Commissions were far short of the requirement of the State and were as follows:-

(Rs. in crore)

Particulars	12th Finance Commission	13th Finance Commission
Maintenance of Buildings	Rs.46.17 crores *	- Nil-
Maintenance of Roads	Rs.120.88 crores (Entire amount released)	Rs.159.00 crores **

* ***Rs.23.09 crores only were released. Funds were not released beyond 2006-07 by GOI because of the State's inability to comply with the unrealistic conditions imposed by 12th Finance Commission.***

** ***Rs.114.00 crores have been released already for the years 2010-11 to 2013-14.***

4. The status of maintenance expenditure incurred by the State Government during the period 2007-08 to 2012-13 is as follows:-

(Rs. in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1	**2**	**3**	**4**	**5**	**6**	**7**
1. Buildings	52.90	57.37	51.55	73.43	81.59	85.39
2. Roads &Bridges	68.99	88.26	81.38	81.51	141.88	146.80
3. Water Supply	21.24	33.23	19.98	35.42	35.02	46.91
4. Power	11.65	12.31	13.69	14.40	17.73	16.11
5. Others	5.19	31.31	23.64	33.70	19.84	16.86
Total:	**161.97**	**225.48**	**194.24**	**243.46**	**302.06**	**319.07**

5. Till the 11th Finance Commission, amounts assessed for maintenance expenditure were included in the assessment of the total needs of the States on revenue expenditure account and, awards for Non-Plan Revenue Deficit Grant (NPRD) were given subsuming the maintenance expenditure component therein. The 12th and 13th Finance Commissions had provided for separate specific grants for maintenance of roads and public buildings. The 13th Finance Commission recommended a grant for maintenance of roads and bridges, recognizing the need of funds in addition to the requirement for normal maintenance expenditure.

6. The State Government is of the considered view that –

   (i) the total cost of maintenance (routine and periodical) may be borne by the Central Government as in the case of National Highways and not absorbed within the NPRD grant to be worked out for the award period 2015-16 to 2019-20; and

(ii) the full amount of the difference between the actual expenditure incurred for the period 2010-11 to 2012-13 plus the amount estimated by the State Government for the years 2013-14 and 2014-15, and the amounts assessed/awarded by the 13th Finance Commission on maintenance of roads and bridges for the entire award period 2015-16 to 2019-20 (# Rs. 2040.00 crore); and the entire amount re-assessed for expenditure on maintenance of buildings during the period 2010-11 to 2014-15 (## Rs. 262.00 crores), may be awarded as a special grant to the State separate from the NPRD to be awarded for the period 2015-16 to 2019-20.

7. The economy of the State and the welfare of its people are being considerably affected by the deteriorating condition of its assets, particularly of the State's roads and building infrastructure. As it is the State has presently 14,123.65 Kms of roads comprising of 819.90 Kms of National Highways, 11557.84 kms of State Highways and district roads, and 1745.91 Kms of agricultural link roads, etc. which is per se, inadequate for its comprehensive development. The climatic and geophysical conditions cause considerable strain and degradation of the surface assets. In these aggravating conditions, the 14th Finance Commission may kindly take cognisance of the need as highlighted above and assess the fund requirement for maintenance, keeping in view the principles indicated in the preceding para.

8. It is pertinent to mention here that the 12th Finance Commission had in its award provided a grant of Rs. 10.54 crore per year for maintenance of public buildings subject to the condition that the level of State's existing non-plan revenue expenditure under Major Head 2059 & 2216 as reflected in RE 2005-06 should not be less than Rs.106.99 crore so as to qualify for the grant. When compared with similar stipulations made for other States such as Andhra Pradesh (Rs.74.62 crore), Assam (Rs.113.48 crore), Meghalaya (Rs.52.76 crore), Manipur (Rs.32.04 crore) etc. to cite a few examples, it becomes clear that the norms prescribed for Nagaland were grossly disproportionate compared to the other States. Naturally, the State failed to fulfil the prescribed norms and had to forego the recommended grant. The Thirteenth Finance Commission has not provided any grants for maintenance of public buildings. It is the considered view of the State that in the case of grants-in-aid to critical areas, there is need for a realistic assessment of the State's capacities and ability to comply with conditions and incur the levels of expenditure prescribed. Unless this is done, the grants will remain in paper only.

Total estimated expenditure 2010-11 to 2014-15 worked out taking into consideration the expenditure incurred during the 2010-11 to 2012-13. Statement – 30(d) to 14thFC refers.

Total expenditure as per details reflected in statement-30 to 14th FC.

Chapter – 8

Local Bodies

1. As per the Terms of Reference, the 14^{th} Finance Commission is required to make recommendations as to the measures needed to augment the Consolidated Fund of the State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.

Rural Local Bodies:

2. The Panchayat Raj Constitution (73 Amendment) Act 1992 does not cover the State of Nagaland. As such, Nagaland does not have the three-tier system of local self government that exists in other parts of the country. However, every recognized village in Nagaland, according to the customary usages and practices, has a Village Council irrespective of its size. The constitution and functioning of the Village Councils are defined under the Nagaland Village and Area Council Act, 1978.

3. As on date, there are 1178 recognized villages with Village Councils and Village Development Boards covering equal number of villages. Some of the main powers and functions of the Village Councils are as follows:-

   (i) to formulate village development schemes and to supervise proper maintenance of water supply, roads, forest, education and other welfare activities;
   (ii) to help various Government agencies in carrying out development works in the village;
   (iii) to take up development works on its own initiative or on request by the Government;
   (iv) to borrow money from the Government, bank or financial institutions for application in the development and welfare work of the village and to repay the same with or without interest as the case may be;
   (v) to realize registration fees for each litigation within its jurisdiction;
   (vi) to raise funds for utility service within the village by passing a resolution subject to the approval of the State Government;
   (vii) to constitute the Village Development Board;

4. The Village Development Boards (VDBs) are constituted by the Village Councils under Section 12 of the Nagaland Village and Area Councils Act, 1978, and function under the overall supervision of the Village Councils. All the VDBs have separate savings bank accounts for operating the funds

allocated to them by the State Government under the State Schemes of Grant-in-aid and also under various Centrally Sponsored Schemes. In addition, all VDBs have Fixed Deposits in the nationalized banks, the maximum deposit being Rs.5.00 lakhs out of which Rs.2.50 lakhs is given as matching grants by the State Government. In addition, all VDBs have taken National Saving Certificates/Time Deposit. Thus the VDBs are indirectly helping the State in mobilizing resources. Since the introduction of VDB, almost all the major rural based programmes are being channelled through the VDBs.

5. All the deposited amounts both in the bank and post offices are used as security for availing loan facilities from the banks and financial institutions. This has become an important factor since no land of the village can be mortgaged for any financial loans in view of the traditional land holding system. The State Government had also taken up a pilot project for VDBs to act as financial intermediaries for dispensing credit in the interior rural areas in view of the poor banking coverage in the State. Under this scheme, the State provides Rs. 1 lakh to each VDB as corpus fund. Following the successful performance of the pilot phase, this scheme was extended to another 396 VDBs in 2006-07, 200 in 2007-08 and 485 during 2008-09 under State Plan. Under the State's scheme of grant-in-aid to VDBs, Rs.100 per household was allocated for community development project from 1980-81. This amount was subsequently raised to Rs.750 and to Rs. 1000 per household for creating community assets and village infrastructure.

6. A path breaking and widely acclaimed reform undertaken by the Government of Nagaland has been the process of communitisation of public institutions. This was brought into effect through the passing of the 'Communitisation of Public Institutions and Services Act, 2002'. It essentially involves a partnership between the Government and the community in the management of local public utilities, services and select activities of the State Government with focus on ownership or responsibility in respect of running of public institutions and services. This has resulted in improved performance and outcomes in all the communitised sectors throughout the State, and has helped to strengthen and sustain community involvement.

Urban Local Bodies:

7. Nagaland had no municipalities till the enactment of the Nagaland Municipal Act, 2001. But there were Town Committees which were constituted under the Naga Hills District (Constitution of Town Committee) Rules 1954.

8. With the enactment of "The Nagaland Municipal Act, 2001" provisions were made for creation of Municipal Councils in areas with population of 20,000 and above, Town Council where population is below 20,000 but not less than

5,000 and Urban Station Committees where population is below 5,000 but not less than 1,000. Every Municipal Council and Town Council shall have elected ex-officio and nominated members. Urban Station Committees are to compose of such members to be appointed or elected as the Government may, by notification direct.

Powers and functions of Municipal Councils/Town Councils:

9. Some of the obligatory functions assigned to the Municipal Council under the Act include the following:-
   (a) Regulation of land use and construction of buildings
   (b) Sanitation conservancy and solid waste management
   (c) Urban forestry, protection of the environment and promotion of ecological aspects.
   (d) Provision of Urban amenities and facilities such as parks, gardens playgrounds.
   (e) Promotion of cultural, educational and aesthetic aspects
   (f) Burials and burial grounds, cremations, cremation grounds and electric crematoriums
   (g) Public amenities including streets lighting, parking lots, Bus Stops and Public Conveniences.
   (h) Regulation of slaughter houses and tanneries

10. Any other functions as the Government may assign by notification. The Government may by notification assign any of the functions of the Municipal Council to the Town Council or Urban Station Committee subject to their financial resources and organizational capacity.

Powers to impose Taxes.

11. Subject to the provisions of the Act and with the previous sanction of the Government a municipality may levy taxes on lands and buildings, octroi, tolls and fees, tax on the vehicles and animals etc.

    Subject to the prior sanction of the Government, it may also levy any other tax which the State Legislature has power to levy under the Constitution.

Status of Utilization of 13th Finance Commission:

12. The Thirteenth Finance Commission has allotted an amount of Rs. 415.70 crore for Local Bodies in Nagaland over the five year period beginning from 2010-11 onwards. Out of this amount, Rs. 332.38 crore is for Rural Local Bodies and Rs. 83.32 crore is for Urban Local Bodies.

13. Out of the grant of Rs. 332.38 crore to the Rural Local Bodies, an amount of Rs. 33.03. crore has been released so far, leaving a balance of Rs. 299.35 crore. One factor that affected utilisation was the late release of the second instalment of Rs. 15.46 crore for the year 2010-11 during 2011-12. This delayed the expenditure proposal of the department. The release of the first years is still under utilisation. Out of the amount of Rs. 83.32 crore allocated to the Urban Local Bodies, an amount of Rs. 3.48 crore was released during 2011-12 as second instalment for the year 2010-11. A further amount Rs. 5.47 crore was released during 2011-12. Rs. 13.93 has been released so far, leaving a balance of Rs. 69.39 crore. The above grants are being utilized for activities prescribed in the guidelines.

14. Municipalities in Nagaland have been set-up only during 2004-05 under the provisions of the Nagaland Municipal Act, 2001. The First State Finance Commission (SFC) was constituted on 1st August, 2008. In its report, the Commission recommended measures for strengthening and capacity building of the Urban Local Bodies to empower them to exercise better the powers and functions conferred by the Municipal Act. However, no specific recommendations were made for devolution of funds. The Second Nagaland State Finance Commission was constituted recently on 1st June, 2013. The Commission is yet to submit its report. As such, Nagaland is yet to start the process of transfer of resources to Municipalities on the basis of SFC recommendations.

15. The Urban Local Bodies in the State are presently facing constraints of low income because of which they lack ability to employ technical professionals and manpower. As a result, it has become impractical to transfer designated functions to them at this juncture. The potential for revenue generation is also narrow due to inability to levy property tax on account of the peculiar land holding system in the State. Presently, about 83% of the income is derived from toll tax, entry tax and octroi. Of this, about 85% is spent on salary expenditure.

16. The last elections to the Urban Local Bodies were held during 2004-05. The next elections are due but could not be held due to a dispute arising on the issue of women reservation. The case is presently sub-judice before the Supreme Court of India.

Chapter – 9

Calamity Relief

1. Nagaland is located in Seismic Zone-V, and because of its geophysical and climatic conditions suffers from periodic natural disasters, particularly landslides and extensive soil erosions. As a result, movement through the lifeline road arteries like NH-29and NH-61, and also through many of the State, village and district roads, get frequently disrupted, jeopardising communication not only within the State, but also with the sister State of Manipur. Moreover, such disasters also damage buildings and standing crops, and lead to many instances of severe injuries and death of the people affected. In fact, the State practically faces a calamity situation every year with the collapse of bridges and roads during the rainy season, compelling the State to make emergency repairs to restore communication. The State is also vulnerable because of increased concentration of people in hazardous environment within its territory.

2. Nagaland is also substantially dependant on surface logistics for import of essential supplies, and for the safety and normal economic activities of its people. This requires that its capacity to take suitable measures towards disaster prevention, for rendering relief on occurrence of the disasters and for subsequent mitigation activities, be enhanced. For this purpose, it is essential that not only that adequate funds be made available to the State, but also that the fund transfer process between the Centre and the States, be oriented towards timely and easy operation. Some of the hazards faced by the State are given below:-

Different Hazards Faced by Nagaland:

Hazard	Effects
Earthquake	Nagaland with the rest of the North Eastern states falls under Earthquake Zone –V, making it a very high-risk-State.
Landslide	With all young, loose rocks and the rugged topography, the greater part of Nagaland is prone to landslides. Rock falls are a common phenomenon. Apart from this, many towns and villages including the capital city of Kohima, lies above the Disang Basement. This makes it more vulnerable.
Cloudburst	Cloud bursts are common phenomena in Nagaland and often result in landslides and flash floods.
Flood	While the greater part of Nagaland may not be affected by floods because of the hilly terrain, all the low lying areas adjoining Assam are prone to floods. Flash floods are common in the hills.
Fire	All types of fire disasters viz. forest fires, urban fires and rural domestic fires are very common.
High speed winds	The hills at higher altitude and the foothills adjoining Assam are prone to this.
Accidents	The different types of accidents, especially road accidents, are very common in Nagaland because of nature of the terrain and the conditions of the roads.

3. In recent years, Nagaland has also begun to experience the micro effects of climate change, which is leading the State towards a more vulnerable and hazardous condition. Drastic changes in the annual rainfall have caused huge losses to the agrarian economy of the State. This is evident from the rainfall data as indicated in the table **No.9.1** given below:-

Table No. 9.1 : Rainfall data at Kohima Centre for the last two years:

Sl. No.	Month	Rainfall in mm		No. of rainy days		Temperature (Centigrade)			
						Max. temp.		Min. temp.	
		2011	2012	2011	2012	2011	2012	2011	2012
1	2	3	4	5	6	7	8	9	10
1	January	9.8	32.7	2	9	17.9	17.8	1.4	2.4
2	February	5.2	15.2	1	3	22.4	21.5	4.9	3.5
3	March	56.8	49.2	5	10	25.7	27.6	8	6.2
4	April	34.9	81.5	5	11	26.3	28	9.3	9.7
5	May	265.6	130.8	19	9	27	28.4	11.9	11.4
6	June	308.2	218.8	27	22	27.4	27.7	15.5	13.5
7	July	437.7	295	28	24	28.1	28.5	16.2	16.5
8	August	239.9	258.7	21	21	29.2	29.6	15.2	14.8
9	September	336.3	123.6	23	23	29.5	26.8	14.5	15.5
10	October	31.7	124.3	7	11	27.4	26	10.1	9.2
11	November	9.7	40.2	3	3	24	25.8	6.6	5.2
12	December	Nil	Nil	Nil	Nil	21	22.5	2.6	4.5

4. Nagaland was allocated Rs.27.46 crore for the award period (2010-11 to 2014-15): (Centre's Share: Rs.24.72 crore and the State's Share: Rs.2.74 crore) for disaster management and calamity relief to be undertaken through its SDRF, and an additional amount of Rs.5 crore towards capacity building for dealing with disaster contingencies and mitigation measures. The position of receipt of funds from the Centre for disaster management and calamity relief and utilisation during the first three years of the 13th Finance Commission award period is as given in Table No. 9.2 below.

Table No. 9.2 : Receipt of Funds from 2010-11 to 2012-13

(Rs. in crore)

Sl. No.	Year	Funds allocated	Centre's share	Funds received from GOI	Actual expenditure
1	2	3	4	6	7
1	2010-11	5.97	5.47	2.24	4.32
2	2011-12	6.22	5.70	1.00	8.50
3	2012-13	6.48	5.93	11.87	10.44
	Total:	**18.67**	**17.10**	**15.11**	**23.26**

The above data clearly indicates that the flow of funds has not been as per the recommendations of the Thirteenth Finance Commission.

5. The above funds allocated under the Thirteenth Finance Commission award works out to approximately Rs.162/- and Rs.25/- per capita for disaster relief and capacity building to deal with disasters/calamities and mitigation efforts respectively. This is inadequate when viewed against the disaster vulnerability and risk profile of the State. It is felt that the 14th Finance Commission could consider a more need-based approach rather than an expenditure-based approach while recommending allocations for SDRF as well as for capacity building. We also request that the Commission consider recommending for States like Nagaland which are backward and in the low income category, an award of 25% premium on the total funds to be allocated for the next award period. This would be on the lines logically accepted by the Twelfth Finance Commission. It is worthwhile to mention that the Thirteenth Finance Commission had vide para 11.80 of its Report, even deemed Central funding of SDRFs of the States as a proposition worth considering. In fact, Nagaland is of the view that full funding of the SDRF by the Central Government may be justifiably considered for Nagaland given its disaster proneness, hazard vulnerability of its population residing in such terrain and the overall physical conditions of the State. While the SDRF allocation for the period (2015-16 to 2019-20) may be decided taking into consideration the factors cited above, a suitable adjustment for nullifying the impact of inflation during the period (2009-10 to 2013-14) may also be considered.

6. Under the National Disaster Management Act, 2005, the National Disaster Response Force and in the next lower echelon the State Disaster Response Forces have been set up. The State Government is of the view that not only the capital one-time expenditure but also the cost of the establishment of State Disaster Response Force i.e., its manpower and operating costs, also be borne entirely, on a normative basis, by the Central Government. Such an arrangement would relieve the State Government of a substantial financial burden.

7. In so far as the institutional arrangement for fund transfers is concerned, a structured system providing for transfers on an annual basis, with the first four years` funds released as grants in the first quarter of the respective years on a pattern of say, 20% of the total allocation for the State per year, and the last year’s allocation released keeping in view the total utilization in the initial four years, is suggested. This will enable timely availability of funds in consonance with the State’s requirements and also make accounting simpler.

8. In regard to disaster management and calamity relief, the recommendations of the State Government are summed up as follows:-

(a) the disaster proneness of the State be the prime determinant in deciding the quantum of financial support from the Centre;

(b) full quantum of funds as per allocations decided, be provided by the Centre for the SDRF with a 25% premium for the low income and the Special Category States;

(c) full funding support be provided for the State Disaster Response Force ; and

(d) the method of fund transfers from the Centre to the States be made simpler and more structured as suggested above.

Chapter – 10

Subsidy

1. As per terms of reference [sub-para-6(vi) of the Presidential Order dated 2nd January 2013] the 14th Finance Commission is required to deliberate on the level of subsidies that are required, keeping in view the need for sustainable and inclusive growth and equitable sharing of subsidies between the Central and State Governments.

2. The Government of Nagaland has an unavoidable indirect or implicit subsidy outgo relating to its Power Department/infrastructure and Nagaland State Transport Department (NST). The total expenditure on this account for these two departments during the period 2010-11 to 2014-15 is likely to be Rs. 1200 crore approximately. The extent of budgetary support provided to the above referred establishments may be logically considered to be this subsidy. The State Government deems this burden to be unavoidable because of the low level of the State's economy and the weak financial capacity of its people to bear the economic costs of service rendered by these public utilities. Notwithstanding this position, the State Government has constantly endeavoured to improve the maintenance and operational efficiency of its Power and Road Transport establishments to reduce the consequential cost burden so that this indirect subsidy eventually reduces.

3. Notwithstanding the above-stated position, the State is gradually moving to a commercial regime in regard to pricing of power supplies after the operationalisation of the Nagaland Electricity Regulatory Commission (NERC) Act in 2008, and the dovetailing of power tariffs as per recommendations of the NERC. While the transport charges/bus fares are being revised periodically by the N.S.T. and the operating costs are being adequately recovered, the State Government is yet to manage to operate the Road Transport establishment without budgetary support for its investment and some establishment needs.

4. As regards further implicit subsidy resulting from pricing of user charges at a level lower than the cost of providing the service, the position varies from nearly full realisation of user charges to less than 30% approximately in respect of quarters allotted to Government employees and rooms rented out to tourists. The revenue foregone in such cases is of much lesser magnitude than the subsidy provided to the Power and Road Transport (N.S.T.) departments.

Chapter – 11

Views of Nagaland on Goods and Services Tax

1. Nagaland is in favour of the dual GST model comprising of the Central GST (CGST) at the national level (subsuming all Central Taxes such as Central Excise Duty, Additional Excise Duty, Special Additional Duty of Customs, Service Tax, Surcharges and cesses etc.) and State GST (SGST) at the states level (Subsuming all State Taxes like VAT/Sales Tax, Entertainment Tax, Surcharges, Purchase Tax etc.). This dual GST model may be implemented through multiple statutes – one for the CGST and SGST statutes for every State. However, basic principles of tax law such as chargeability, definition of taxable event and taxable person etc. should be made uniform across the States to the extent possible.

2. As regards GST Rate Structure, Nagaland is in favour of adopting the existing VAT two-rate structure - a lower rate for necessary items and goods of basic importance and a standard rate for goods in general, and a special rate for precious metals and a list of exempted items. For taxation of services, the State is in favour of a single rate for both CGST and SGST.

3. The State is of the view that small traders and small scale industries are not brought under dual control. Therefore, the threshold for Central GST (CGST) for goods should be kept at not less than Rs.1.5 crores and the threshold for CGST for services may also be appropriately high. However, in respect of dealers effecting inter-state transactions, irrespective of turnover, should report to both Centre and the State authorities. The State is of the view that for the North-Eastern Region and Special Category States, a lower threshold of tax as in the case of VAT should be incorporated.

4. In regard to GST on imports, the State is of the view that both CGST and SGST may be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed.

5. In respect of the Special Industrial Area Scheme, the State is also of the view that tax exemptions, remissions etc., related to industrial incentives should be converted, if at all needed, into a cash refund scheme (reimbursement) after collection of taxes, so that the GST scheme on a basis of a continuous chain of set-offs is not disturbed.

6. In respect of Composition and Compounding Schemes, the State is of the view that they should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover. The scheme should allow option for GST registration for dealers with turnover below the compounding cut-off.

7. In respect of Taxation on Services, the State is of the view that both the Centre and the States should be given concurrent power to levy tax on all goods and services.

8. As regards the **Draft Constitution (115th Amendment Bill) 2011,** Nagaland is of the view that the draft amendment should be confined to empowering the Centre and States for levy of GST on all goods and services. Specific aspects related to rates, exemptions, exclusions etc. of any item in the present Bill may neither be desirable nor practicable as it will require another constitutional amendment. In case the Centre and the States want any modifications, it may be included in the by-laws and rules.

9. An issue that has not been satisfactorily resolved in the VAT regime is the matter of compensation to the States in case of revenue losses. The State is of the strong view that Centre must give firm assurance/commitment to the States to provide 100% compensation in case of revenue loss suffered by the States during the initial implementation period of the Goods and Services Tax. For this purpose, the State favours creation of a GST Compensation Fund under the administrative control of the proposed GST Council.

Chapter – 12

Status of Thirteenth Finance Commission Grants

1. The Thirteenth Finance Commission awarded a total of Rs. 250 crores under State Specific Grants to Nagaland, details of which are given below:-

(Rs. in crore)

Sl. No	Scheme	Allocation per year	2011-12 to 2014-15
1	**2**	**3**	**4**
1	Roads & Drinking Water in Border Areas	8.75	35.00
2	Establishment of Blind School & Vocational Training	7.50	30.00
3	Police Residential Accommodation	25.00	100.00
4	Staff Quarters for PHCs/CHCs/SCs	7.50	30.00
5	Rural Tourism	8.75	35.00
6	Warehouses (Horticulture)	5.00	20.00
	Total:	**62.50**	**250.00**

2. Out of the above grants, the State has been able to access an amount of Rs. 95.00 crores so far, leaving a balance of Rs. 155.00 crores to be accessed during the remaining two years of the award period. There have been delays due to non-submission of Utilisation Certificates and pending clearance of Line Ministries of the Central Government, a new arrangement introduced by the Thirteenth Finance Commission. In the case of Performance grant to Local Bodies, the State is not eligible due to non-fulfilment of the guidelines.

3. Nagaland is of the view that there is need to make the guidelines and criteria more simple and accessible to facilitate the States, especially Special Category States, access the grants more comfortably. This need is felt more by Nagaland where normal conditions as prevailing in the rest of the country do not exist, and even conditions that would have been fulfilled easily in other States become difficult, a situation caused by the peculiar and unique conditions prevailing in the State.

Chapter – 13

Upgradation and Specific Needs

As a Special Category and backward State, there are many areas where even the basic requirements could not be put in place even today due to acute resource constraints. The task of bringing the State to a reasonably comparable level with other advanced States of the Indian Union is a daunting one, and requires huge investments that are well beyond the State's capacity. Since all the needs and requirements cannot be covered by the limited funds available under the normal Plan schemes, we have submitted our requirements for upgradation and Specific Needs for the forecast period for consideration of the Commission. These are highlighted below:-

1. **Justice & Law:**
   The construction of the High Court Complex at Kohima began in the year 2008-09 under Special Plan Assistance from the Planning Commission of India. Since then, an expenditure of Rs. 40 crores has been spent till 2012-13. However, progress of this project has been slow due to insufficient availability of funds. Since the project is of special importance to the State and its completion necessary for the High Court to commence functioning, the proposal is submitted for consideration of the Fourteenth Finance Commission. The proposal also includes construction of quarters for the Judges and staff of the High Court.

2. **Prisons:**
   The department proposes to modernize its prisons through provision of libraries, vocational training material and equipments for inmates in all the jails in the eleven districts. This includes setting up of dispensaries and jail industries etc.

3. **Vigilance:**
   The department has proposed procurement of machineries, equipments and procurement of forensic science materials to help improve its functioning and effectiveness in investigations.

4. **Administrative Training Institute:**
   The Administrative Training Institute provides training to the probationers of the All India Services, the State Civil Services, State Police Service and other Allied Services of the State Government. The proposal seeks to provide a Multi-purpose Complex at the Institute that will provide facilities for coaching for the Civil Services, for classrooms and conference rooms for workshops, seminars and to provide facilities for external faculty without

which quality trainings cannot be offered in-house since the Institute does not have the required expertise in all technical areas.

5. **Youth Resources & Sports:**
The youth of the State have been performing remarkably well in various sports disciplines at both the national and international levels despite the lack of adequate infrastructure and training facilities. The proposal for a Multi-disciplinary Sports Stadium at Dimapur is to provide modern facilities which can directly facilitate generation of a good number of top-class sports persons who can bring laurels to the state and the nation. It is proposed to consider for Rs 50.00 crore.

Similarly, construction of 9 District Sports Complexes excluding Kohima & Dimapur will help our youth to hone their inborn talents to help them compete at various competitive events. It is worthwhile to note that in the first year the State got affiliated to the Indian Olympic Association in the year 2004, our youth won 11 medals at the National Games. It is proposed to consider for Rs 45.00 crore.

The Centre for Music and Performing Arts at Jotsoma, Kohima, seeks to provide sound-proofed practice rooms, state-of-the-art recording facility with music equipment and accessories. This will go a long way in nurturing the inborn musical talents of the Naga youth, the presence of which is already being felt at both the national and international levels. It is proposed to consider for Rs 18.47crore.

6. **Art & Culture:**
The department has proposed to upgrade and modernize the museums by setting up interactive displays, provision of conservation labs, construction of new galleries and providing facilities for digitization of collections, artefacts etc.

7. **Health & Family Welfare**
Upgradation and modernisation of district hospitals: All the District Hospitals were constructed in the late 1960s and early 1970s, and are now in a dilapidated condition beyond repair. The proposal seeks to replace the buildings and upgrade and modernise them to facilitate better services to the people. It is proposed that at least five District Hospitals in the State may be considered during this period.

8. **Municipal Administration:**
Till date, the Municipal Councils and Town Councils do not have any sewerage system. By and large, dry latrine and septic tanks are use which are

unhygienic and hazardous for public health. The proposal is for the development of comprehensive sewerage systems in the three municipal councils of Kohima, Dimapur and Mokokchung and the Town Councils in the remaining district headquarters.

9. **Information & Public Relations:**
The department has proposed setting up of Media Centres in all the eleven district headquarters to promote media activities and bring the Government closer to the people while highlighting the State to the country and to the world.

10. **Legal Metrology:**
The department has proposed installation of ten numbers of road weight bridges to check overloaded Lorries plying on the National and State Highways to prevent accidents as well as damages to the road.

11. **Agriculture:**
The department proposes setting up of cold storage facilities in all the district headquarters for storing fruits and vegetables, many of which get damaged in the absence of any existing facilities, causing loss to the farmers.

12. **Forest**
The State Government has taken steps to protect and preserve its forests and biodiversity through active participation of the village communities by setting up the Joint Forest Management Committees in 971 villages. The JFMCs will focus on biodiversity and forest conservation, documentation, drinking water source protection and rain water harvesting activities.

13. **Soil & Water Conservation:**
Despite receiving fairly high rainfall during the monsoons, the State experiences water scarcity during the lean season due to high drainage of water, resulting in drought like condition. This in turn affects farming and agricultural activities, which continues to remain at subsistence levels. The proposal seeks to address this problem through rain water harvesting in various forms such as weirs, ponds, cross barriers, check dams, gabion structures and water harvesting ponds etc.

14. **Power:**
The department has also proposed improvement of existing infrastructure through effective maintenance and operations to ensure reliable power supply to the consumers. This will help the department shift from the present ‘Crisis management’ mode due to paucity of funds to ‘assured maintenance and operation of the assets’ of the department. Besides ensuring reliable power supply, it will also help improve the revenue earnings of the department.

15. **Road Transport:**
Operation of public transport in hilly terrain results in quick wear and tear. The proposal is for renovation and overhaul of the existing fleet of buses in a phased manner to increase their reliability and longevity.

16. **Roads & Bridges:**
The State faces interior connectivity problems, especially among the towns bordering the State of Assam. As a result, vehicles and passengers have to necessarily take long routes through Assam to reach a neighbouring village or district within the State. This problem is particularly faced by the districts of Mokokchung, Wokha, Mon and Longleng districts. Another problem the people of these districts face is the disruption of communication and supply of essential commodities due to frequent bandhs and strikes in Assam, particularly in the Karbi Anglong district of Assam. As a result, these districts are often completely cut from the capital town of Kohima and the commercial hub of Dimapur. Since the State is unable to find resources for this priority project, the proposal is placed before the Fourteenth Finance Commission.

17. **Irrigation & Flood Control:**
The department has proposed a Medium Irrigation Project at Dzudza in Dimapur district. This is being done since in order to fulfil AIBP criteria for funding, the project has to be ongoing with a minimum investment of 50% of the project cost by the State Government which comes to Rs. 47.00 crore. This will help the State to access the Central grant.

18. **CAWD:**
The majority of administrative buildings and accommodations in the district were constructed during the initial period of statehood in the 1970s. Due to the dilapidated condition of the buildings, repairing and maintenance are no longer viable. The proposal seeks to replace these dilapidated buildings in the districts and sub-divisions which will directly add to enhancement of the efficiency of District Administration.

19. **Housing:**
The residential quarters of the Speaker, Deputy Speaker, Leader of Opposition, Cabinet Ministers and Parliamentary Secretaries are all of 1970s vintage and beyond viable repair. The proposal seeks to provide new quarters for these dignitaries for which we propose Rs 122.50 crore for consideration.

The State also proposes funds for completion of the State Guest Houses of R.K. Puram and staff quarters at Dwarka, New Delhi. These projects have been continuing for more than 5 years, and have been languishing due to resource constraints. Since the State has only one guest house at Aurangzeb

Road, officers of the State Government going to Delhi for official meetings are unable to get accommodation. Even the staff working there are without quarters and the State has to incur huge expenditure on their housing allowances. We propose for consideration of Rs 50.00 crore.

20. **Sericulture:**
The department has proposed establishment of cocoon banks at five centres to provide modern technology storage facilities to sericulture farmers and protect their products.

21. **Police Engineering:**
The Police department is presently facing acute shortage of housing facilities for the police personnel posted in the rural Police Stations and Sub-Stations. The proposal seeks to provide housing facilities in these locations to ensure effective maintenance of law and order in the rural areas, since the grants of the Thirteenth Finance Commission do not adequately cover all the requirements.

22. **Fire & Emergency Services:**
According to national standards, the State should be having sixty one (61) fire stations against the actual 10 at present. The proposal seeks to construct five (5) Fire Stations along with fire fighting equipments identified strategic interior areas that are far away from the nearest fire station which are prone to fire due to Jhum cultivation and prevalence of thatch houses etc.

23. **Land Resources:**
The department proposes purchase of tools, equipments and rubber sheet rollers and establishment of smoke houses to provide post harvest facilities to growers of rubber, which is non-existent at present. The State Government has been taking active measures to promote this crop in the State.

24. **DUDA**
The Eastern Naga areas are facing acute shortage of infrastructure and facilities. The Government proposes to construct apartments for officers and staff in the four District Headquarters of Eastern Nagaland to make up for the shortages and ensure better administration.

25. **Technical Education:**
The department proposes modernisation and upgradation of the three (3) existing Polytechnics by construction of Guest Houses for faculty exchanges, provision of digital libraries and upgradation of existing laboratories etc.

LIST OF THE STATE SPECIFIC PROGRAMMES FOR CONSIDERATION OF THE 14TH FINANCE COMMISSION

(Rs. in crore)

Sl.No	Department	Purpose	Revenue	Capital	Total
1	Justice & Law	Construction of High Court & quarters	---	100.00	**100.00**
2	Jails	Modernisation & vocational training centres	---	5.50	**5.50**
3	Vigilance	Machineries & forensic equipments	2.00	---	**2.00**
4	Administrative Training Institute	Multi-purpose complex	---	12.00	**12.00**
5	Youth Resources and Sports	Multi-disciplinary Sports Stadium & Complex, Art & Music Centre	---	113.47	**113.47**
6	Art & Culture	Museum upgradation & modernisation	2.00	3.00	**5.00**
7	Health & Family Welfare	Upgradation and modernisation of district hospitals	15.00	60.00	**75.00**
8	Municipal Administration	Development of sewerages at Municipal and Town Councils	---	19.50	**19.50**
9	IPR	Setting up of Media Centres	11.00	---	**11.00**
10	Legal Metrology	Installation of 10 road weight bridges	6.00	---	**6.00**
11	Agriculture	Cold storages for 11 districts	---	33.00	**33.00**
12	Forest	Conservation & protection	50.00	---	**50.00**
13	Soil & Water Conservation	Water conservation and management in all the 11 districts	7.00	15.00	**22.00**
14	Power	Operation & Maintenance, repair and replacement	90.00	---	**90.00**
15	Road Transport	Renovation & overhauling of buses	10.00	---	**10.00**
16	Roads & Bridges	Construction of Foothill Road	---	250.00	**250.00**
17	Irrigation & FC	Medium Irrigation project at Dzudza	---	47.00	**47.00**
18	CAWD	Replacement of District and sub-division Administrative buildings	---	165.00	**165.00**
19	Housing	Replacement of quarters for members of the Nagaland Legislative Assembly and Completion of G/House at RK Puram and Staff quarter at Dwarka, New Delhi	---	172.50	**172.50**
20	Sericulture	Establishment of 5 Cocoon Bank	5.00	---	**5.00**
21	Police Engineering	Housing for police personnel in Rural Police and sub-station	---	125.00	**125.00**
22	Fire Services	Constn of 5 Fire Stations & equipts	---	25.00	**25.00**
23	Land Resources	Post harvest support for Rubber Development	20.00	---	**20.00**
24	DUDA	Constn of staff and officers apartments in 4 district hqrs of Eastern Nagaland	---	16.00	**16.00**
25	Technical Education	Modernisation & upgradation of 3 existing Polytechnics	---	15.00	**15.00**
		Total	**218.00**	**1176.97**	**1394.97**

Annexure 1 A
(Page : 39 to 42)

(***Reference to the Chapter-1 & Para 4***)

The 16-point Agreement arrived at between the Government of India and the Naga People's Convention, July, 1960

1. The Name:

The territories that were heretofore known as the Naga Hills Tuensang Area under the Naga Hills-Tuensang Area Act, 1957, shall form a State within the Indian Union and be hereafter known as Nagaland.

2. The Ministry Incharge:

The Nagaland shall be under the Ministry of External Affairs of the Government of India.

3. The Governor of Nagaland:

(a) The President of India shall appoint a Governor for Nagaland and he will be vested with executive powers of the Government of Nagaland. He will have his headquarters in Nagaland.

(b) His administrative Secretariat will be headed by the Chief Secretary stationed at the Headquarters with other Secretariat staff as necessary.

(c) The Governor shall have special responsibility with regard to law and order during transitional period and for so long as the law and order situation continues to remain disturbed on account of hostile activities. In exercising this special responsibility, the Governor shall, after consultation with the Ministry, act in his individual judgement. This special responsibility of the Governor will cease when normalcy returns.

4. Council of Ministers:

(a) There shall be a Council of Ministers with a Chief Minister at the head to assist and advise the Governor in the exercise of his functions.

(b) The Council of Ministers shall be responsible to the Naga Legislative Assembly.

5. The Legislature:

There shall be constituted a Legislative Assembly consisting of elected and nominated members as may be necessary representing different tribes. (Further a duly constituted body of Experts may be formed to examine and determine the principles of representation on democratic basis).

6. Representation in the Parliament:

Two elected members shall represent Nagaland in the Union Parliament, that is to say, one for the Lok Sabha and the other for the Rajya Sabha.

7. Acts of Parliament:

No Act or law passed by the Union Parliament affecting the following provisions shall have legal force in the Nagaland unless specially applied to it by a majority vote of the Nagaland Legislative Assembly:

(a) The Religious or Social Practices of the Nagas.
(b) The Customary Laws and Procedure.
(c) Civil and Criminal Justice so far as these Concern decisions according to the Naga Customary Law. The existing laws relating to administration of civil and criminal justice as provided in the Rules for the Administration of Justice and Police in the Naga Hills District shall continue to be in force.
(d) The ownership and transfer of land and its resources.

8. Local Self-Government:

Each tribe shall have the following units of the rule making and administrative local bodies to deal with matters concerning the respective tribes and areas:

(a) The Village Councils;
(b) The Range Councils; and
(c) The Tribal Councils.

These Councils will also deal with disputes and cases involving breaches of customary laws and usages.

9. Administration of Justice:

(a) The existing system of administration of civil and criminal justice shall continue.
(b) Appellate Courts:

(i) The District Court-cum-Sessions Court (for each district), High Courts and Supreme Court of India;

(ii) The Naga Tribunal for the whole of Nagaland in respect of cases decided according to Customary Law.

10. Administrative of Tuensang District:

(a) The Governor shall carry on the administration of the Tuensang District for a period of 10 (ten) years until such time when the tribes in the Tuensang District are capable of shouldering more responsibility of advance system of administration. The commencement of the ten year period of administration will start simultaneously with the enforcement of detailed workings of the Constitution in other parts of the Nagaland.

(b) Provided further that a Regional Council shall be formed for Tuensang District by elected representatives from all the tribes in Tuensang District, and the Governor may nominate representative to the Regional Councils. The Deputy Commissioner will be the Ex-officio Chairman of the Council. The Regional Council will elect Members of the Naga Legislative Assembly to represent Tuensang District.

(c) Provided further that on the advice of the Regional Council, steps will be taken to start various Councils and Courts, in those areas where the people feel themselves capable of establishing such institutions.

(d) Provided further that no Act or Law passed by the Naga Legislative Assembly shall be applicable to Tuensang District unless specially recommended by the Regional Council.

(e) Provided further that the Regional Council shall supervise and guide the working of the various Councils and Tribal Courts within Tuensang District wherever necessary depute the local officers to act as Chairmen thereof.

(f) Provided further that Councils of such areas inhabited by a mixed population or which have not as yet decided to which specific Tribal Council be affiliated to, shall be directly under the Regional Council for the time being. And at the end of ten years the situation will be reviewed and if the people so desired the period will be further extended.

11. Financial Assistance from the Government of India:

To supplement the revenues of Nagaland, there will be need for the Government of India to pay out of the Consolidated Fund of India;

1. Lump sum in Nagaland and
2. Grant-in-Aid towards meeting the cost of administration.

Proposals for the above grants shall be prepared and submitted by the Government of Nagaland to the Governor of Assam for their approval. The Governor will have general responsibility for ensuring that the funds made available by the Government of India are expended for the purposes for which they have been approved.

12. Consolidation of Forest Areas:

The delegation wished the following to be placed on record: "The Naga delegation discussed the question of the inclusion of the Reserve Forests and of contiguous areas inhabited by the Nagas. They were referred to the provisions in Articles 3 and 4 of the Constitution, prescribing the procedure for the transfer of areas from one state to another".

13. Consolidation of Contiguous Naga Areas:

The delegation wished the following to be placed on record: "The Naga leaders expressed the view that other Nagas inhabiting contiguous areas should be enabled to join the new State. It was pointed out to them on behalf of the Government of India that Articles 3 and 4 of the Constitution provided for increasing the area of any state, but that it was not possible for the Government of India to make any commitment in this regard at this stage".

14. Formation of Separate Naga Regiment:

In order that the Naga people can fulfil their desire of playing a full role in the defence forces of India, the question of raising a separate Naga Regiment should be duly examined for action.

15. Transitional Period:

(a) On reaching the political settlement with the Government of India, the Government of India will prepare a Bill for such amendment of the Constitution, as may be necessary, in order to implement the discussions. The draft Bill, before presentation to Parliament, will be shown to the delegates of the NPC.

(b) There shall be constituted an Interim Body with elected representatives from every tribe, to assist and advice the Governor in the administration of Nagaland during the transitional period. The tenure of office of the members of the Interim Body will be 3 (three) years subject to re-election.

16. Inner Line Regulation:

Rules embodied in the Bengal Eastern Frontier Regulation, 1873, shall remain in force in Nagaland.

****

Annexure 1 B
(Page 43 to 46)

(*Reference to Chapter-1 & Para-4*)

ARTICLE 371A

371A. Special provision with respect to the State of Nagaland.

1. Notwithstanding anything in this Constitution,—

(*a*) no Act of Parliament in respect of—
(*i*) religious or social practices of the Nagas,
(*ii*) Naga customary law and procedure,
(*iii*) administration of civil and criminal justice involving decisions according to Naga customary law,
(*iv*) ownership and transfer of land and its resources, shall apply to the State of Nagaland unless the Legislative Assembly of Nagaland by a resolution so decides;

(*b*) the Governor of Nagaland shall have special responsibility with respect to law and order in the State of Nagaland for so long as in his opinion internal disturbances occurring in the Naga Hills-Tuensang Area immediately before the formation of that State continue therein or in any part thereof and in the discharge of his functions in relation thereto the Governor shall, after consulting the Council of Ministers, exercise his individual judgment as to the action to be taken:

Provided that if any question arises whether any matter is or is not a matter as respects which the Governor is under this sub-clause required to act in the exercise of his individual judgment, the decision of the Governor in his discretion shall be final, and the validity of anything done by the Governor shall not be called in question on the ground that he ought or ought not to have acted in the exercise of his individual judgment:

Provided further that if the President on receipt of a report from the Governor or otherwise is satisfied that it is no longer necessary for the Governor to have special responsibility with respect to law and order in the State of Nagaland, he may by order direct that the Governor shall cease to have such responsibility with effect from such date as may be specified in the order;

(*c*) in making his recommendation with respect to any demand for a grant, the Governor of Nagaland shall ensure that any money provided by the Government of India out of the Consolidated Fund of India for any specific service or purpose is included in the demand for a grant relating to that service or purpose and not in any other demand;

(*d*) as from such date as the Governor of Nagaland may by public notification in this behalf specify, there shall be established a regional council for the Tuensang district consisting of thirty-five members and the Governor shall in his discretion make rules providing for—

(*i*) the composition of the regional council and the manner in which the members of the regional council shall be chosen:

Provided that the Deputy Commissioner of the Tuensang district shall be the Chairman *ex officio* of the regional council and the Vice-Chairman of the regional council shall be elected by the members thereof from amongst themselves;

(*ii*) the qualifications for being chosen as, and for being, members of the regional council;

(*iii*) the term of office of, and the salaries and allowances, if any, to be paid to members of, the regional council;

(*iv*) the procedure and conduct of business of the regional council;

(*v*) the appointment of officers and staff of the regional council and their conditions of services; and

(*vi*) any other matter in respect of which it is necessary to make rules for the constitution and proper functioning of the regional council.

2. Notwithstanding anything in this Constitution, for a period of ten years from the date of the formation of the State of Nagaland or for such further period as the Governor may, on the recommendation of the regional council, by public notification specify in this behalf,—

(a) the administration of the Tuensang district shall be carried on by the Governor;

(b) where any money is provided by the Government of India to the Government of Nagaland to meet the requirements of the State of Nagaland as a whole, the Governor shall in his discretion arrange for an

equitable allocation of that money between the Tuensang district and the rest of the State;

(c) no Act of the Legislature of Nagaland shall apply to Tuensang district unless the Governor, on the recommendation of the regional council, by public notification so directs and the Governor in giving such direction with respect to any such Act may direct that the Act shall in its application to the Tuensang district or any part thereof have effect subject to such exceptions or modifications as the Governor may specify on the recommendation of the regional council:

Provided that any direction given under this sub-clause may be given so as to have retrospective effect;

(d) the Governor may make regulations for the peace, progress and good government of the Tuensang district and any regulations so made may repeal or amend with retrospective effect, if necessary, any Act of Parliament or any other law which is for the time being applicable to that district;

(e) (*i*) one of the members representing the Tuensang district in the Legislative Assembly of Nagaland shall be appointed Minister for Tuensang affairs by the Governor on the advice of the Chief Minister and the Chief Minister in tendering his advice shall act on the recommendation of the majority of the members as aforesaid;

(*ii*) the Minister for Tuensang affairs shall deal with, and have direct access to the Governor on, all matters relating to the Tuensang district but he shall keep the Chief Minister informed about the same;

(f) notwithstanding anything in the foregoing provisions of this clause, the final decision on all matters relating to the Tuensang district shall be made by the Governor in his discretion;

(g) in articles 54 and 55 and clause (4) of article 80, references to the elected members of the Legislative Assembly of a State or to each such member shall include references to the members or member of the Legislative Assembly of Nagaland elected by the regional council established under this article;

(*h*) in article 170—

(*i*) clause (1) shall, in relation to the Legislative Assembly of Nagaland, have effect as if for the word “sixty”, the word “forty-six” had been substituted;

(*ii*) in the said clause, the reference to direct election from territorial constituencies in the State shall include election by the members of the regional council established under this article;

(*iii*) in clauses (2) and (3), references to territorial constituencies shall mean references to territorial constituencies in the Kohima and Mokokchung districts.

3. If any difficulty arises in giving effect to any of the foregoing provisions of this article, the President may by order do anything (including any adaptation or modification of any other article) which appears to him to be necessary for the purpose of removing that difficulty:

Provided that no such order shall be made after the expiration of three years from the date of the formation of the State of Nagaland.

Explanation..—In this article, the Kohima, Mokokchung and Tuensang districts shall have the same meanings as in the State of Nagaland Act, 1962.

Annexure – 4A
(Page 47 to 52)

(Reference to Chapter -4 & Para-8)

CHIEF MINISTER
NAGALAND
KOHIMA
D.O. No. FRC/TFC-13/1/2006-07

3 May, 2010.

Respected Prime Minister,

Kindly refer to my earlier letter of even number dated 23rd March, 2010, regarding the serious problems faced by us because of the unrealistic Award of the Thirteenth Finance Commission.

1. I write this letter once again due to extreme and urgent problems being faced to arrive at financing the Annual Plan 2010-11. The resources for 2010-11 works out to Rs.781 crore as against the last year's plan outlay of Rs.1500 crore. On the other hand our plan proposals works out to Rs.2250 crore for the current year.

2. The fundamental problem has arisen as the Thirteenth Finance Commission took a normative approach. By applying such norms, our non-plan revenue expenditure has further been under-assessed by the Thirteenth Finance Commission to the extent of Rs.7131 crore over the 5-year period of their Award. This includes a committed and unavoidable salary expenditure of at least Rs.4142 crore over the 5-year period, as is indicated in detail at Annexure – I.

3. Further, the Thirteenth Finance Commission over-assessed our Own Revenue by Rs.572 crore over the 5-year period of their Award setting impossible targets with our miniscule revenue base. (Annexure-II)

4. The recurring deficit of the Power and Road Transport sector have also been ignored by the Thirteenth Finance Commission. This has resulted in

overlooking a net non-plan revenue expenditure of Rs.645 crore over the 5-year period. (Annexure-II)

5. Under such a regime of the Thirteenth Finance Commission, when our requirements for the salary of the employees of the State is short by Rs 631.74 crores in the first year of the Award (2010-11), it invariably implies that we have to retrench 30.46% of our employees amounting to roughly about 36,000 employees. Further to sustain the projected levels of NPRE of the Award, we have to keep retrenching about 3000 employees every year for the next five years and perhaps even into the 14^{th} Finance Commission Award period.

6. You are aware of the peculiar problems of Nagaland. The state was born out of an agreement between the Government of India and the people of Nagaland due to the Naga political problem. From the day of its inception, it was well recognised that the state was not economically viable.

7. While phenomenal development has taken place in the State after gaining statehood, however, our level of development is yet to reach the stage where the private sector can forward to invest and to create the momentum for economic growth that would have, not only generated the revenues but also created employment opportunities for our fast growing numbers of educated youth. Due to the lack of industries, the Government remains the main and the only major employer in the State. As a result we have an unusually high percentage of government employees as compared to the population. Under the present circumstances we really do not have any answer to this problem. Our only way forward is a faster pace of economic development.

8. The Naga political problem has remained unresolved and in fact, had become more virulent during the 90's and presently the Government of India is undertaking to resolve the problem through a process of negotiation and dialogue with the various insurgent factions. Under such circumstances, you will appreciate that retrenching our employees is out of the question as such would

only aggravate the problems and put road blocks to the current peace process intended to find answers to the vexed Naga political problem. As such it would not be practical to expect us to follow the norms (as applied to other states). The Thirteenth Finance Commission does not appear to have fully appreciated all such practical realities peculiar to Nagaland.

9. In the meantime in the face of severe demands from our employees we have had to implement the new pay scales with effect from 1.4.2010. The employees are however, continuing their agitation demanding new pay scales with effect from 1.1.2006. I do hope that you will appreciate the problems being faced by the State government and that considering the prevailing insurgency situation, the matter of retrenchment of one-third of the employees is not an option available to us.

10. There is also the legal aspect of retrenchment. Even if other implications are overlooked, it may be pointed out that the Government would not have the necessary legal grounds to retrench so many employees without any valid reasons other than lack of resources.

11. That Nagaland has a large number of Government employees and that our salary bill is disproportionately high is not what happened now and overnight. It has historical reasons. The current number of employees is a result of steady growth in number of employees in each year since the inception of the State in 1963. In fact many of the employment given to people had been done in order to woo them away from the path of violence and insurgency. This imperative for the need of absorbing people in the mainstream should not be lost sight of.

12. I write this letter as the problem of financing the plan will persist for all the 5 years under the Award of the Thirteenth Finance Commission. Unless you personally intervene in the matter we will have to literally stop all development activities that will only aggravate the situation. Since the Naga problem is a

CHIEF MINISTER
NAGALAND
KOHIMA

national problem, I, therefore request you to redress the situation following this adverse Award of the Thirteenth Finance Commission.

13. It is submitted that a special central grant of Rs.4142 crore (Rs.632 crore in 2010-11, Rs.721 crore in 2011-12, Rs.819 crore in 2012-13, Rs.926 crore in 2014-15 and Rs.1044 crore in 2014-15) is given to us to meet the shortfall in salary expenditure provided for by the Thirteenth Finance Commission.

14. The Planning Commission has scheduled a meeting between the Deputy Chairman and me to finalize the annual plan outlay for 2010-11 on May 4, 2010. However, it appears to be difficult to arrive at a workable plan outlay unless the special dispensation for Nagaland is decided to resolve the various problems that I have raised. I have therefore suggested to the Deputy Chairman, Planning Commission, to defer our official level discussion until some resolution to the problems are arrived at.

With regards,

Yours sincerely,

(NEIPHIU RIO)

Dr. Manmohan Singh,
Prime Minister,
South Block,
New Delhi – 110 011.

Annexure –I

(to D.O. letter No. FRC/TFC-13/1/2006-07 dated 3.5.2010)

The actual non-plan salary requirement of 2010-11 as assessed based on detailed salary statements, the projections for future years (based on 6% annual growth), assessment of ThFC and resultant under-assessment of actual requirement may be seen from the following statement: (Rs. crore)

	Actual salary expenditure (including ROP) for 2010-11	Require-ment for 2011-12 (based on 6% growth)	Require-ment for 2012-13 (based on 6% growth)	Require-ment for 2013-14 (based on 6% growth)	Require-ment for 2014-15 (based on 6% growth)	Total Require-ment for 2010-15
1. Actual provision of non-plan salary expenditure required	2071.79	2196.10	2327.86	2467.54	2615.59	11678.88
2. As assessed by ThFC	1440.05	1474.85	1508.64	1541.18	1572.19	7536.91
3. Under-assessment by ThFC	631.74	721.25	819.22	926.36	1043.40	4141.97

Notes:

1. Assessment of salary expenditure by the 13th Finance Commission (as at sl.2 of the above Table) is based on their prescription that the salary expenditure must be restricted to 35% of the total Non-Plan Revenue expenditure, net of interest payment and pension.
2. If the State Government is to restrict the salary expenditure within the assessment made by the 13th Finance Commission, it would be necessary to immediately retire one-third of the existing employees (approximately 36,000) and thereafter nearly 3000 employees will have to be retired compulsorily each year. This is neither possible nor desirable.
3. On the other hand, if the State Government cannot restrict the salary expenditure as prescribed by the Thirteenth Finance Commission, it cannot frame the Roadmap of fiscal correction – not to speak of treading by the same path – as is required to be framed so as to become eligible for the debt relief as well as the State Specific Grants as provided for by the Thirteenth Finance Commission.
4. Special non-plan grant to meet the shortfall in salary provision, as indicated at sl.3 of the above Table, is required since the reduction of employees as stipulated by the Thirteenth Finance Commission is not possible. In addition, relaxation has to be allowed to Nagaland in regard to the Fiscal Correction Path so that the State is not deprived of the stipulated debt relief as well as the State Specific Grants.

Nagaland

Annexure –II

(to D.O. letter No. FRC/TFC-13/1/2006-07 dated 3.5.2010)

Over-assessment of revenue receipts and under-assessment of revenue expenditure by the Thirteenth Finance Commission vis-à-vis projections made by the State Government

(Rs. Crore)

	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**Total 2010-15**
1. State's Own Revenue						
(i) State's projection	202.56	218.77	236.27	255.19	275.60	1188.39
(ii) ThFC assessment	235.34	274.86	381.14	415.30	453.66	1760.30
(iii) Over-assessment by ThFC	**32.78**	**56.09**	**144.87**	**160.11**	**178.06**	**571.91**
2. Non-Plan Revenue Expenditure (excluding Power & NST)						
(i) State's projection	3136.28	3572.92	4332.44	4925.47	5623.24	21590.35
(ii) ThFC assessment	2474.11	2593.84	2985.27	3125.39	3280.69	14459.30
(iii) Under-assessment by ThFC	**662.17**	**979.08**	**1347.17**	**1800.08**	**2342.55**	**7131.05**
3. Net loss of Power & NST						
(i) State's projection	93.74	108.93	126.38	146.40	169.36	644.81
(ii) ThFC assessment	0.00	0.00	0.00	0.00	0.00	0.00
(iii) Under-assessment by ThFC	**93.74**	**108.93**	**126.38**	**146.40**	**169.36**	**644.81**

Annexure-4 B
(Page 53 to 57)

(Reference to Chapter-4 & Para-8)

GOVERNMENT OF NAGALAND
FINANCE DEPARTMENT
BUDGET AND MONITORING CELL

NO. FRC/TFC-13/1/2006-07 :: Dated New Delhi, the 5th June, 2012

To
Ms. Anjully Chib Duggal,
Additional Secretary to the Government of India
Ministry of Finance,
Department of Expenditure,
Plan Finance-I Division,
North Block,
New Delhi

Sub: Meeting of Hon'ble Union Finance Minister with Chief Ministers of all North-Eastern States to discuss issues pertaining to the financial situation of the States

Sir,

I am directed to address you on the subject cited above and to enclose a copy of the Aide Memoir, along with enclosures, which was presented in the above meeting by the Hon'ble Chief Minister, Nagaland, for further necessary action.

Yours faithfully,

(TOSHI AIER)
Additional Chief Secretary & Finance Commissioner

Aide Memoir submitted to Shri Pranab Mukherjee, Hon'ble Finance Minister, Government of India, in the meeting with the Chief Ministers of all North Eastern States convened in New Delhi on 5th June 2012, to discuss the issues pertaining to the financial situation of the States

1. At the outset I express my gratitude to the Hon'ble Union Finance Minister for convening this meeting which shows his concern for the welfare of the NE States.

2. The State of Nagaland was created in the year 1963 consequent upon signing the 16-Point Agreement between the Government of India and the Naga People's Convention. It was also clearly understood from the very beginning that the State of Nagaland, not being economically viable but being of political necessity, would have to depend upon the financial assistance to be provided by the Central Government. This is clearly borne out by the details incorporated in Clause 11 of the 16-Point Agreement, which reads as thus:

   "11. Financial assistance from Government of India:
   To supplement the revenue of Nagaland, there will be need for the Government of India to pay out of the Consolidated Fund of India:
   i) a lump sum to meet the cost of development in Nagaland, and
   ii) a grant-in-aid towards meeting the cost of administration ….."

3. Until 1989-90, the whole of assessed non-plan gap was being covered in the form of central assistance, in addition to the normal central plan assistance which was as per the agreed plan size of the year. Since 1990-91, non-plan gap became a part of the scheme of plan financing. In other words, plan outlay got reduced proportional to the size of non-plan gap.

4. It is a common knowledge that we are overwhelmingly dependent upon the central government as our own revenue can meet barely 7 to 8 percent of our expenditure. Our resources are limited but the demands on the Government are very high. As a result, we have to provide for expenditure often without resource support. This has been happening over the years leading to huge accumulated budgetary deficits. Our estimated budgetary deficit for the current year is Rs.770.58 crore. In the Budget for 2012-13 passed by the Nagaland Assembly in March 2012, the closing deficit was projected at Rs.695.58 crore. This has further gone up due to non-realisation of the admissible Open Market Borrowing of Rs.75 crore for which no bid was received by the RBI in the auction held by it on 29th March 2012.

5. Since the resources are scarce, the State Government and the Planning Commission have to do a tight-rope walking every time we meet to finalise

our Annual Plans. In our anxiety to arrive at a reasonable plan size, we try to project maximum receipts possible while trying to keep the non-plan revenue expenditure at the barest minimum. Consequently we add to our budgetary as well as fiscal deficit as we often fail to generate the estimated receipts while we find additional expenditure unavoidable. This undesirable situation was further aggravated by the Award of FC-XIII which, to say the least, could not do justice to us.

6. As the Hon'ble Union Finance Minister is aware, I had taken up the issue of the inadequacy of Thirteenth Finance Commission Award in respect of my State in particular and the Special Category States in general during the series of meetings I had with himself as well with the Hon'ble Prime Minister and the Deputy Chairman Planning Commission during the month of May 2010. I had brought out this issue during my subsequent discussions with him as well as with Shri Montek Singh Ahluwalia.

7. It may kindly be recalled that I had urged for a special central non-plan grant to meet the non-plan revenue gap which was left un-covered by the Thirteenth Finance Commission, as a result of their adopting a normative approach. I had pointed out that such a grant was necessary for each of the 5 years covered by FC-XIII Awards.

8. However, my request could not be accommodated and consequent upon due deliberations between the Ministry of Finance and the Planning Commission, a new window, namely 'Special Central Assistance (un-tied)', was introduced in the Schemes of Plan Financing for the years 2010-11 and 2011-12, to cover the huge BCR gap which arose mainly because of the inadequate FC-XIII Award. For want of resources, however, the Planning Commission could not cover the whole BCR gap through SCA (un-tied). As a result, we had to be satisfied with the barest minimum State Plan Outlay as could be worked out.

9. It is a matter of fact that even after providing funds under SCA (un-tied), we found it difficult to arrive at a presentable Plan size. To arrive at a reasonable figure, from 2010-11, the Planning Commission was compelled to incorporate hypothetical resources like 'Cash draw-down' and also had to impose ARM much beyond our capacity to generate. These un-realisable resources incorporated in the Schemes of Plan Financing inevitably led to increased budgetary as well as fiscal deficits. (Cash draw-down: Rs.127.71 crore in 2010-11 and Rs.100 crore in 2011-12; ARM: Rs.21.32 crore in 2010-11 and Rs.50.00 crore in 2011-12 = Rs.299.03 crore.)

10. I found that a year-to-year approach to mitigate the recurring problem of inadequate resources was not workable and was causing undue hardship to the State. I therefore wholeheartedly welcome Union Finance Minister's initiative to look at the problem anew for finding a solution for the remaining 3 years of the FC-XIII Award. For this purpose, I strongly feel that the non-plan revenue gap left uncovered by FC-XIII should be neutralised by providing a special non-plan grant during each of the years 2012-13, 2013-14 and 2014-15.

11. I have got some analysis done to compare the projections we made to the Thirteenth Finance Commission, the assessment made by the Commission and our latest assessment, including actuals of 2010-11 & 2011-12. The statements are enclosed.

12. It may be seen from the enclosed statements that the overall gap left uncovered by FC-XIII with reference to our latest assessment is Rs.1378 crore in 2012-13, Rs.1757 crore in 2013-14 and Rs.2184 crore in 2014-15. I would request the Ministry of Finance to consider special non-plan grant of this quantum during the respective year.

13. While I insist that the overall gap indicated above be neutralised by non-plan central grant, a few facts relating to the shortfall on account of salary (and consequently of pension) are worth mentioning. These are as follows:

  i) As against the FC-XII and FC-XIII stipulation for restricting salary expenditure within 35% of total revenue expenditure net of interest and pension, our salary ratio to net revenue expenditure has been 60.25% in 2010-11, 57.85% in 2011-12 (RE) and 64.29% in 2012-13 (LE).

  ii) As was pointed out on previous occasions, we have a disproportionately high number of Government employees. This has historical reasons. The current number of employees is a result of steady growth in their number in each year since the inception of the State in 1963. In fact many of the employment given to people had been done in order to woo them away from the path of violence and insurgency. I may reiterate that the same historical reasons still persist. I sincerely believe that application of national norms to the State which lacks normalcy is not expected to produce positive results.

  iii) The shortfall on account of salary and pension is indicated in Annexure-II.

14. In addition to the issue of special non-plan grant to cover the shortfall, another very crucial issue is that of our inability to achieve the targets of Fiscal Deficit prescribed by FC-XIII. We are not likely to achieve the prescribed Fiscal Deficit targets mainly on account of inadequate resources as well as imposition of non-realisable ‘cash draw-down’ and ARM. Our inability to achieve Fiscal Deficit targets makes us ineligible for the State Specific Grants under the Awards of FC-XIII. Since this is beyond our capacity, as I have already explained, I would request the Hon’ble Union Finance Minister kindly to de-link the State Specific Grant from the Fiscal Deficit targets.

15. My heartfelt thanks to the Hon’ble Union Finance Minister for the kind consideration that he has always shown to the north eastern States.

(***Reference to Chapter-4 & Para-8***)

F.No.49(10) PF-I/2010
Government of India
Ministry of Finance
Department of Expenditure
Plan Finance-I Division
****

Dated: 28th June, 2012

Office - Memorandum

Subject:- Record of discussions of the meeting of Union Finance Minister with Chief Ministers of North-Eastern (NE) States on 5.6.2012.

The undersigned is directed to refer to enclose record of discussions of the meeting of Union Finance Minister with Chief Ministers of North-Eastern (NE) States on 5.6.2012 for information.

(Manmohan Sachdeva)
Joint Director (P F-I)
T. No. 23095691

To,

1) PS to Hon'ble Finance Minister
2) PS to Deputy Chairman, Planning Commission
3) PS to Shri Nabam Tuki,Chief Minister, Arunachal Pradesh
4) PS to Shri Tarun Gogoi, Chief Minister, Assam
5) PS to Shri Ibobi Singh, Chief Minister, Manipur
6) PS to Shri Mukul Sangma, Chief minister, Meghalaya
7) PS to Shri Lal Thanhawla, Chief Minister, Mizoram
8) Shri Neiphiu Rio, Chief minister, Nagaland
9) PS to Dr. Pawan Chamling, Chief Minister, Sikkim
10) PS to Shri Manik Sarkar, Chief Minister, Tripura
11) PS to Finance secretary
12) PS to Secretary, Expenditure
13) PS to Additional Secretary, Expenditure
14) PS to Joint Secretary, Expenditure
15) Director, PF-I
16) Director, FRU
17) Director, FCD

Record note of discussions of the meeting of Union Finance Minister with Chief Ministers of North-Eastern (NE) States on 5.6.2012 regarding financial position of NE States

List of participants is annexed.

2. Union Finance Minister welcomed the Chief Ministers of NE States, thanking them for coming to Delhi at short notice. He indicated that during discussions held from time to time, NE States had raised the issue that their salary bills, on account of implementation of the recommendations of the Sixth Pay Commission, (6th CPC) had placed heavy burden on the States' finances. FM noted that due to the limited capacity of NE States to mobilise resources, and the need to accelerate development of these States, NE States had been accorded the status of Special Category States (SCS). Accordingly, Normal Central Assistance (NCA) to NE States is provided in the grant: loan ratio of 90: 10 as against 30:70 applicable to General Category States. Special dispensations are extended to SCS in terms of both Plan resources and non-Plan resources. The Thirteenth Finance Commission (FC XIII) had substantially increased the quantum of transfer of funds to SCS in terms of devolution of central taxes.

3. FM noted that the adverse situation in one part of the world affects other countries as well. India was not insulated from the international financial crisis that has affected the rest of the world during the past four years. The problems being faced by the country have been discussed in various international forums, including the G-20 meeting held recently. Recent debates in Parliament also focused on the increase in international oil prices and the consequent effect on revenue balance. During the discussions held in the last SAARC summit, specific issues to improve connectivity through rail, air and road were discussed since business climate/atmosphere depended on connectivity and infrastructure availability. Further development of the NE region would, therefore, depend on how quickly the necessary infrastructure can be built. Thereafter, FM requested Chief Ministers to indicate specific financial issues.

4. Chief Minister, **Assam** pointed to a need to improve the State's rail/ road connectivity and sought additional central support to fill in shortage in NPRD grant in view of limited capacity of State to mobilise own resources.

5. Chief Minister, **Arunachal Pradesh** indicated that the State had already initiated austerity measures to control non-plan expenditure and reform measures to enhance revenues. However, he explained that after implementation of 5th CPC recommendations , there was an additional burden on the State to meet the expenditure on salaries and pensions. The resource gap had to be met by diverting funds earmarked for developmental projects, which slowed the growth momentum. He therefore requested a non-plan grant of Rs.5216.54 crore spread over the 5 year award period. He also sought an incentive for maintaining the forest cover in the form of "Green Bonus".

6. Chief Minister, **Manipur** indicated the State's capacity to mobilize additional resources was limited. Nevertheless, the State initiated steps to cut down non-plan expenditure and to mobilize additional resources. Concrete steps had been taken by the State to reduce losses in the power sector, which include proposals to unbundle and corporatize generation, transmission and distribution and also to improve intra-state transmission and reduction of AT&C losses. He indicated that FC-XIII's estimates of the State's resources, coupled with lower devolution of taxes, have impacted the capacity of the State to meet anticipated NPRE to an extent of Rs.6180 crore over the 5 year award period, 2010-15. He requested an increase in allocation under SCA and MoF to facilitate a non-loan technical assistance by the World Bank for reforms in power sector. He also requested that the State may be suitably compensated for the loss of resources, for keeping a large area under forest cover and the efforts of the State towards environment protection and generation. This aspect could also be included in the terms of reference of the Fourteenth Finance Commission.

7. Chief Minister, **Meghalaya** stated that (i) the development of State highways and creation of new roads had been suffering due to lack of resources,(ii) developmental works in health institutions were suffering due to non-filling of posts and ban on creation of new posts, (iii) the pass percentage in schools was affected due to non availability of teachers in primary schools and also ban on recruitment (iv) there was insufficiency of resources to meet NPRE.

For overall development of the State he requested that (i) the increased interest rates from 6.5% to 7.5°/o on loans from NABARD may not be made applicable to loan tranches sanctioned to NE States prior to 1st April 2012 (ii) approval of the proposal for the US $ 100 million ADB assisted development loan titled "Supporting Human Capital Development in Meghalaya", to improve the low employability of Meghalaya work force, may be expedited (iii) interest rates for NSSF loans may be reset from the commencement date of the award period of FC-Xlll and reset of the interest from 9.5% to 9% in respect of loans contracted from 2007-08 onwards may also be considered (iv) NPRG for 2013-14 and 2014- 15 be increased by 10% per year over the allocation of Rs. 819 crore during 2012-13 to meet committed liabilities on salaries (v) a special financial rehabilitation package be provided, once in five years, for repair and maintenance of old roads (vi) to facilitate provision of secured accommodation for police/paramilitary forces, adequate funds may be provided to the State (vii) GoI may extend support and assistance for the integrated basin development and livelihood promotion programme.

8. Chief Minister, **Mizoram** stated that the State's own resource base was weak and inelastic. Nevertheless, the State had been making sustained efforts to raise additional resources internally and also to minimize unproductive expenditure . However many of the committed liabilities, carried over obligations and interest liabilities etc, which constitute a big financial burden, have not been fully accepted by the Finance Commission, leaving a gap in resources. He added that though the State had succeeded in marginally reducing salary to net RE ratio from 47 to 45 per cent over the last two years, implementation of recommendations of the Sixth Pay Commission has created additional financial liabilities and necessitated support from the Centre.

9. Chief Minister, **Nagaland** highlighted that the resource generation capacity of the State was limited leading to budgetary deficits over the years. He therefore requested that the non-plan revenue gap, which was left uncovered as a result of normative approach adopted by FC-Xlll, should be neutralised by providing special non-plan grant during each of the years 2012-13, 2013-14 and 2014-15 besides rolling over the under subscribed open market borrowings to the next financial year. He further indicated that the State was not likely to achieve the fiscal deficit targets mainly on account of inadequate resources. He requested that the release of States specific grants may be delinked from the achievement of FD targets.

10. Chief Minister, **Sikkim** stated that the State joined the mainstream in 1975; the planning process started much later and hence missed out on the benefits accruing through five consecutive 5 year plans, which other States enjoyed. He noted that the damage caused by the September, 2011 earthquake and decline in internal resource generation, by way of reduced trade tax and user charges from the energy and tourism sectors, had led to substantial shortfall in revenue. He requested that (i) balance of PM's relief package for rehabilitation of earthquake victims may be provided at the earliest (ii) a special package of Rs.600 crore for completion of ongoing projects as well as to bridge the resource gap and Rs.150 crore for roads and bridges may be considered (iii) A mechanism may be developed to account for cash balance of the last financial year to curtail inflated fiscal deficit on account of booking expenditure against such cash balance (iv) release of funds for centrally sponsored projects on time to discourage building of cash balance at the end of the financial year (v) RIDF interest at 6.5°/o may be maintained for NE States (vi) The ceiling imposed on borrowing for Sikkim under the FRBM Act may be lifted and a 5 year moratorium granted (vii) Shortfall in market borrowing may be allowed to be carried forward to the next fiscal year (viii) Easy transfer of funds may be ensured under certain CSS including JNNURM etc.

11. Finance Minister, **Tripura** noted that there was a low resource generation capacity in the State and huge NPRE due to increased liability on account of implementation of Pay Commission recommendations. To meet the shortfall in NPRE he requested that (i) SPA may be enhanced to offset the impact of huge negative BCR and to increase the availability of resources of plan development (ii) Special Assistance of Rs.150 crore per annum to meet security related expenditure of recurring nature on India Reserve Battalions and others (iii) Interest free loan of at least Rs.1000 crore per year for remaining years of FC-Xlll award period (iv) Moratorium on payment of outstanding loans and interest due to Union Government, (v) OMB of Rs.1000 crore may be permitted by suitably relaxing the FRBM targets for NE States (vi) Externally aided projects may be brought to NE States for generating employment in the region (vii) improving investment climate in NE States for increasing public and private investment to generate employment.

12. Deputy Chairman, Planning Commission, said that to address the issue of negative BCR in NE States and to meet the normative standards laid down by FC-Xlll, untied resources are allocated to the States in consultation with Finance Ministry. He requested the Chief Ministers of NE States to try to take advantage of Centrally Sponsored Schemes (CSS) as NE States have not been using the full amount allocated for these schemes, as had been highlighted in the B.K. Chaturvedi Committee report. He also stressed the need for building infrastructure for speedy development of NE region as a whole and noted that the Centre would support such development wherever possible within the established channels of providing central assistance.

13. Finance Minister thanked all the Chief Ministers of NE States for their active participation in the deliberations. FM said that such meetings were useful and could be held on a more regular basis to share thoughts on how to improve the financial situation of the States. Concluding the discussion, FM noted that:

I. Non Plan Revenue Deficit Grants have been assessed on normative basis. A mechanism has to be worked out in consultation with Planning Commission for the States' need to fill the gap between the actual expenditure and the expenditure assessed by the FC-Xlll. This could be included as one of the terms of reference of the Fourteenth Finance Commission, with specific reference to Special Category States. Meanwhile, Planning Commission would facilitate the States in allocating resources for development needs, so as to free more non-plan resources for application to the States' administrative needs.

II. The issue of rate of interest on RIDF loan to NE States had been taken up with RBI and NABARD.

Ill. As regards income tax on the refund of excise duty for industrial units situated in North-East and J&K was concerned, a decision to exempt such refund had been taken and would be communicated shortly.

IV. The case for continuation of transport subsidy beyond 31.3 .2008 was at an advance stage of examination.

V. As regards any problems faced by a State in raising loans from the market, FM indicated that the Central Government would be happy to intermediate in raising borrowings for States, within the State's overall borrowing ceiling

vi. There continued to be issues in some of the States regarding the benefits reaching the intended beneficiaries, which could be addressed through the UID scheme. At present pilot projects had started only in Tripura and Sikkim. The States needed to identify more districts for such pilot projects.

vii. The allocation under Rashtriya Krishi Vikas Yojana for extending green revolution to the eastern region of the country has been increased from Rs.400 crore to Rs.1000 crore.

viii. Requests have been made by some States to delink the State Specific Grants from FD targets. The States having enacted/updated their FRBM Acts on the lines recommended by FC-XIII, with the fiscal consolidation targets contained in these Acts being subject to legislative scrutiny, the releases would not be held up to the detriment of progress of on-going projects.

FM concluded by complimenting NE States for largely remaining within prescribed WMA limits during 2011-12. In addition to effective utilisation of support from the Central Government, FM wanted all the NE States to continue on the path of fiscal consolidation and develop additional fiscal muscle, through further improved fiscal management and discipline.

The meeting ended with a vote of thanks to the chair.