

PERFORMANCE OF PUBLIC SECTOR UNDERTAKING (PSU) IN NAGALAND AND ITS RELEVANCE TO RESTORING FISCAL RESPONSIBILITY

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ABSTRACT

The paper finds that the revival of public sector units and enhancing feasibility of power distribution companies are keys to sustaining fiscal responsibility. Effective steps should be taken by the Government to increase profitability in the Government Companies. The Government should identify the Companies/Corporations which are able with low financial but high socio-economic returns and analyse if high cost borrowings need to be invested in those Companies/Corporations. The general policy should be to gradually reduce financial and budgetary support to all the Public Sector Undertakings so as to make them stand on their own feet. The Government should not hesitate to close down the unviable sick PSUs.

Restoring Balance Budget will necessitate bold and difficult reforms in government programs like 'perform or perish' and strict adherence to fiscal consolidation.

KEYWORDS: Economic Development, Fiscal Responsibilities, Government Deficit, Public Sector

INTRODUCTION

The companies Act, 1956 define Public sector undertaking as "A state-owned enterprise in India is called a public sector undertaking (PSU) or a public sector enterprise". In a Public Sector Undertaking majority more than half of the paid up share capital (51% or more) is held by central government or by state government or partly by the central governments and by one or more state governments. Historically, the financial performance of the PSEs has been poor thereby resulting in a drain on the resources of the states. Acknowledging this, various Finance Commissions have prescribed qualitative and quantitative norms to ensure better financial performance of the PSEs thereby ensuring improved fiscal and financial performance of the state.

Nagaland is primarily a land of agriculture, with about 70 per cent of the population depended on it. The contribution of agricultural sector in the State is very significant. The cottage old industry of the state plays a vital role in the village's economy. The key industries in Nagaland are bamboo, agriculture and its allied industries, minerals and mining, handloom and handicrafts, and tourism.

The state PSUs are established to carry out activities of commercial nature keeping in view the welfare of people. In Nagaland there were six State PSUs of which, one Government company was non-working. The state working PSUs registered a turnover of ₹ 5.36 crore as per their latest annual accounts finalised as on 31 October 2012. The turnover was 0.04 per cent of State Gross Domestic Product. The state working PSUs incurred an overall loss of ₹ 2.50 crore in the aggregate for 2011-12 as per their latest finalized accounts.

During 2011-12, neither any new PSU was established nor was any existing PSUs closed down.

Nagaland started working with the total budgetary provisions of ₹ 3.88 crore comprehensive of plan and non-plan. It took 15 years (1963-78) to reach ₹ 98.02 crores fiscal deficit. Mrs. Indira Gandhi launched her party election campaigns announcing the budgetary provisions of ₹ 222.58 crore in 1982-83, which swept the sustained debt. The state's debt burden kept increasing and during 2002-03 stands at ₹.2104 crore. Prime Minister Atal Bihari Vajpayee announced conversion of ₹ 365- Crore loan to the state as a one-time grant.

The debt increase to ₹ 47.95 crores in 2004, and continuously increased till 2010. In 2011, the government reduce the fiscal deficit of ₹ 1.14 crore (2010-Rs 603.64 crore and 2011- ₹ 602.3 crore). The current Fiscal deficit (2017-18) is ₹1437.28 crore

Investment in State PSUs

As on 31 March 2012, the investment of State and Central Government (Capital and long term loans) in six PSUs was ₹ 82.67 crore (*CAG Nagaland Report on Economic sector (public sector undertakings)*) as per details given below:

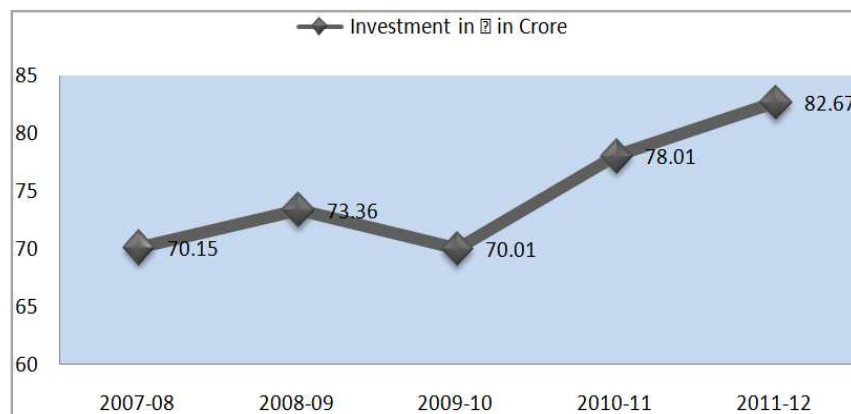
Table 1

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Return in capital employed (per cent)	3.65	--	--	--	--
Debt	40.29	44.11	39.09	45.64	47.69
Trunover	3.70	3.51	4.06	18.06	5.36
Debt/turnover	10.89:1	12.57:1	9.63:1	2.53:1	8.90:1
Accumulated losses	26.95	28.63	34.02	33.62	48.53

(Source: Audit Report on State Finances for the year ended 31 March 2012)

As on 31 March, 2012 of the total investment in State PSUs, 94 per cent was in five working PSUs and remaining 6 per cent was in one non-working PSU. The total investment consisted of 42 per cent towards capital and 58 per cent in long term loans.

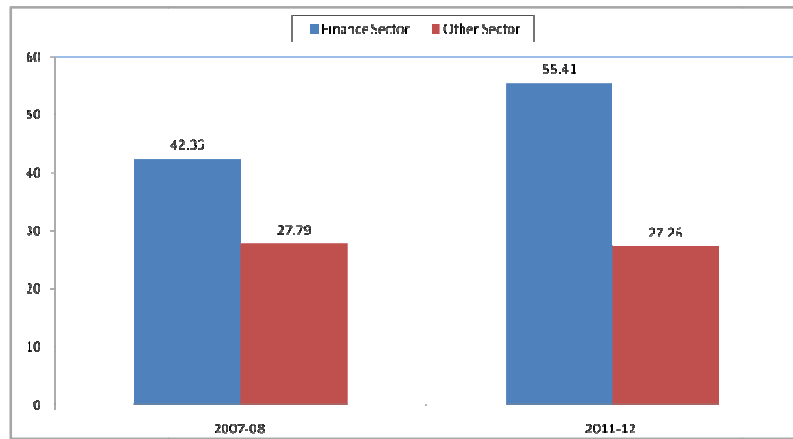
The investment has grown by 17.84 per cent from ₹ 70.15 crore in 2007-08 to ₹ 82.67 crore in 2011-12 as shown in figure below:-



(Source: Audit Report on State Finances for the year ended 31 March 2012)

Figure 1

The investments in various sectors at the end of 31st March 2008 and 31st March 2012 are indicated below in the figure.



(Source: Audit Report on State Finances for the year ended 31 March 2012)

Figure 2

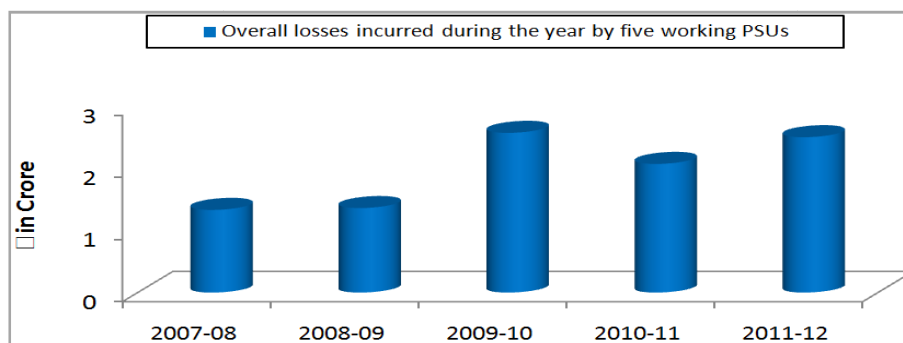
A ratio of PSUs turnover to State GDP shows the extent of PSUs activities in the State economy. Table below provides the details of working PSUs turnover and State GDP for the period 2007-08 to 2011-12

Table 2

Performance of SPSUs					
Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover	3.70	3.51	4.06	18.06	5.36
State GDP	8075.27	9436.07	10272.88 (P) ²	11121.00 (Q) ³	12064.53 (A) ⁴
Percentage of turnover to State GDP	0.05	0.04	0.04	0.15	0.04

(Source: Information furnished by the Directorate of Economics and Statistics and statements furnished by the companies)

Losses incurred by State working PSUs during 2007-08 to 2011-12 are given below in a figure.



(Source: Audit Report on State Finances for the year ended 31 March 2012)

Figure 3

P² = Provisional Estimate

Q³ = Quick Estimate

A⁴ = Advance Estimate

Some key parameters pertaining to State PSUs are given in the following table:

Table 3

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Return in capital employed (per cent)	3.65	--	--	--	--
Debt	40.29	44.11	39.09	45.64	47.69
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Accumulated losses	26.95	28.63	34.02	33.62	48.53

(Source: Audit Report on State Finances for the year ended 31 March 2012)

From the Table it is clear that the accumulated losses are increasing every year. The Government is not getting any return on capital employed. The losses of PSUs are generally attributable to deficiencies in management, planning, running their operations and monitoring.

Thus, steps are needed to be taken for better management, operation and monitoring of the activities of the working State PSUs to arrest the gradual deterioration of their financial results.

The table below provides details of progress made by working PSUs in finalisation of accounts by September, 2012.

Table 4

Particulars	2008-09	2009-10	2010-11	2011-12
No. of Working PSUs	5	5	5	5
No. of accounts finalized	3	12	15	30
No. of accounts arrears	92	85	75	46
Average arrear per PSU (3/1)	18.4	17.0	15	9.4
No. of working PSUs with arrears in accounts	5	5	5	5
Extent of arrears (in years)	9 to 26	6 to 26	5 to 21	1 to 13

(Source: Audit Report on State Finances for the year ended 31 March 2012)

The average number of accounts in arrears per working PSU has decreased from 15 in 2010-11 to 9.4 in 2011-12 which shows a marginal increase in finalisation of accounts. In addition to above, the accounts of the only non-working PSU in the state were also in arrears for 34 years. As no purpose is served by keeping the non-working company in existence, Government needs to accelerate closing down of loss suffering company (*Audit Report files/Nagaland Report-1-2013*).

The Administrative departments have accountability to oversee the activities of these entities and to ensure that the accounts are prepare and adopted by these PSUs within the prescribed period. However, adequate measures had not been taken by the Government and as a result the present net worth of the PSUs could not be assessed (CAG detects major anomalies in various govt. Departments).

STATEMENT OF THE PROBLEM

Even as the Fiscal Responsibility Bill Management (FRBM) bill was introduced with the broad objectives of eliminating revenue deficit by 31 Mar 2009, prohibiting government borrowings from the Reserve Bank of India six years after enactment of the bill, and reducing the fiscal deficit to 3% of GDP, the Nagaland government failed to achieve the targets set in FRBM Act. The fiscally irresponsible government has hampered the developmental activities. In Emergent situations and disasters, the government is unable to be meet, isn't able to carry on programs planned to provide fast relief to its citizens. A government fiscally irresponsible cannot even fund its own programs in ordinary times.

OBJECTIVES

- To know and understand about the state budget, national debt and budget deficit
- To discern the fiscal practices, policies and priorities
- To address our state's enormous fiscal challenges today and in the future
- To analyse the opportunity costs associated with not addressing the state of our nation's budget, deficit, and debt.

SIGNIFICANCE OF THE STUDY

Although various research works has been carried out on Fiscal Responsibility and Fiscal Management, but due to the dynamism surrounding this concept, there is need for frequent and regular investigation on the impact of FRBM in the development and economic growth of Nagaland. Various research works have evaluated reasons for failure of Fiscal Responsibility which has also led to their inability to contribute to the development and growth of Nagaland economy. This study will come out with recommendation on how Fiscal Management can assist the development and growth of Nagaland through attacking all obstacles hindering the Fiscal Responsibility such as: decrease revenue surplus, inefficiency of expenditure use, NIL return in Government Companies/Statutory Corporations, net increase in debt receipts, primary deficit, increase in fiscal deficit.

SCOPE OF THE STUDY

The scope of the study shall be limited to research topic "An Analysis of Fiscal Responsibility and Fiscal Management" to fix financial problems.

LIMITATION OF THE STUDY

The limitation of this study is finance which will lead to using small sample for projection of the research not also forgetting the time constraint. Another limitation is the accuracy of secondary data is not known or data may be outdated.

METHODOLOGY

The study shall use the Quantitative Assessment Methods to examine the roles of FRBM in the development of a nation's economy. The method is chosen because of its appropriateness in describing the current situation of phenomenon. Considering the above mentioned study size, data will be analysed with the use of descriptive statistics.

Empirical Measurement of the Performance PSU and its Relevance to FRBM Act

The study view higher the fiscal deficit, weaker the economy. On Fiscal Deficit FRBM was implemented to bring fiscal balance. An attempt has been done to examine whether the performance of PSU is relevant to the Fiscal Responsibility.

Research Hypothesis

H1: The Performance of Public Sector Undertaking is irrelevant to Restoring Fiscal Responsibility

H2: The Performance of Public Sector Undertaking ensures improved fiscal and financial performance of the state.

Data Collection

The data have been collected from secondary sources from Audit Report on State Finances for the year ended 31 March 2013 and Report of the Comptroller and Auditor General of India on Public Sector Undertaking for the year ended 31 March 2013.

Table 5

Particulars	Debt (PSU) (₹ in Crore)	Deficit Budget (₹ in Crore)
2007-08	40.29	332
2008-09	44.11	426
2009-10	39.09	494
2010-11	45.64	604
2011-12	47.69	602

Data Analysis

The statistical package for social sciences (SPSS) will be used to test the hypothesis

Time Period

The yearly time series data have been taken for the period from 2007-12

T-test

Two tailed t test has been applied to examine the impact of PSU on fiscal imbalance.

If $p \leq 5\%$ reject the Null hypothesis

If $p \geq 5\%$ retain the Null hypothesis

Table 6

Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Debt (PSU)	43.36	5	3.611	1.615
	Deficit Budget	491.60	5	116.837	52.251

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-Tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Debt (PSU) – Deficit Budget	-448.236	114.374	51.150	-590.250	-306.222	-8.763	4	.001

In statistical hypothesis testing, a dependent sample 2 tailed t test was used to check the effectiveness of Fiscal Responsibility in Nagaland. The statistical significance is attained:

- The mean of Debt (PSU) is 43.36 which is less than and the mean of Budget Deficit is 491.60
- The mean difference is - 448.236 which is significantly very low.
- The standard deviation is 114.374. SPSS have calculated for each year a difference between the Debt (PSU) and Budget Deficit

- The test value is -8.763 which is a very small number and it correlates to a very small significant number .001
- $P = .0005$, there is a .05 % chance of difference with 95% level of confidence.
- Evaluating the t test, we will reject the null hypothesis (The Performance of Public Sector Undertaking is irrelevant to Restoring Fiscal Responsibility) as we have found enough evidence to suggest that the actual difference between the two mean is statistically significant. Therefore the alternate hypothesis (**The Performance of Public Sector Undertaking ensures improved fiscal and financial performance of the state**) is accepted.

CONCLUSIONS

To conclude, Nagaland has immense potential. The need, therefore, is to identify the opportunities and recognise the challenges to work towards a sustainable and inclusive growth of the region with greater penetration to Handicrafts and handloom sector. The availability of abundant skilled labour and raw materials, as well as due to rich cultural traditions of its people cottage capacity industries are important and are mainly being managed by cooperative societies.

Nagaland is sometimes referred to as the 'Switzerland of the East'. It is endowed with exquisitely picturesque landscape, lush green forests and evergreen deep valleys. It is blessed with salubrious climate throughout the year, providing the right environment for travel and adventure activities. Nagaland Industrial Development Corporation (NIDC) is responsible for the development of industrial infrastructure in the state. Promoted by NIDC, the Export Promotion Industrial Park (EPIP) at Dimapur has received formal approval as a Special Economic Zone (SEZ) for agro and food processing in view of the vast potential in meat processing, and a proposed multi-product SEZ spread across 400 acres in Dimapur has received formal approval. An Industrial Growth Centre (IGC) has been developed in Dimapur. Kiruphema in Kohima has been identified for development as an Integrated Infrastructure Development Centre (IIDC). It is seen that the central government has been transferring a sizeable adequate of funds directly to the state implementing agencies of various scheme programme in State Public Sector Undertakings but the accumulated loss has resulted in the increased of deficit budget.

The Government should ensure better value for money in investment by identifying the companies/Corporation which are endowed with low finance but high socio-economic return and justify if high cost burrowing are worth being channelized there. Initiatives may be taken to revive or close down or sell out the huge loss making Companies. The State Government should reduce its committed Expenditures in the overall non-plan expenditure and needs to boost its own tax revenue to reduce dependency on funds from Government of India

There is a reasonable prospect of returning back to a fiscal correction path if efforts are made to increase tax compliance, collection of revenue arrears and prime unproductiveness so those deficits are contained.

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