Tracking Financial Inclusion through Deficit Budget Analysis in Nagaland, India

Seguimiento de la inclusión financiera a través del análisis del déficit de presupuesto en Nagaland, India

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ABSTRACT
The paper finds that, to achieve financial inclusion for the India's unbanked poor is a pressing goal with perplexing obstacles. While states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts, the level of financial inclusion in Nagaland remains very low. The paper finds that financial inclusion as earmarked in policies does not reach the common beneficiaries of Deficit Budgetary Government and conclude that Financial Inclusion strategy needs to be built.

Key Words: Financial Inclusion, Social Services Expenditure, Nagaland, India.

RESUMEN
El artículo considera que lograr la inclusión financiera para los sectores pobres no bancarizados de la India es una meta urgente con desconcertantes obstáculos. Mientras los estados o territorios de la unión como Puducherry, Himachal Pradesh y Kerala anunciaron inclusión financiera del 100% en todos sus distritos, el nivel de inclusión financiera en Nagaland sigue siendo muy bajo. El artículo encuentra que la inclusión financiera previstos en las políticas no llega a los beneficiarios comunes de déficit presupuestario, y concluye que la estrategia de inclusión financiera necesita construirse.

Palabras Clave: Inclusión financiera, gastos de servicios sociales, Nagaland, India.

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Introduction

The term "finance" in our simple understanding it is perceived as equivalent to 'Money'. Inclusion means the action or state of including or of being included within a group or structure. Reserve Bank of India (RBI) defined Financial Inclusion as "the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players". World Bank defines Financial inclusion is defined "as the proportion of individuals and firms that use financial services". Financial services consist of financial markets, financial intermediation and financial instruments or financial products.

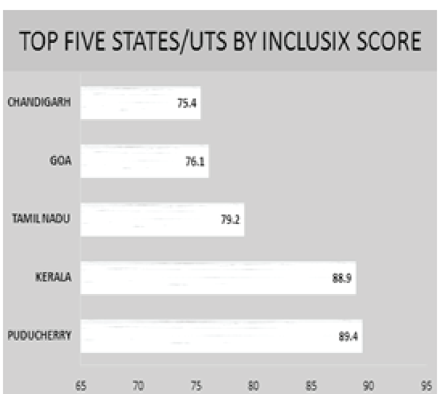
The term 'financial inclusion' was used for the first time in April 2005 in the Annual Policy Statement by Dr. Y. Venugopal Reddy, Governor, Reserve Bank of India on the Mid-term Review of Annual Policy for the year 2005-06", Reserve Bank of India, October 25, 2005. The government of India recently announced "Pradhan Mantri Jan Dhan Yojna,"a national financial inclusion mission which aims to provide bank accounts to at least 75 million people. Mangalam became the first village in India where all households were provided banking facilities.
Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit.

In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services(Report of the Internal Group to Examine Issues relating to Rural Credit and Microfinance, Reserve Bank of India, July 2005). These intermediaries could be used as business facilitators or business correspondents by commercial banks(Reserve Bank of India - Annual Policy Statement for the Year 2005-06). The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Level of financial inclusion in north-east India remains very low. The North-Eastern region scored only 28.5 in Inclusix in 2011 as against 26.5 in inclusix 2010.

Top and Bottom Five States/UTS By Inclusix Score.

On June 25, 2013, CRISIL, India's leading credit rating and Research Company launched an index to measure the status of financial inclusion in India. The index- Inclusix- along with a report was released by the Finance Minister of India, P. Chidambaram at a widely covered program at New Delhi. Some key conclusions from the study are:

- The all-India CRISIL Inclusix score of 40.1 is low, though there are clear signs of progress – this score has improved from 35.4 in 2009.
- Deposit penetration is the key driver of financial inclusion – the number of savings accounts (624 million), is almost four times the number of loan accounts (160 million).
- 618 out of 632 districts reported an improvement in their scores during 2009-2011.
- The top five states and Union Territories are Puducherry, Kerala, Tamil Nadu, Goa and Chandigarh.



The bottom five states in Inclusix 2011 are – Manipur, Nagaland, Bihar, Arunachal Pradesh, and Chhattisgarh, Nagaland scored 28.3 which is just 7.3 above the top Bottom state and 60.5 less than the Puducherry (top financial Inclusion State). The findings of the Crisil index provide that the state lag behind other states in India. The state scored only 28.9 in Inclusix in 2011 as against 26.5 in inclusix 2010.

Status of Nagaland in Financial Inclusion

Nagaland was formed on 1 December 1963 as a Special Category State and is situated in the North-Eastern region of India bordering three States viz. Assam in North and West, Arunachal Pradesh in East and Manipur in the South. It has an international border with Myanmar in the East. It is the twenty fifth largest state in term of geographical area (16579 sq. km) as well as by population (1978502). The state's population decreased from 1990036 in 2011 recording a decadal decrease of 0.58 percent. Nagaland has a lower density of population, higher proportion of rural population, higher literacy rate and lower infant mortality rate as compared to the All India Average figures. The state literacy rate increased from 66.59 per cent (as per 2001) to 79.55 per cent (as per 2011 census). The state per capita income of the state stood 56116 against the country average of 60972 in the year 2011-12.

Topographically, the State is mountainous and the altitude varies approximately between 194 metres and 3048 metres above the sea level. With a geographical area of 16579 sq. km i.e. about 0.51 per cent of country's total geographical area, Nagaland provides shelter to 0.16 per cent population of the country. Nagaland is basically a land of agriculture, with about 70 per cent of the population depended on it. Rice is the staple food. The age old industry of the state is cottage industry which plays a vital role in the village's economy. Cottage industries which deserve emphasis are (1) weaving and dyeing (2) work in cane (3) work in wood, pottery and excavation of salt, pulp and paper mill. The key industries in Nagaland are bamboo, agriculture and allied industries, minerals and mining, handloom and handicrafts, and tourism. State Bank of India is the Lead bank in the State of Nagaland. There are 50 Numbers of Branches spreading across all 11 Districts. All the Branches are connected by Core banking System(CBS) and the Customer of one Branch in Nagaland is the Customer of all 14000 Branches of SBI in India and abroad. State bank has 45 ATMs installed all over Nagaland. Out of 11 District Hqs, 7 already have ATM(s) and other 4 are without it.

For Financial Inclusion, State Bank has appointed 14 Business Facilitators. The Bank has plan of making all Village Development Boards/ Village Councils Business Correspondents covering banking facility for all the population in rural areas of Nagaland. Bank has also engaged on outsourced agency for engaging and training up BCs for covering about 146 Villages. Bank has opened 40,000 accounts during this

Financial Year (FY) covering large number of Students and Farmers. Bank has also sponsored 75 Nos. of Farmers' Clubs during this FY, of which about 50 clubs have been aided by NABARD.

Credit Deposit (CD) Ratio of State Bank in Nagaland stands at 42% vis-à-vis 33% of all Banks in Nagaland. However, whole State CD Ratio is not truly reflective of the Bank's performance in various district and backward area of the State. Loan given to the people of Nagaland stands at US $ 14.02 Crore against deposit of US $ 33.49 Crore.

STATE/ UNION TERRITORY	IFI OF 2001	RANK OF IFI (2001)	IFI OF 2014	RANK OF IFI OF 2014
Nagaland	0.0159	34	0.02522	32

Table 1.1 shows Nagaland's India Financial Inclusion (IFI) of 2001 and 2014

Out of 28 states and 6 Union territories, Nagaland rank 34th in 2001 and 32th in 2014 in the Value and rank Of India Financial Inclusion (IFI) of All States (2001-2014). There are various socio-economic factors responsible for the lack of financial inclusion in the Nagaland. On the demand side, there is a lack of financial awareness and on the supply side poor bank penetration are the major reasons that have lead to financial exclusion.

The weak market, roads, air linkages, telecommunications and other components of transport and communications are a major constraint in the development of the region. The high- cost banking models, poorness technology and forging local partnerships are the reasons for the low financial inclusion. The unavailability of some of the activities financed by banks and lack of adequate engagement with the borrowers and the absence of credit culture has led to the development of a diversely organised informal financial market to meet specific needs.

North-east Financial Inclusion

Northeast India is the eastern-most region of India. It is connected to East India via a narrow corridor squeezed between independent nations of Bhutan and Bangladesh. It comprises the contiguous Seven Sister States (Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura), and the Himalayan state of Sikkim. Sikkim was annexed to the Indian union through a referendum in 1975; it was recognized as part of Northeast India in the 1990s.Northeast India constitutes about 8% of India's size; roughly 3/4th the size of the state of Maharashtra. Its population is approximately 40 million (2011 census), 3.1% of the total Indian population; roughly equal to that of Odisha.

The Siliguri Corridor in West Bengal, with a width of 21 to 40 kilometres (13 to 25 mi), connects the North Eastern region with the main part of India. The region shares more than 4,500 kilometres (2,800 mi) of international border (about 90 per cent of its entire border area) with China (southern Tibet) in the north, Myanmar in the east, Bangladesh in the southwest, and Bhutan to the northwest.

The states are officially recognised under the North Eastern Council (NEC), constituted in 1971 as the acting agency for the development of the eight states. The North Eastern Development Finance Corporation Ltd (NEDFi) was incorporated on 9 August 1995 and the Ministry of Development of North Eastern Region (DoNER) was set up in September 2001.

In the year (2013) India's first Financial Inclusion Index called CRISIL INCLUSIX was launched. The Index is in a scale of 0-100 with branch, deposit and credit penetration as the parameters of the Index. Data from 2lakh data points and 165 banks is used in Crisil Inclusix. The finding of the Crisil Inclusix provides that North eastern states lag behind all other states in India. The North eastern region scores 28.5 in Inclusix 2011 as against 26.5 in Inclusix 2010 and 23.8 in Inclusix 2009.

In terms of branch penetration (BP) North eastern Region scored 29.9 in 2011 as against 27.7 in 2009, for Credit Penetration (CP) it scored 21.6 in 2011 as against 17.9 and in terms of deposit penetration (DP) it scored 36.5 in 2011 as against 27.7 in 2009. Looking at the coefficient of variation in financial inclusion across districts again north eastern region lags far behind. It is 0.44 in 2011 as against 0.46 in 2010 and 0.48 in 2009.

States	Population per Branch (Number)	Percentage of rural branches	Average Annual Growth rates in Deposits and Credit Amounts and C-D Ratios (Percentage)					
			Deposit		Credit		C-D Ratio	
			1991-2001	2001-2010	1991-2001	2001-2010	1991	2010
	-1	-2	-3	-4	-5	-6	-7	-8
Arunachal Pradesh	17282 -16936	63.8 -81.2	15.4	24.4	8.1	34.5	28	27
Assam	21103 -21803	53.5 -64.5	16.2	19.7	11.2	21.7	50	36
Manipur	33602 -31618	43.2 (55.9)	14.9	20.7	8.3	23.1	72	41
Meghalaya	13916 -13687	59.2 -71.8	15.8	22.6	12.9	31.5	22	26
Mizoram	11133 -11707	55.1 -77.2	14.4	19.1	12.8	27.2	28	24
Nagaland	22007 -30360	41.1 -52.1	15.4	19.4	1.7	27.7	44	30
Sikkim	8252 (NA)	64.9 -76.6	18.9	20	6	21.1	68	25
Tripura	19120 -18274	49.8 -65.6	NA	20.3	NA	34.4	14	37
NER	19465	53.6	**16.2**	**19.8**	**10.2**	**22.5**	**47**	**35**

Table 1.2 presents Nagaland's Status in Financial Inclusion of North East India

Sources: CRISIL, (2013), CRISIL INCLUSIX, 2013, RBI and Department Of Finance, Govt. Of India

Credit-Deposit ratio is the ratio of how much a bank lends out of the deposits it has mobilised.At present, the credit-deposit ratio for the banking sector as a whole is 75 per cent. In the case of Indian banks, a credit-deposit ratio of over 70 per cent indicates pressure on resources as they have to set aside funds to maintain a cash reserve ratio of 4.5 per cent and a statutory liquidity ratio of 23 per cent. Banks can lend out of their capital, but it is not considered prudent to do so.

In 1991-2001, the Average Annual Growth rates in Deposits increased by 4 (25.97 per cent) from 15.4 to 19.4 which are both less than the average annual growth rates of North East Rates(NER). The Average Annual Growth rates in Credit increased by 26 from 1.7 to 27.7 indicating bank's core funds are being used for lending, the main banking activity. The Credit-deposit ratio of the state was 44 in 1990 and 30 in 2010. The ratio of 2010 indicates under-utilisation of the bank resources.

Tking Financial Inclusion through Nagaland Government Budget Analysis during 2007-11

While financial inclusion is an important issue, it may also be interesting to assess whether such inclusion as earmarked in policies are actually reaching the common beneficiaries. While financial inclusion appears as a noble goal in itself, recent history shows that efforts to drive financial inclusion can be counterproductive unless handled well. The dangers of reckless credit expansion in the name of financial inclusion should serve as a cautionary tale for policymakers today. Financial inclusion can be a worthy goal only in so far as it helps reduce poverty levels sustainably. Given that the roots of poverty often lie outside the realm of finance, easing access to credit without addressing real economy constraints is unlikely to either boost growth or help fight poverty. Efforts to drive greater financial inclusion can, in fact, end up harming rather than benefiting those in whose name such efforts are launched: the poor and the vulnerable.

Resources of the State

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenue, non-tax revenue, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account.

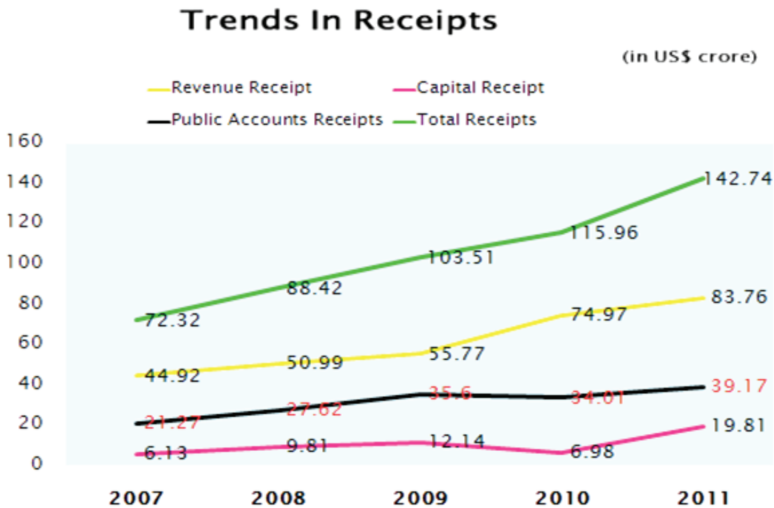


Chart 1.1 depicts the composition of resources of the State for the years 2007 to 2011. (1 Indian Rupee equals 0.015 US Dollar).

The Revenue Receipts of the State increased from $44.92 crore in 2007-08 to $ 83.76 crore in 2011-12 at a compound annual growth rate of 13.27 per cent. While 9.58 per cent of the revenue receipts during 2011-12 have come from the State's Own Resources comprising taxes and non-taxes, Central Tax Transfers and Grants-in-aid together contributed 90.42 per cent. The percentage share of State's Own Resources and the Central Transfers in Revenue receipts of the State exhibited relative stability during the last five years (2007-12).
Central tax transfers to the State increased by $1.71 crore (16.50 per cent) from $ 10.34 crore in 2010-11 to $ 12.04 crore in 2011-12. This was due to increase in Corporation Tax ($ 0.7 crore), Tax on Income other than Corporation Tax ($ 0.27 crore), Tax on Wealth ($ 0.01 crore), Service Tax ($ 0.40 crore), Customs ($ 0.28 crore) and Union Excise Duties ($ 0.04 crore).

Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since the Government is entrusted with major expenditure responsibilities. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

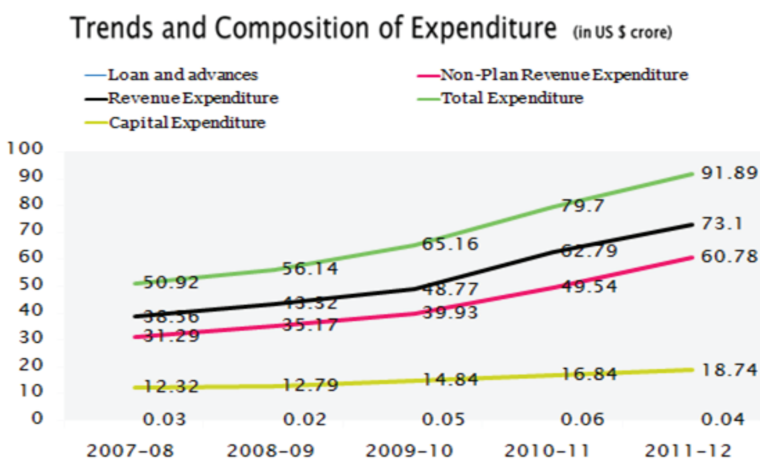


Chart 1.2 presents the trends in total expenditure over a period of five years (2007-11)

Finance Accounts depict the detailed revenue expenditure by minor heads and capital expenditure respectively. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services and extend the network of these services through capital expenditure and investments to discharge their debt service obligations. The total expenditure of the State increased from $ 50.92 crore in 2007-08 to $ 91.89 crore in 2011-12.

Total expenditure during 2011-12 at $ 91.89 crore increased by $ 12.19 crore (15.29 per cent) over the previous year. Out of the total expenditure in 2011-12, revenue expenditure was 79.56 per cent ($ 73.1 crore) while capital expenditure was 20.39 per cent ($ 18.74 crore) and loans and advances was 0.05 per cent ($0.04 crore). The increase in total expenditure during 2011-12 over the previous year was due to increase of revenue expenditure by $ 10.31 crore and capital expenditure by $1.89 crore offset by decrease in disbursement of loans and advances by $.02 crore.

The non-plan revenue expenditure ($60.78 crore) increased by 5.28 crore ($9.51 per cent) during the year as compared to the projection made by the State Government in its Fiscal Consolidation Roadmap (FCR) for 2011-12 ($55.5 crore). The capital expenditure ($18.74 crore) was lower by $2.48 crore (11.73 per cent) as compared to the assessment made by the State Government in its FCR ($21.23 crore).

Deficit Budget and Financial Inclusion

Nagaland economy is an under developed economy. Its vast resources are unutilized. A major section of man power is lying idle. The per capita income is low. Capital is shy and scarce and investment is lean. Production is traditional and the technique is outdated. The output is insufficient and the basic needs of the people remain unfulfilled.

A budget is a outline for the future which creates jobs, educates the children, provides healthcare for all citizens. The unjustified swelling of the budgetary deficit and the accumulation of public debts are destructive. Nagaland started functioning with the total budgetary provisions of $ 0.05 crore inclusive of plan and non-plan. It took 15 years (1963-78) to reach the figure of $ 1.47 crore fiscal deficits. Mrs. Indira Gandhi (Late Prime Minister) launched her party election campaigns announcing the budgetary provisions of $ 3.33 crore in 1982-83 to build a 'New Nagaland', which swept the sustained debt. The state's debt burden kept increasing and during 2002-03 stands at $31.56 crore. Prime Minister Atal Bihari Vajpayee announced conversion of $5.47 Crore loan to the state as a one-time grant. It will enable the state to meet all its past liabilities and will also result in an annual interest savings of $0.66 crore by the state.

The debt increase to $0.71 Crore in 2004, and continuously increased till 2010. In 2011, the government reduce the fiscal deficit of $ 0.02 Crore (2010-$9.05 crore and 2011-$9.03 Crore).

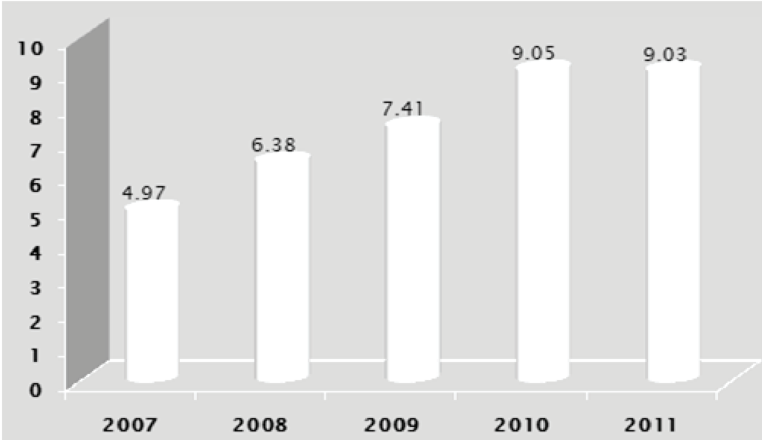


Chart 1.3 shows the deficit increased $ 4.06 crore from $ 4.97 in 2007-08 to 9.03 in 2011-12 (81.69 per cent).

Total Expenditure: Trends in share of its Components & in activities

Analysis of the allocation of expenditure at the State Government level assumes significance since the Government is entrusted with major expenditure responsibilities. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

Chart 1.4 shows the total expenditure and its trends activities.

States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services and extend the network of these services through capital expenditure and investments to discharge their debt service obligations.

Social Services. Under this sector the expenditure in the following sub-sectors are covered. They are (i) Public Works (2059), (ii) Education, Sports, Art and Culture (2202 to 2205), (iii) Health and Family Welfare (2210 and 2211), {iv) Water Supply, Sanitation, Housing and Urban Development (2215 to 2217), (v) Information and Broadcasting (2220 to 2221), (vi) Welfare of Scheduled Castes, Scheduled Tribes and other Backward Classes (2225), (vii) Labour and Labour Welfare (2230), (viii) Social Welfare and Nutrition (2235, 2236 and 2245) and (ix) Other Social Services (2252).

The expenditures decrease by $ .05 Crore (12.19 per cent) from $ 0.41 crore in 2007-08 to $ 0.36 crore in 2011-12. The government has miserably failed to uplift the weaker section of the society.

Economic Services. Under Economic Services are included activities and services meant for economic development. These are divided into following sub-sectors (i) Agriculture and Allied Activities (2401 to 2435), (ii) Rural Development (2501, 2505, 2506 and 2515), (iii) Special Areas Programmes (2575), (iv) Irrigation and Flood Control (2701,2702, 2705 and 2711), (v) Energy (2801 and 2810), (vi) Industry and Minerals (2851 to 2853,2875 and 2885), (vii) Transport (3001,3051 to 3056 and 3075), (viii) Communications (3275), (ix) Science, Technology and Environment (3402 to 3435) and (x) General Economic Services excluding Secretariat Economic Services (3452, 3454, 3456 and 3475).

The expenditure ranges from $ 0.49 to $ 0.51 from 2007-11. The stagnancy indicates the state Government needs to boost its own tax revenue to reduce dependency on funds from Government of India.

Non-Development Expenditure. This includes expenditure appearing under general services except expenditure on Public Works (2059). It includes expenditure pertaining to the general services rendered by the Government such as preservation of law and order, defence of the country and the maintenance of the general organs of the Government like Fiscal Services, administrative services, pension and miscellaneous general services.

It is seen from the above chart that a deficit government fails to provide financial services while generating revenue to clear debt.

Financial Assistance to Local Bodies

The 73rd and 74th Constitutional Amendment Acts of 1992 have been the most noteworthy milestones in strengthening of local governance in rural and urban areas in India. These Amendments, aimed at strengthening municipal bodies and Panchayati Raj institutions, are recognised as key steps in providing essential services to citizens.

Financial Assistance to Local Bodies

(US $ in crore)

Financial Assistance to Institutions	2007–08	2008–09	2009–10	2010–11	2011–12
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	0.036	0.22	0.27	0.0825	0.096
Co-Operation	---	---	0.001	0.051	0.098
Municipal councils	0.004	0.031	0.18	---	0.044
Development Agencies	0.435	0.605	0.933	0.398	0.424
Hospitals and Other Charitable Institutions	0.13	0.15	0.161	0.188	0.22
Old Age Pension Scheme	---	---	---	0.250	0.021
Special Area Programme	---	---	---	---	0.071

Table 1.5 shows that the assistance increased by $ 0.0259 crore (6.51 per cent) from $ 0.398 crore in 2010-11 to $0.424 crore in 2011-12 in respect of development agencies whereas, it declined by $ 0.22 crore (91.42 per cent) from $ 0.25 crore in 2010-11 to$ 0.021 crore in 2011-12 in respect of Old Age Pension Scheme.

In the year 2010-11, the government reduce the budget deficit by $ 0.02 crore, the special area programme is earmarked in 2011.

The central government has been transferring a sizeable adequate of funds directly to the state implementing agencies of various scheme programme in social and economic sector which are recognised as critical. The funds do not find in the finance accounts of the State

Empirical Measurement of the Financial Inclusion and Deficit Budget.

Fiscal deficit is basically the difference between what the government spends and what it earns. The study view higher the fiscal deficit, weaker the economy. An attempt has been done to examine whether the Financial inclusion as earmarked in policies are actually reaching the common beneficiaries of Deficit Budgetary Government. The data have been collected from secondary sources from Audit Report on State Finances for the year ended 31 March 2012 and Report of the Comptroller and Auditor General of India on Social, Economic, Revenue and General Sectors for the year ended 31 March 2012. The yearly time series data have been taken for the period from 2007-11. Two tailed t test has been applied to examine the impact deficit budget on financial Inclusion.

Research Hypothesis

H1: Financial inclusion as earmarked in policies are actually reaching the common beneficiaries of Deficit Budgetary Government.

H2: Financial inclusion as earmarked in policies does not reach the common beneficiaries of Deficit Budgetary Government.

Data collection

Year	Expenditure on Social Sector in US $ Crore	Budget Deficit in US $ Crore
2007	0.41865	4.97
2008	0.39615	6.38
2009	0.3741	7.41
2010	0.4041	9.05
2011	0.36555	9.03

Significance level- 95%

Two tailed test

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

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

Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Expenditure on Social Sector in US $ Crore	.39	5	.022	.010
	Budget Deficit in US $ Crore	7.37	5	1.755	.785

Paired Samples Test									
Mean		Paired Differences					t	df	Sig. (2-tailed)
		Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference					
				Lower	Upper				
Pair 1	Expenditure on Social Sector in US $ Crore - Budget Deficit in US $ Crore	-6.976	1.76	.791	-9.172	-4.781	-8.8	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:

1. The mean of Expenditures on Social Sector is .39 which is less than and the mean of Budget Deficit is 7.37

2. The mean difference is -6.976 which is significantly very low.

3. The standard deviation is 1.768. SPSS have calculated for each year a difference between the Expenditures on Social Sector and Budget Deficit

4. The test value is -8.822which a very small number is and it correlates to a very small significant number .001

5. P= .0005, there is a .05 % chance of difference with 95% level of confidence.

6. Evaluating the t test, we will reject the null hypothesis (Financial inclusion as earmarked in policies are actually reaching the common beneficiaries of Deficit Budgetary Government) as we have found enough evidence to suggest that the actual difference between the two mean is statistically significant. Therefore the alternate hypothesis (Financial inclusion as earmarked in policies does not reach the common beneficiaries of Deficit Budgetary Government) is accepted.

Conclusion

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 of the formal financial sector. The remoteness of the location, low potential of transaction in far-flung areas and the insurgency-related security concerns are stumbling blocks on the way of deeper banking spread in this region. The Financial Inclusion strategy needs to be built to formulate, implement and monitor financial inclusion initiatives in the State. It can serve as the engine room for financial inclusion.

The Gap of financial inclusion and exclusion could be filled by setting up microfinance institutions with rules made whilst keeping in mind the local scenario. This should be simultaneously being accompanied with setting up grievances redresses and effective loan recovery system. Through revamping its functional composition, the present indigenous credit system can be formalized. To legalise indigenous Credit system a society called thrift and credit cooperative society may be registered in the office of Rural Cooperative Societies, department of Cooperation, Government of Nagaland.

Nagaland as an agricultural economy, the Bank need to work towards a mobile-based model for delivery of Crop insurance to farmers by creating an enabling transaction environment that will be accessible through the simplest technology. This will augment financial inclusion among the unbanked and under banked consumer segment.

While the state is financially excluded from the rest of the country, the state government suffer from the deficit budget. The central government has been transferring a sizeable adequate of funds directly to the state implementing agencies of various scheme programme in social and economic sector which are recognised as critical but it does not reach to those vulnerable people such as weaker sections and low income group. The central government should ensure the state government follow sound fiscal policies and set limits on the size of the budget deficit over the next few years by enacting the Fiscal Responsibility and Budget Management (FRBM) Act.

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