EVALUATION OF STATE FINANCES WITH RESPECT TO THE STATE OF MIZORAM

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Preface

The Department of Economics, Mizoram University has been very fortunate to have the privilege of undertaking an evaluative study on Mizoram State finances under the sponsorship of Fourteenth Finance Commission, Government of India. Though the Department entrusted Prof. Vanlalchhawna as the lead researcher for the project and he has done his utmost and untiring efforts to complete the works within the stipulated time, the project is, in fact, the joint efforts of the Department. All the faculty members are involved in one way or the other.

The study examined in detail all the twelve terms of references formulated for the present study. It has given a thorough analysis of revenue receipts and pattern of the expenditure of the State Government of Mizoram. Estimates have been done for state efforts in mobilising State's own revenue. Various measure undertaken by the States to improve tax-GSDP ratio have been highlighted along with suggestions to enhance the revenue productivities of the tax system of the State. Analysis of aggregate expenditure has been done in respect of revenue and capital, plan and non-plan and the measures taken to improve the allocative and technical efficiency on government expenditure including suggestions for enhancing efficiency of public spending have been summarised.

Other terms of references like major deficit indicators analysis, BCR, Debt-GSDP ratio, implementation of FRBM Act, State's transfers to local bodies including reform undertaken under JNNURM etc have been analysed systematically. The study has covered all other aspects of the terms of references. It is my pleasure to express my deep appreciation to the lead researcher and other faculty members who have been involved in the execution of the project.

There are advantages and disadvantages for being a small state in relation to fiscal management. It is hoped that the analyses and findings of the present study would give important insights into the working of state finance in respect of Mizoram and highlights the specific problems faced by a small and hilly state like Mizoram in ensuring a sustainable fiscal refroms and consolidation.

Prof A.K. Agarwal
Head

CONTENTS

LIST OF ABBREVIATIONS

ABT	:	Availability Based Tariff
ACA	:	Additional Central Assistance
ADB	:	Asian Development Banks
ADC	:	Autonomous District Council
AIBP	:	Accelerated Irrigation Benefit Programme
AMC	:	Aizawl Municipal Counicl
APDRP	:	Accelerated Power Development & Reform Programme
APL	:	Above Poverty Line
ARM	:	Additional Resource Mobilisiation
AT&C	:	Aggregate Technical & Commercial Loss
BADP	:	Border Area Development Programme
BCR	:	Balance from Current Revenue
BPL	:	Below Poverty Line
BRGF	:	Backward Region Grant Fund
BSUP	:	Basic Services to the Urban Poor
CADC	:	Chakma Autonomous District Council
CAG	:	Comptroller and Auditor General
CAGR	:	Compound Annual Growth Rate
CDG	:	Community Development Groups
CEM	:	Chief Executive Member
CMD	:	Chairman-Cum-Managing Director
CPS	:	Central Plan Scheme
CSS	:	Centrally Sponsored Scheme
DC	:	Deputy Commissioner
DPC	:	District Planning Committee
DSS	:	Debt Swap Scheme
EAP	:	Externally Aided Project
EFC	:	Eleventh Finance Commission
EM	:	Executive Member
ESMP	:	Environment and Social Management Plan
EWS	:	Economically Weaker Section
FCI	:	Food Corporation of India
FRBMA	:	Fiscal Responsobility and Budget Management Act
FRL	:	Fiscal Responsibility Legislation
GASAB	:	Government Accounting Standards Advisory Board
GFD	:	Gross Fiscal Deficit
GIC	:	General Insurance Corporation
GIS	:	Geographical Information System
GOI	:	Government of India
GOM	:	Government of Mizoram
GSDP	:	Gross State Domestic Products
HEP	:	Hydel Electric Project
HSD	:	High Speed Diesel

HUPA	:	Housing & Urban Poverty Alleviation
IDBI	:	Industrial Development Bank of India
IHSDP	:	Integrated Housing & Slum Development Programme
JNNURM	:	Jawaharlal Nehru National Urban Renewal Mission
JREC	:	Joint Electricity Regulator Commission
kV	:	Kilovolt
LADC	:	Lai Autonomous District Council
LHPC	:	Lunglei High Power Committee
LIC	:	Life Insurance Corporation of India
LPG	:	Liquified Petroleum Gas
LTC	:	Leave Travel Concession
MADC	:	Mara Autonomous District Council
MCR	:	Miscelleneous Capital Receipts
M-DONER	:	Ministry of Development of North Eastern Region
MHCS	:	Mizoram Health Care Scheme
MOA	:	Memorundam of Understanding
MTFRP	:	Medium Term Fiscal Reform Programme
MU	:	Million Units
MW	:	Megawatts
NABARD	:	National Bank for Agriculture and Rural Development
NCA	:	Normal Central Assistance
NCDC	:	National Cooperative Developmen Corporation
NEEPCO	:	North Eastern Electric Power Corporation
NEGAP	:	National E-Governance Action Plan
NERLP	:	North East Rural Livelihood Project
NHPC	:	National Hydroelectric Power Corporation Ltd
NPRE	:	Non-Plan Revenue Expenditure
NRHM	:	National Rural Health Mission
NSAP	:	National Social Assistance Programme
NSSF	:	National Small Saving Fund
OTR	:	Own Tax Revenue
PD	:	Primary Deficit
PED	:	Power and Electricity Department
PEFM	:	Public Expenditure and Financial Management
PERC	:	Public Expenditure Review Committee
PFC	:	Power Finance Corportion
PGCIL	:	PowerGrid Corporation of India Ltd
PMES	:	Performance Monitoring and Evaluation System
PPP	:	Public Private Partnership
PRE	:	Plan Revenue Expenditure
PRF	:	Fiscal Reform Facility
PSU	:	Public Sector Units
PWD	:	Public Works Department
R&IPDP	:	Resettlement and Indigenous People Development Plan
R-APDRP	:	Re-Structured Power Developmemnt and Reform Programme
RBI	:	Reserve Bank of India

RD	:	Revenue Deficit
REC	:	Rural Electrification Corporation Ltd
RFD	:	Results Framework Documents
RGGVY	:	Rajiv Gandhi Grameen Vidyutikaran Yojana
RKVY	:	Rashtriya Krishi Vikas Yojana
RMSA	:	Rastriya Madhyamik Shiksha Abhiyan
SAL	:	Structural Adjustment Loan
SBI	:	State Bank of India
SCA	:	Special Central Assistance
SC/ST	:	Scheduled Castes/Scheduled Tribes
SERC	:	State Electricity Regulator Commission
SGoM	:	State Government of Mizoram
SHDC	:	Sinlung Hill Development Council
SHG	:	Self-Help Groups
SIA	:	State Implementing Agencies
SLSC	:	State Level Monitoring Committee
SONTR	:	State's Own Non-Tax Revenue
SOTR	:	State's Own Tax Revenue
SPA	:	State Plan Assistance
SPS	:	Special Category States
SPSE	:	State Public Sector Enterprises
SSA	:	Sarva Shiksha Abhiyan
TFC	:	Thirteenth Finance Commssion
TPDS	:	Targetted Public Distribution System
TRR	:	Total Revenue Receipts
TSECL	:	Tripura State Electric Corporation Ltd
TwFC	:	Twelfth Finance Commission
UD & PA	:	Urban Development & Poverty Alleviation Department
UI	:	Unschedules Interchanged
UIDSSMT	:	Urban Infrastructure Development Scheme for Small & Medium Towns
UIG	:	Urban Infrastructure & Governance
ULB	:	Urban Local Bodies
VAT	:	Value Added Tax
VC	:	Village Council
VGF	:	Viability Gap Funding
VRS	:	Voluntary Retirement Schemes
WB	:	World Bank
WMA	:	Ways and Means Advance
YG	:	Youth Groups of Men and Women
YMA	:	Young Mizo Association

List of Tables

Charts

List of Boxes

EXECUTIVE SUMMARY

1 ESTIMATES OF REVENUE CAPACITIES OF THE STATE

1 Aggregate receipts of the State are broadly divided into revenue receipts and capital receipts. Revenue receipts of the State consist of tax and non-tax revenues. Tax revenues comprise State's own taxes and share in Central taxes while non-tax revenues comprise State's own non-tax revenue and grants from the Central Government. Capital receipts, on the other hand, comprise of internal debt, loans and advances from the Centre, recoveries of loans and advances, and net receipts from public account. Internal debt covers market loans, loans from banks and financial institution, ways and means advances from RBI.

Aggregate receipts of the State have been dominated by revenue receipts while capital receipts in relative terms have considerably declined over the years

2 Revenue receipts accounted for 53 to 83 percent of the aggregate receipts during 2002-12. Capital receipts, on the other hand, declined from 47 percent to 21 pecent. State's own revenue constituted between 4 and 7 percent while Central transfers 47 and 72 percent. State's own revenue grew by approximately 17 percent and Central transfers by 15.2 percent. Aggregate receipts grew by almost 20 percent from Rs 1933 crore in 2002-03 to Rs 5100 in 2011-12. Share in Central taxes witnessed the highest growth rate (24.8 percent) followed by Own tax revenue (22 percent). Capital receipts have grown at the rate of 2.35 percent annually from Rs 912 crore in 2002-03 to Rs 1088 crore. Internal debt grew at the rate of (-) 6.4 percent while net accruals from Public account at the rate of 5.6 percent.

3 Aggregate receipts relative to GSDP have fell down significantly over the years. The ratio was 100 percent in 2003-04 and this has fallen to 73 percent in 2011-12. In the meantime, revenue receipts relative GSDP has increased from 47 in 2002-03 to 57 percent in 2011-12 and capital receipts from 42 in 2002-03 to 16 percent in 2011-12. Own tax revenue receipts, as a ratio to GSDP, have varied from 4 to 6 percent and that of Central transfers 43 to 55 percent during the same period.

Central revenue transfers consisting of share in central taxes and grants have constituted the largest component of the aggregate revenue receipts of the State

4 State's own revenue consisting of own taxes and own non-taxes constituted about 7 to 11 percent of the aggregate receipts during 2002-12. Own tax revenue receipts claimed from 2 to 4 percent while that of own non-tax revenue 4 to 7 percent. Central transfers have accounted for 89 to 93 percent of the total revenue receipts of the State during 2002-12. Share in Central taxes has seen a gradual increase from 9 to 21 percent whereas grants-in-aid witnessed a downward trend from 83 to 71 percent.

Commodities and service taxes have been the most significant contributor of State's own tax revenue

5 The State has seven major tax systems. Taxes on commodities & services, the highest contributors of own revenue receipts, have accounted for 72 to 92 percent during 2002-12. Meanwhile, receipts from economic services constituted the largest components of own non-tax revenue receipts of the State (53 to 78 percent). Economic services covered more than 21 service items. Power sector is the main contributor of revenue in this category (65.5 to 88.6 percent). Social services receipts are found to be the lowest. Receipts from water supply and sanitation happens to be the most important source of

revenue receipts under social services contributing 70 to 80 percent of the total social service receipts.

Plan grants constituted the largest component of revenue transfers from the Centre

6. As a ratio of GSDP, Central taxes accounted for about 4 to 12 per cent during 2002-12 while non-plan grants 14 to 20 percent and plan grants 21 to 36 percent. In absolute terms, share in Central taxes rose from Rs 95 crores to Rs 828 crores, representing approximately a nine-fold increase. Non-plan grants grew by almost three times from Rs 308 crores to Rs 856 crores. Plan grants rose from Rs 539 crores to Rs 1981 crores, registering an increase of 3.7 times over the period.

7. Component-wise, share in Central taxes accounted for 10 to 39 percent of the total central transfers. Non-plan grants showed a declining share since 2005-06- from 41 percent to only 23 percent in 2011-12. Plan grants which accounted for 65.2 percent in 2003-04 fell down to as low as 33 percent in 2008-09; however, its share has improved to 54 percent in 2011-12.

8. Plan fund directly transferred to the State Implementing Agencies constituted about 13 to 16 per cent of GSDP during 2008 to 2010. As a percentage to total revenue, these transfers accounted for 29 per cent in 2010-11. Since several of these funds are not routed through the State Government, there was serious distortions in estimating the actual flow of plan fund to the State and also violated the transparency rules given in FRBM Act, 2006.

Revenue surplus is mostly contributed by increase in central transfers, while bouyancy of state's own revenue came from land revenue and State sale tax/VAT and aggregate expenditure being financed by own revenue receipts increased consistently

9. The total correction in revenue account has come mainly from two sources- increase in own tax revenue which contributed 14 pecent, and central transfers 98 percent while an increase in revenue expenditure reduced revenue surplus by 12 percent.

10 The estimates of buoyancy indicated that professional tax and excise duty have elasticities less than one while general services has a negative coefficient (-0.2). Revenue receipts from Social services also registered elasticity less than one. Land revenue has the coefficient value of 1.3. Revenue bouyancy of own taxes (1.5) is higher than own non-taxes sources (0.9).

11. State's own revenue contributed about 4 to 12 percent of total aggregate expenditure during this period. Own tax revenue contributed about 1.4 percent to 6.4 percent of aggregate expenditure, while own non-tax revenue 2.7 percent to 5.8 percent during 2002-12.

12. As a ratio to GSDP, sales tax/VAT improved from less than 1 per cent (0.8) in 2002-03 to more than 2 per cent 2012-13. State sales tax/VAT as a ratio to OTR has shown an increase from 65 to 80 percent in, showing a marked improvement of 15 percentage points. As a ratio to total revenue receipts, State sales tax/VAT improved from 2 percent to almost 4 percent. State sales tax/VAT as a ratio of aggregate disbursement increased from 1 per cent to 3 percent.

State Government has taken several measures to improve Tax-GSDP Ratio over the years

13. These measures include: (i) Introduction of The Mizoram Value Added Tax Act (VAT) on 1st April, 2005; (ii) Rationailsation of road tax collection by introducing a one-time lump sum payment; (iii) Profession tax rates increase for all categories of persons within its bracket; (iii) The Indian Stamp (Mizoram Amendment) Act, 1996 was amended in 2007. (iv) Computerisation of land holdings has been implemented; property tax has been increased; (v) The

State's Taxation Department is being reorganised for VAT administration. (vi) Revision of rates in respect of LPG, Motor Spirit and High Speed Diesel has been introduced.

14. Non-tax measures have also been introduced which include revision of the rate for energy charges, the installation of Electronic Energy Meters, introduction of water meter billing system, and collection of water charges under the Mizoram Water Supplies (Control) Act, 2006.

Various suggestions for enhancing the revenue productivity of the tax system could be formulated

15. These may include: (i) Revision or re-arrange the VAT list e.g., some goods under 5 percent may be put under 13.5 percent. For instance, cigarattes may be taken out of the standard slab of 13.5 and a higher tax rate may be applied to it. Dealer education on proper accounting of purchases and sales must be undertaken through seminars, website information, electronic media etc;. (ii) The rates of excise duties must be modified to ad valorem instead of having a specific tariff. (iii) Land revenue rates and other associated rates/fees should be periodically revised by linking the rate with some price indices; (iv) Professional tax ceiling may be removed from those who do not pay income tax. Or professional tax may be handed to the State Government; (v) Cess may be collected on taxes on petroleum products, road tax etc for road maintenance. (vi) Besides POL tax rate, an upward revision of existing tax rates like entertainment tax, stamp and registration fees etc on the basis of prevailing price indices. (vii) Scopes for widening the tax base like toll tax, entry taxes, property tax, environmental taxes etc must be explored. (viii) Hike water and energy charges also improve the efficiencies in the functioning of these two sectors; (ix) User charges be revised automatically upward annually in line with increasing price indices at the state/national level or any other criteria may be adopted.

The composition of capital receipts show that the share internal debt declined significantly while net accrual from public account substantially increased

16. Capital receipts as a ratio to GSDP declined consistently from 34 per cent in 2002-03 to only 6 percent in 2011-12. Meanwhile, net public account receipts relative to GSDP varied between 16 and 3 percent during 2002-12. As on 2011-12, net accruals under Public Account stood at 8.5 per cent. Due to various fiscal consolidation schemes implemented by the State, the share of internal debt has significantly declined.

2 EXPENDITURE PATTERN OF THE GOVERNMENT OF MIZORAM

Aggregate expenditure of the State has been dominated by revenue expenditure

17. Revenue expenditure, as a percent of aggregate spending, accounted for 57 to 82 per cent during 2002-12 while capital expenditure 43 to 18 per cent. In absolute terms, total expenditure has grown by 10 per cent annually from Rs 1975 crores in 2002-03 to Rs 4538 crores in 2011-12. Revenue expenditure has shown a growth rate of 14.3 per cent while capital outlay witnessed a growth rate of 9.5 percent annually.

18. Development expenditure which accounted for 46 percent of the total expenditure in 2002-03 rose to 66 percent in 2011-12, representing a 20 percentage points increase whereas non-development expenditure increased from 21 percent to 27 percent- a modest 6 percentage-points increase over the same period.

19. Development revenue expenditure as a percent to GSDP showed an upward trend from 33 to 37 percent during 2002-03 to 2011-12. Revenue expenditure on social services varied between 18 and 21 percent of GSDP while

revenue expenditure on economic services showed an irregular pattern, varying between 12 and 17 percent of GSDP.

20. Development revenue expenditure accounted for 64 to 69 percent of the total expenditure while non-development expenditure 36 to 31 percent during 2002-12. The share of social service expenditure is higher than that of economic service expenditure. Share of social services varied between 34 and 41 whereas economic service between 24 and 31percent during 2002-12. Education etc accounted for the highest share in social services and agriculture and allied activities in economic services.

Pattern of Capital Expenditure showed a significant improvement in capital outlay

21. Capital disbursement has been dominated by capital outlay for development and non-development purposes. Capital outlay in economic services formed a significant proportion of capital disbursement and its share is relatively much higher than social service sector. Increase in development capital outlay is mainly driven by an increase in capital outlay in economic services. More than 95 percent of the total capital outlay came from development capital outlay. Capital outlay on social services has seen a decreasing trend while economic services witnessed an upward trend.

Total social service expenditure has been dominated by education, sports etc while economic services by agriculture and allied activities and energy sector

22. Almost half of the total expenditure on social services has been accounted by education, sports, arts and culture. Both, the share of water supply and sanitation and medical and public health witnessed marginal decreases. The key sectors under economic services are agriculture and allied activities, energy, and transport, followed by rural development and industry &

minerals. Expenditure on agriculture & allied activities accounted for 22 to 42 percent while energy has claimed from 33 to 18 percent. Regarding non-development expenditure, it is observed that spending on pension relative to total expenditure significantly increased while administrative services and interest payment showed a declining share in relative terms.

Share of plan revenue expenditure recorded a rising trend while that of non-plan revenue expenditure a declining trend

23. Plan revenue expenditure which accounted for 29 percent of the total revenue expenditure in 2003-04 witnessed its share increased to 37 percent in 2011-12. Plan capital outlay constituted 90 percent of the total plan capital outlay in 2002-03. As a ratio to GSDP, plan revenue expenditure showed an upward trend from 16 percent in 2002-03 to 20 percent in 2011-12 whereas non-plan revenue expenditure registered a downward trend. As a ratio to GSDP, plan capital outlay which accounted for 15 percent in 2003-04 fell down to 6 percent in 2011-12.

24. As a ratio to GSDP, plan development expenditure varied between 36 percent in 2003-04 and 19 percent in 2009-10. As a ratio to GSDP, plan expenditure on economic services exhibited an overall downward trend and it varied between 22 per cent in 2003-04 to 6 percent in 2009-10. Non-development plan expenditure as a percentage to GSDP varied between 1 and 3 percent during 2002-12.

State Government introduced several measures to enhance allocative and technical efficiency in public expenditure

25. Rationalisation of non-plan revenue expenditure by withdrawing LTC facilities to the State government employees, restriction of medical reimbursement facilities to hospitalisation and referred case, abolition of vacant posts, appointment of teachers on contract basis, provatization of

government vehicles, VRS for primary school teachers, drivers etc. Another important component has been the introduction of contributory-based pension reform for the State employees.

Suggestions for improving the efficiency of public spending broadly cover the following aspects

26 Reduction of food subsidies under Targetted PDS, outsourcing of services, introduction of PPP mode in services and infrastructure sectors, reduction of power subsidy and restructuring of PSEs have been suggested.

3 ANALYSIS OF DEFICITS, OUTSTANDING LIABILITIES AND CONTINGENT LIABILITIES

27. The major deficit indicators of the State finances are revenue deficit, fiscal deficit and primary deficit. Reveneue deficit and gross fiscal deficits are the key indicators of the fiscal health of the States. Reduction of revenue and fiscal deficits has been the key targets for rule-based fiscal reforms. Primary deficit is defined as the fiscal deficit net of interest payment which indicates the extent of deficit which is the outcome of the fiscal transaction of the State during the course of the year.

The major deficit indicators of the State showed that State finances have improved significantly over the years

28. Though the state witnessed a revenue deficit in 2002-03, revenue surplus has been achieved throughout the remaining years since 2003-04. As a percent to GSDP, revenue surplus fluctuated around 2 to 7 percent. GFD as a percent to GSDP is also continously falling. As on 2011-12, GFD was 3 percent of GSDP. Primary deficit relative to GSDP has improved substantially from (-) 8 per cent of GSDP in 2002-03 to 1 per cent in 2011-12

Balance from current revenue (BCR) for plan financing has always been negative

29. Balance from current revenue (BCR) represents the difference between non-plan revenue recipts (current receipts) and non-plan revenue expenditure. A positive BCR indicates there is a surplus in the current account which is available for plan expenditure whereas a negative BCR represents only borrowed funds are used to meet plan expenditure. The State's BCR has always been negative.

The outstanding liabilities of the state, as a ratio to GSDP, witnessed declining trend. The relative share of market borrowings have increased significantly

30. The total outstanding liabilities rose from Rs 1832 crore in 2002-03 to Rs 4000 crore in 2011-12, showing an average annual growth rate of 9.2 per cent. As a ratio to GSDP, the outstanding liabilities showed a declining trend from 88 per cent at end-March 2004 to 57 per cent at end-March 2012. Large fiscal deficits were responsible for a persistently high state's outstanding liabilities relative to GSDP.

31. The relative share of market borrowings moved up from 18 percent in 2002-03 to 30 percent in 2011-12. The increase in market borrowings can be attributed to the discontinuation of plan loans to the States since April 1, 2005 as recommended by TwFC. Loans from banks and financial institutions has in recent years witnessed a steady decline. As on 2011-12, the share of loans in the aggregate outstanding liabilities was only 8.5 percent. Loans from the Centre which constituted 32 percent in 2002-03 steadily fell down to 13.6 percent in 2011-12. Public account liabilities accounted for 24 percent in 2002-03 and by 2011-12, its share rose to 41 percent and became the most important source of State's borrowings.

Contingent liabilities of the state has also witnessed a declining trend relative to GSDP

32. Since 2003-04, maximum amount guarantees steadily increased till 2008-09 and thereafter, the guaranteed amount fell down. As on 2011-12, the total guarantees amounted to Rs 243 crore. As a percent to GSDP, maximum amount gurantees fell down from 10.6 percent to 5.1 percent during 2002-03 to 2011-12 whereas the outstanding amount as a ratio of GSDP declined from 5.7 percent in 2005-05 to 2.7 percent in 2011-12.

5 IMPLEMENTATION OF FISCAL POLICY RULE AND PEFM REFORMS

33. Before FRBM Act was passed in 2006, two fiscal reform measures were initiated by the State Government of Mizoram. These include the signing of MOU with Ministry of Finance, Government of India (1999) and States' Fiscal Reform Facility (2000-05) recommended by the Eleventh Finance Commission. The State finances improved consistently under these reform initiaves as reflected major fiscal indicators of the State.

The Mizoram Fiscal Responsibility and Budget Management Act, 2006 provided fiscal rules for the State

34. The Mizoram Fiscal Responsibility and Budget Management Act, 2006 was framed in line with the recommendations of the TFC. The objectives of the Acts are: (i) take appropriate measure to eliminate the revenue deficit and contain the fiscal deficit at sustainable levels; (ii) pursue policies to raise non-tax revenue with due regard to cost recovery and equity; (iii) lay down norms for prioritization of capital expenditure and pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare.

The State has implemented only few PEFM reforms over the years

35. PEFM reforms have been implemented at the national level from to time such as Performance Budget (1968), Outcome Budget (2005) and the Performance Monitoring and Evaluation System (2009). Other important PEFM reform has been the passing of Fiscal responsibility legislations (FRL) by the Central government in 2003. Recently, the Government of Mizoram adopted two important PEFM reforms. These were the Mizoram Fiscal Responsibility and Budget Management Act, 2006 and the Mizoram Finance Commission Act, 2010. The State's Public Expenditure Review Committee (PERC) was introduced in 2007 under the provision of FRBM Act 2006.

6 SUBSIDY, POWER SECTOR REFORMS AND STATE PSEs

Direct subsidy constituted a negligible amount while indirect subsidy (unrecovered cost of social and economic services etc) has increased significantly

36. In 2007-08, the State Government incurred Rs 7.5 crore for direct subsidy which accounted for 0.4 percent of Total Revenue Receipts. As a ratio to GSDP, direct subsidy was 0.2 percent. The amount further declined to Rs 1.7 crore in 2011-12 – just 0.04 percent of TRR and 0.02 percent of GSDP.

37. Indirect subsidides are mainly composed of unrecoverd cost from social and economic services, and foodgrains subsidy under Targetted PDS. Cost recovery from development expenditure showed a consistent improvement over the years. From 8.3 per cent in 2002-03, cost recovery from development expenditure increased to 12.2 per cent in 2011-03. Cost recovery from social services is very low, accounting between 1.6 per cent and 2.8 per cent while cost recovery under economic services ranged from 17 per cent in 2002-03 to 23 per cent in 2011-13. State government incurred approximately Rs 10 crores per month on foodgrains to subsidize APL family.

The State's Power Sector is incurring heavy loss due to high transmission and distribution losses

38. The State Government and the Ministry of Power (GOI) signed Memorandum of Agreement (MOA) on 10.7. 2002 to reform power sector in the state of Mizoram. The objectives were to implement distribution reforms and improe performance efficiency. The important targets to be achieved by the State government are : (i) To set up power corporation/board/autonomous body by 2006-07; (ii) To set up SERC/JERC by April 2003 and tariff petition should be filed by December, 2003; (iii) 100% metering of all consumers by March, 2006, (iv) 100% electrification of villages by June, 2005; (v) setting up of the computerised billing centres to be done by July 2003.

39. The status of power sector reforms in the State are: (i) Power & Electricity Department is not yet coporatised. (ii) Joint Electricity Reforms Commission for the States of Manipur and Mizoram was constituted in February 2008; (iii) 100% village electrification is yet to be achieved; (iv) Computerised billing centres had been set up in Aizawl city, covering the entire city along with its suburbs. Computerised billing centres in rural areas remained to be set up.

40. The Aggregate Technical & Commercial losses (AT & C) were more than 40 percent in 2011-12. Presently, the State is taking up the reform schemes under R-APDRP. The basic objective of the scheme has been to prepare base line data for establishment of consumer indexing, GIS mapping etc for reduction of AT & C loss to the level of 15% while the second part of the scheme consists of strengthening and improvement of distribution networks.

Cost recovery from the power sector decreased continuously

41. Cost recovery from power sector which was 32.3 percent in 2002-03 declinedl to 9.2 percent in 2011-12. Revenue loss per unit of the cost of operation ranged from Rs 1.58 to Rs 5.7 during 2006-2011, indicating that a

huge amount of public revenue has been lost in providing electricity to the public.

State Public Enterprises are incurring heavy losses but no reform agenda is being taken up by the State Government

42. As on 2011-12, the State has five state public sector enterprises. Budgetary supports given by the State Government include subscription of their equity capitals, provision of loans, grants and subsidies. Another important support mechanism extented to these PSEs is guaranteeing their loans taken from banks and other financial institutions. Five State PSEs were incurring losses continuously over the years. During 2011-12, these PSEs incurred an annual loss of Rs 4.56 crore and their accumulated losses amounted to Rs 50.58 crore. The contribution made by these PSEs is insignificant to the State economy. The annual turnover as a percentage of GSDP was 0.02 percent in 2011-12. The turnover as percent to GSDP has been continuously falling since 2004-05.

45. Even though state enterprises are incurring losses, they continue to get investment from State Government and other financial institutions. As on 31 March, 2012, the total investment in these PSEs was Rs 92.57 crores.

46. The High Power Committee (2008) recommended policy framework for restructuring of Public Sector Undertakings (PSUs) under the Government of Mizoram. The Committee examined the whole issue surrounding the functioning of the PSEs and the common problems faced by them and the reasons for their sickness. Several issues had been identified as the debilitating factos of the operational efficiency of the PSEs. The restructuring framework recommended by the High Power Committee includes, among others, adoption of Chairman-cum-Managing Director (CMD) and induction of experts as board of directors, VRS for employees, capacity building to enhance efficicnecy of employees, no further disbursement of loans etc.

7 DECENTRALISATION INITIATIVES IN THE STATE

47. Administratively, the state is divided into 8 districts, with 26 development blocks and more than 740 village councils. There are three autonomous district councils for the three ethnic groups in the South, namely, Lai, Mara and Chakma.

48. The District administration is responsible for maintenance of law and order in the district, collection land revenue, block and village administration and socio-economic development at the district level. The district administrations have three components-district, sub-divisional and village level. The head of the district administartion is Deputy Commissioner.

49. Mizoram has three autonomous district councils under the provision of the Sixth Schedule to the Constitution of India and one development council. Under the Constitution, the District Council has law making powers on the following subjects: Management of land and forests other than reserve forest; Use of canal or water for the purpose of agriculture; Regulation of the practice of jhum; Establishment of village or town committee and matters relating to village or town administration including public health and sanitation; Inheritance of property; Marriage and divorce; and Social customs etc

The process of transfer of powers to urban local bodies has been kicked off with the formation of Aizawl Municipal Council under 74th Amendment of the Constitution; rural local bodies continued to remain an ineffective administrative units with no real functional autonomy

50. Aizawl Municipal Council (AMC) has been consituted recently. So far, the State has 22 notified towns. However, only Aizawl city has a municipal council and the rests are governed by Village Councils. The Mizoram Municipalities Act was passed by the Mizoram Legislative Assembly in 2007. The Aizawl Municipal Council started functioning from July 1, 2008. The AMC consists of 19 elected

members representing 19 Wards of the city of Aizawl and other 12 members (11 MLAs and 1 Lok Sabha MP) appointed by the Governor. Roughly one-third (i.e. 6) of the total membership is reserved for women. The tenure of the Council is five years.

53. Lunglei High Powered Committee- a non-statutory body has been established in 2009 by amalgamating it with the then Lunglei District Planning Board to address the problems of Lunglei District. The High Powered Committee was empowered to formulate district plan and schemes and implement district level plan out of the outlay earmarked as discretionary funds and also review and monitor all district level plan and projects.

54. Sinlung Hill Development Council (SHDC) was constituted on July 1997 consequent upon the signing of peace accord between the Hmar People Convention (HPC) who were waging armed struggle demanding a separate autonomous district council for the Hmar ethnic group. The struggle lasted about six years, and after several rounds of talk, peace accord was signed on 27th July, 1994. The SHDC is functioning as an autonomous body with a small amount of fund.

Several reforms initiative have been undertaken under JNNURM conditionalities

55. Aizawl city, the State capital of Mizoram, is eligible for funding under the JNNURM. The reforms programmes under JNNURM is divided into 3 (three) levels viz. State, ULB and Optional Level. At the State level, JNNURM requires certain reforms to be undertaken by states/ cities in implementing the 74th Constitutional Amendment Act in its letter and spirit. At the state level there are 7 reforms, out of which 5 have been completed and 2 are in progress.

56. At the ULB level, JNNURM also requires certain reforms to be undertaken by states/ cities in the area of institutional convergence at the city

level, with an objective to assign or associate elected ULBs with "city planning and delivery functions". In Mizoram at the ULB level, out of the 6 major reforms only 1 has been completed and the other 5 reforms are in progress.

57. At the Optional level, JNNURM further requires certain reforms to be undertaken by states/ cities towards putting in place an effective property title certification system. The cities need to ensure proper management and record of all property holdings within the city. The new system should reflect authentic ownership at all points and information on holdings should be easily accessible. At the Optional Level, there are 10 reforms, out of which only 3 are completed.

CHAPTER 1

STATE PROFILE AND METHODOLOGY

1.1. Geographical background

Mizoram is a small and a hilly state strategically located in the North Eastern Region of India. It is sandwiched between Myanmar in the east and south, Bangladesh in the west and the Indian states of Assam, Manipur and Tripura in the north. As many as 21 major hill ranges run through the state in the north-south direction; the average height of the hills to the west of the state ranges about 1000 metres, and to the east rises upto 1300 metres. In some areas, the hill range may go up to a height of over 2000 metres. Mizoram enjoys a moderate climate which varies between maximum 30 degree celsius temparature in the summer and around 11 degree celsius in winter. Mizoram gets maximum rainfall during June to August.

The Mizos are of Mongoloid stock, speaking Tibeto-Burman language group. Several of the Mizo sub-groups are found scattered across Chin Hills in Myanmar, Bangladesh bordering Mizoram, and the Indian neighbouring states of Assam, Manipur and Tripura. The community is blessed with a number of folk and community dances which have been handed down from one generation to the other through the ages. Being Christian by faith, their social and cultural practices are deeply influenced by Christian ethics; community-based organisation like Young Mizo Association (YMA) also played a big role in Mizo society life.

1.2. Administrative and demographic indicators

The state covers 21087 sq km, having a 404 km long border with Myanmar and another 318 km long with Bangladesh (Table 1.1). The state has eight administrative districts, three autonomous districts and 719 villages. There were 10,91,014 total population in 2011 Census and it registered a growth rate of 22.78 per cent over 2001 census. The sex ratio was 975 females per 1000 males. About 94.46% of the state population belongs to Scheduled Tribe while only about 0.03 % is Scheduled Caste. Table 1.1 summarises the basic administrative and demographic indicators of State.

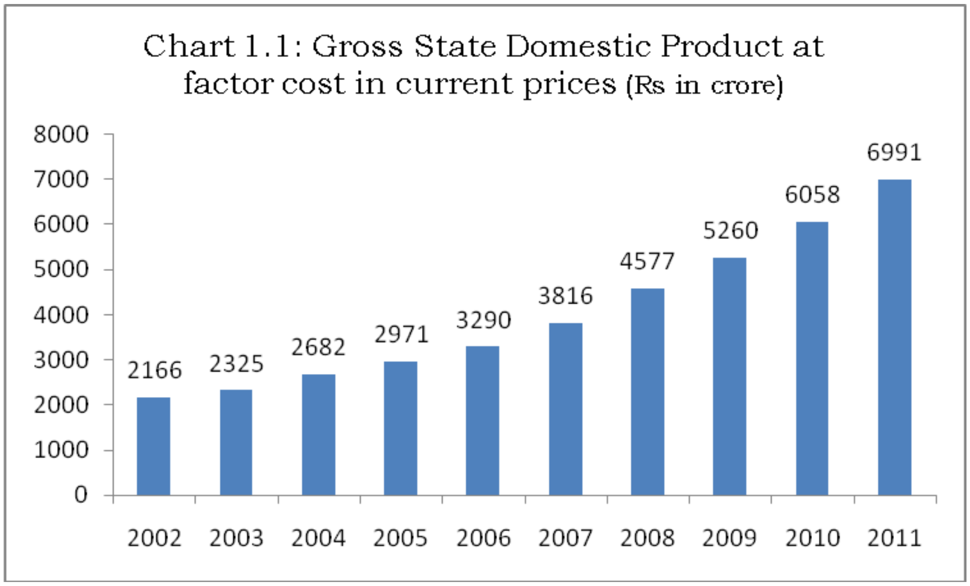
Table 1.1: Admininistrative and Demographic Indicators of Mizoram

Sl.No	Particulars	Unit	Total
1	GEOGRAPHICAL INDICATORS		
	Total Geographical Area	Sq.km	21087
	International borders with Myanmar	Kms	404
	International borders with Bangladesh	Kms	318
2	FOREST (FSI Report)		
	Area Under Dense Forest	Sq.km	6283
	Area Under Open Forest	Sq.km	12900
3	ADMINISTRATIVE SET UP		
	No. of District	No	8
	No. of Autonomous District	No	3
	No. of Sub-Division	No	23
	No. of Rural Development Block	No	26
	No.of Villages (2011 census	No	719
4	DEMOGRAPHIC INDICATORS (2011 Provisional figures)		
	Total Population	Million	1.09
	Population Density	Per Sq. Km	52
	Sex Ratio (Females per 1000 Males)	Nos	975
	Decadal population growth rate (2001-2011)	Per cent	22.78

Sources: Economic Survey Mizoram 2012-13

1.3. Basic development indicators of the State

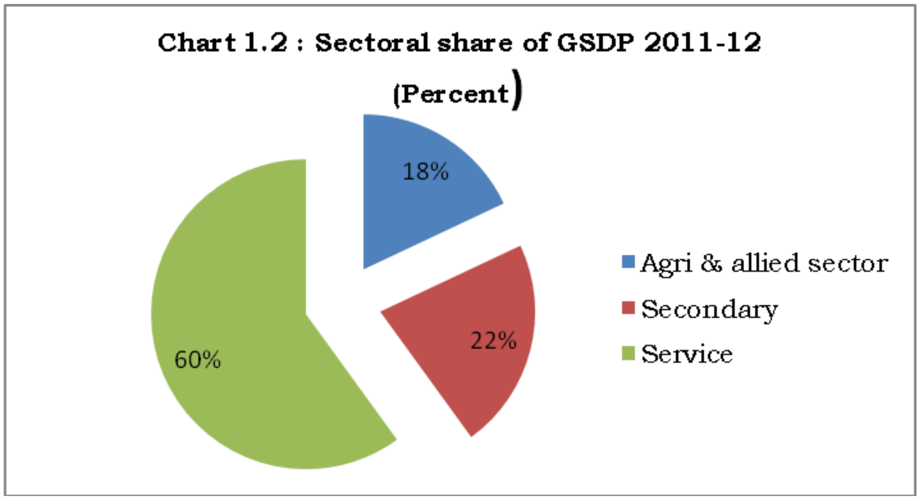
Chart 1.1 indicates the growth trend of the Gross State Domestic Product in Mizoram during 2002-12. The GSDP of Mizoram at current prices was Rs 6,991 crores in 2011-12 (Table 1.2). The State economy was projected to grow by about 9 per cent per annum during 2012-13. The state's per capita income is much lower than the national average. While the per capita income of the State was Rs. 48,591 in 2010-201 against the national average of Rs. 50,021; the estimated per capita income was Rs 54,689 in 2011-12.



Source: Planning Commission & Mizoram Economic Surveys

The State economy is mainly based on agricultural activities. About 60 percent of the working population depends on agriculture and allied sector. However, the share of the agricultural sector in terms of Gross State Domestic Product (GSDP) was very low; it could be averaged at 14 percent during the Eleventh Five Year Plan (2007-12). Jhum cultivation is the main agricultural practice of the State. The State could barely meet 20 percent of the total demand for rice. During 2009-10, a total of 1,42,8600 tonnes of rice was lifted by the State Government from outside (Economic Survey-2011-12).

As given in Chart 1.2, service sector which contributes about 60 percent of the total GSDP is the main driver of the state economy. Industrially, the State is very weak and it has no any manufacturing base worth its name. The industrial structure of the State is characterised by micro and small enterprises. There are no heavy or medium-sized enterprises. Since there is no private investment, public sector investment is the only stimulus driving income and employment generation in the State.



Source: Mizoram Economic Survey-2012-13

Table 1.2: Basic Development Indicators of Mizoram

Sl.No	Indicators	Unit	2011-12
1	Gross State Domestic Product (GSDP) in current prices	Rs in crores	6991.40
2	Per Capita GSDP at Current Prices	Rs	54,689
3	Share of agriculture sector in GSDP	Per cent	18
4	Share of secondary in GSDP	Per cent	22
5	Share of Service Sector in GSDP	Per cent	60
6	Gross Cropped Area	'000 ha	133.956
7	Net Area Sown	'000 ha	131.23
8	Gross Irrigated Area	'000 ha	13.15
9	Average Size of Holdings	Ha	1.2
10	Electricity consumption	MW	252.05
11	Total Registered Small Scale Industries	Nos	8088
12	Avearge Annual Growth Rate of Enterprises (1998 to 2005)	Per cent	9.6
13	Bank/Branches	Nos	129
14	Credit-Deposit Ratio	Per cent	42.84
15	Total Road Length	Kms	8465.14
16	Post Offices	Nos	395
17	Mobile Phone Connections (Feb 2012)	Nos	732977
17	Accumulated Debt	Rs.crore	3580.72
18	Accumulated Debt as a percent of GSDP	Per cent	49.82

Source : Economic Survey Mizoram 2012-13

Though the State has a lower per capita income compared to the national average, the State has relatively a high human development index with a literacy rate of almost 92 per cent, next only to Kerala among the Indian states (Table 1.3).

Table 1.3: Human Development Indicators of Mizoram

Sl.No	Indicators	Unit	Total
1	Literacy rates (2011 Census provisional figures)	Per cent	91.58
2	Male literacy rates	Per cent	93.72
3	Female literacy ratea	Per cent	89.40
4	Enrolment at the School level	Nos	300739
5	Educational Institutions at the School level	Nos	3894
6	Enrolment in the Colleges	Nos	10660
7	College institutions	Nos	22
8	Enrolment at the University	Nos	3305
9	Universities	Nos	2
10	Hospital	Nos	13
11	Community Health Centres	Nos	12
12	Primary Health Centres	Nos	57
13	Sub-Centres	Nos	370
14	Infant Mortality Rate	Per 000	38.34

Source: Economic Survey Mizoram 2012-13

The state is highly dependent on central fiscal transfers. Since government jobs have become saturated, unemployment among the newly educated youth becomes a critical issue facing the state economy. The infrastructural base of the economy is extremely weak and inadequate. In short, the state economy is dominated by the service sector with low agricultural and industrial base (Chart 1.2).

1.4. Data sources and methodology

The study has twelve terms of references (see Annexure 1). The analysis covered the time period from 2002-03 to 2011-12.

Data Sources

Both primary and secondary data are used for the present study. Primary data are generated from government files, circulars, meeting minutes, notifications etc., issued from time to time by the State Finance departments and other institutions/departments.

The main sources of secondary data used in this Report are the Budget Documents of the State government. These include:

(a) Annual Financial Statement;
(b) Demand for Grants;
(c) Budget Speeches;
(d) Macroeconomic Framework Statement;
(e) Medium Term Fiscal Policy Statement, and
(f) Fiscal Policy Strategy Statement

The Report of the Comptroller and Auditor General of India on State Finance (Government of Mizoram) also provided valuable information on financial data of the State Government of Mizoram. The annual RBI publications on State Finances (A Study of Budgets) also furnished critical financial data for all States including Mizoram. Other sources include, among other, websites of the relevant departments/organisation of State and Government of India. State-level economic data are collected from the publications of Department of Economics and Statistics like Economic Survey, Mizoram Statistical Handbooks etc.

Methods of Data Analysis

Simple descriptive statistics such as ratios/percentages and simple regression models are used for data analysis. The buoyancy of State revenue which measures the percentage change in revenue due to a one percentage change in GSDP is estimated using the following regression model, named log-linear model:

$$\text{Log}(Rt) = b1 + b2 \log(GSDPt) + ut$$

Where, Rt = Revenue (nominal) in year t;

GSDPt = Gross State Domestic Product (nominal) in year t

b1 = intercept;

b2 = buoyancy estimate or constant elasticity

ut = error term in year t.

The main advantage of this model is that it ensures constant elasticity of the dependent variable with respect to dependent variable. In addition, this model is not affected by differences in measurement unit. The growth rates of the fiscal variables are evaluated by primarily estimating compound growth rate which takes the following form:

$$Yt = Yo(1+r)^t$$

or $$\log(Yt) = b1 + b2\ t$$

where $b1 = \log Yo$

$b2 = \log(1+r)$

$r = e^{b2} - 1$, is the Compound Growth Rate.

The annual growth rates are measured at a one-year interval which is given by $(Xn\text{-}Xn_{-1})/Xn_{-1}$ where Xn is the present value and Xn-I last year value. If continuous series of data cannot be obtained the compound annual growth rate will be simply evaluated using the following expression, $[(Xn/Xn\text{-}1)^{1/\text{no. of years}} - 1]$

References

Government of Mizoram (2013): *Economic Survey Mizoram 2012-13*, Planning and Programme Inplementation Department, Aizawl.

Gujarati, Damodar N. & Dawn C. Porter (2010): *Essentials of Econometrics,* McGraw Hill International Edition, New York.

CHAPTER 2

ESTIMATES OF REVENUE CAPACITIES OF THE STATE

The Indian Constitution assigned State Governments a major responsibility with regard to the provision of social and economic development of the States. The most challenging task for them is to mobilise adequate resources such as taxes and non-taxes revenue in order to enhance their capacities to finance their rising expenditure obligations towards administration and development of social and economic infrastructure. The present chapter gives a broad overview of the revenue capacities of the State with reference to Mizoram. It gives the broad trend and composition of the aggregate receipts of the State followed by an examination of an aggregate revenue receipts which include State-own taxes, own non-tax revenue and devolution and revenue transfers from the Centre. The revenue efforts of the State and various measures initiated to improve own revenue-GSDP ratios including suggestions for enhancing revenue productivity of the State are also outlined. The chapter also presents the broad trends and patterns of capital receipts of the State.

2.1. Aggregate receipts of the state: Trends and Composition

Aggregate receipts of the State are broadly divided into revenue receipts and capital receipts. Revenue receipts of the State consist of tax and non-tax revenues. Tax revenues comprise State's own taxes and share in Central taxes while non-tax revenues comprise State's own non-tax revenue (such as fees for various services rendered by the state government and income from forest, irrigation, power, road transport, royalties etc) and grants from the Central Government. In a broad sense, receipts which are recurring in nature which the government expects to receive year after year are regarded as revenue receipts. Capital receipts, on the other hand, comprise of internal debt, loans and advances from the Centre, recoveries of loans and advances, and net receipts from public account. Internal debt covers market loans, loans from banks and financial institution, ways and means advances from RBI.

Table 2.1 : Pattern of Aggregate Receipts

(Rs in Crore)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
TOTAL RECEIPTS (1+2)	1933 (100)	2316 (100)	2068 (100)	2268 (100)	2378 (100)	2549 (100)	3004 (100)	3620 (100)	4822 (100)	5100 (100)
1 Revenue Receipts (A+B)	1022 (53)	1371 (59)	1502 (73)	1654 (73)	1969 (83)	2040 (80)	2653 (88)	2963 (82)	3375 (70)	4012 (79)
A. State's Own revenue (i+ii)	81 (4)	92 (4)	115 (6)	175 (8)	201 (8)	208 (8)	253 (8)	234 (6)	277 (6)	347 (7)
i. State's Own Taxes	28 (1)	34 (1)	40 (2)	55 (2)	68 (3)	78 (3)	95 (3)	108 (3)	130 (3)	179 (4)
ii. State's Own Non-Taxes	53 (3)	58 (3)	76 (4)	120 (5)	133 (6)	130 (5)	159 (5)	127 (3)	147 (3)	168 (3)
B. Central transfers (i+ii)	941 (49)	1279 (55)	1387 (67)	1479 (65)	1768 (74)	1832 (72)	2400 (80)	2729 (75)	3098 (64)	3665 (72)
i. Shared taxes	95 (5)	130 (6)	156 (8)	226 (10)	288 (12)	363 (14)	383 (13)	395 (11)	591 (12)	828 (16)
ii. Grants-in Aid	846 (44)	1149 (50)	1231 (60)	1253 (55)	1480 (62)	1469 (58)	2016 (67)	2335 (64)	2507 (52)	2837 (56)
2. Capital Receipts *of which:*	912 (47)	945 (41)	566 (27)	614 (27)	409 (17)	509 (20)	351 (12)	657 (18)	1447 (30)	1088 (21)
i. Internal Debt	734 (38)	462 (20)	404 (20)	307 (14)	231 (10)	214 (8)	100 (3)	194 (5)	510 (11)	443 (9)
ii. PublicAccounts (net)	109 (6)	383 (17)	72 (30)	275 (12)	149 (6)	258 (10)	220 (7)	405 (11)	907 (19)	594 (12)

Note: 1. Figures in parentheses are percentages to total
2. Capital teceipts include net acruals to public accounts

Source: Budget Documents of Government of Mizoram.

The pattern of aggregate receipts, as given in the Table 2.1, showed that revenue receipts contributed a large proportion of the increase in aggregate receipts. The share of revenue receipts increased considerably while capital receipts showed a persistent decline. As on 2002-03, the share of aggregate revenue was 53 percent and this has increased to 88 percent in 2008-09; thereafter, it showed a declining trend and stood at 79 percent in 2011-12, representing a 26 percentage-points increase over the period. Meanwhile, capital receipts whose share in the aggregate receipts was 47 percent in 2002-03 steadily declined to 21 percent in 2011-12.

Another noticeable aspect of the aggregate receipts is the improvement in the share of own revenue receipts of the State. State's own revenue receipts as a percent to aggregate receipts increased from 4 percent in 2002-03 to 7 percent in 2011-12. The share of State's own tax revenue which was just 1 per cent in 2002-03 has risen to 4 percent in 2011-12; meanwhile, the proportion accounted by State's own non-tax revenue which increased initially from 3 percent in 2002-03 to 6 percent 2005-07 has reverted back to 3 percent in 2011-12.

It is also observed that central transfers consisting of share in central taxes and grants-in-aid dominantly contributed to the increase in aggregate receipts. Share in Central taxes comprises of all central taxes which are shareable between the Centre and States. These include income tax, corporation tax, union excise duty, custom duty, expenditure tax and service tax. The Finance Commission of India determines the distribution of the net proceeds of these taxes between Central Government and States and inter se shares of the States. The Finance Commission also formulates the quantum of different categories of non-plan grant such as non-plan revenue grants, upgradation grants, special problems grants, grants for local bodies and natural calamity relief. Plan grants given to the States normally consist of three components. These are-normal central assistance (NCA), additional central assistance (ACA) for externally aided projects (EAP) and others like special plan assistance (SPA), central plan asssitance (CPA) etc.

As observed from Table 2.1, central revenue transfers as a percent to aggregate receipts which accounted for 49 percent in 2002-03 have significantly increased to 72 percent in 2011-12, showing a 23 percentage points increase. Of the two components of revenue transfers, the propotions of total receipts accounted by grants-in-aid increased much faster than that of shared taxes. Share in Central increased from 5 percent in 2002-03 to 16 percent in 2011-12-representing 11 percentage-points increase. Grants-in-aid witnessed a steady upward trend from 44 percentage share in 2002-03 to 67 percent in 2008-09. As on 2011-12, grants-in-aid as a percent to total receipts of the State fell down and stood at 56 percent. During 2002-12, grants-in-aid witnessed an overall improvement of 23 percentage points.

The growth trends of the major components of aggregate receipts are given in Table 2.2. Total receipts recorded an annual growth rate of 20 percent- from Rs 1933 crore in 2002-03, it rose to Rs 5100 crore in 2011-12.

Table 2. 2
Compound Annual Growth Rates of Aggregate Receipts
(2002-03 to 2011-2012)

Items	**Per cent**
Aggregate Receiptsl (1+2)	19.78
1 Revenue Receipts (A+B)	15.2
A. State's Own revenue (i+ii)	16.7
i) State's Own Taxes	22
ii) State's Own Non-Taxes	13.8
B. Central Transfers (i+ii)	15.2
i) Shared taxes	24.8
ii) Grants-in Aid	13.6
2. Capital Receipts (A to D)	2.35
A. Internal Debts	-6.40
B. Public Accounts (net)	4.56

It could be observed from the Table that, from Rs 1022 crore in 2002-03, aggregate revenue receipts jumped to Rs 4012 crore in 2011-12, showing a compound annual growth rate of 15.2 per cent. State’s own revenue receipts, recording a 16.7 annual growth rate also increased from Rs 81 crore in 2002-03 to Rs 347 crore in 2011-12. Again, increase in own revenue receipts was mainly due to a rise in own tax revenue which registered an annual growth rate of 22 per cent. In absolute terms, state’s own tax revenue receipts rose from Rs 28 crore in 2002-03 to Rs 179 crore 2011-12. Own non-tax revenue also increased from Rs 53 crore to Rs 168 crore during 2002-12, representing an annual growth rate of 13.8 per cent.

Capital receipts, in absolute terms, witnessed a consistent decline from Rs 912 crores in 2002-03 to Rs 351 crores in 2008-09; however, the amount rose to Rs 1088 crore in 2011-12. Overall capital receipts registered a growth rate of 2.35 percent over the period. Internal debts have a consederable decrease over the periods, showing a negative growth rate of 6.4 percent. Net acruals from public account showed an annual growth rate of 4.56 percent which has increased from Rs 109 crore in 2002-03 to Rs 594 crore in 2011-12.

The trend in the aggregate receipts relative to GSDP is given in Table 2.3. It was observed that aggregate revenue receipts as a percentage of GSDP which was 47 per cent in 2002-03 gradually increased to 57 percent in 2011-12. As percentages to GSDP, while own revenue receipts registered a modest increase, central transfers showed a marked improvement. Own revenue receipts marginally improved to 5 percent of GSDP in 2011-12 from 4 per cent in 2002-03 while central transfers moved from 43 percent in 2002-03 to 52 percent in 2011-12. Capital receipts relative to GSDP declined significantly from 42 percent in 2002-03 to 8 percent in 2008-09; thereafter, it rose gradually to 16 per cent in 2011-12.

Table 2.3 : Aggregate Receipts relative to GSDP

(Per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Receipts (1+2)	89	100	77	76	72	67	66	69	80	73
1. Revenue Receipts	47	59	56	56	60	53	58	56	56	57
i) Own Revenue	4	4	4	6	6	5	6	4	5	5
ii) Central Transfers	43	55	52	50	54	48	52	52	51	52
2. Capital Receipts	42	41	21	21	12	13	8	12	24	16

Source: Budget Documents, Government of Mizoram.

2.2. Trends and Composition of Aggregate Revenue Receipts

The aggregate revenue receipts of the State are presented in Table 2.4. Revenue receipts are given in terms of state's own revenue and revenue transfers from central government. The revenue performance of the State depends on the state's efforts to improve its own revenue receipts as well as the bouyancy of its share in Central taxes and grants-in-aid. It could be observed from the Table 2.4 that Mizoram depends heavily on central transfers for its revenue sources. Revenue transfers constituted between 93 and 89 per cent of the total revenue receipts of the state during 2002-03 to 2011-12. It may also be noticed that while the share of own tax revenue increased consistently, the proportion of total revenue receipts accounted by own non-tax revenues has gradually declined. Similarly, the proportion of shared taxes is rapidly increasing while grants are consistently showing a downward trend.

Table 2.4: Composition of Aggregate Revenue

(Rs in crores)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Revenue	1022	1371	1502	1654	1969	2040	2653	2964	3375	4012
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
1 State's Own Revenue (i+ii)	81 (8)	92 (7)	115 (8)	175 (11)	201 (10)	208 (10)	253 (10)	234 (8)	277 (8)	347 (9)
i. Own Taxes	28	34	40	55	68	78	95	108	130	179
	(3)	(2)	(3)	(3)	(3)	(4)	(4)	(4)	(4)	(4)
ii. Own Non-Taxes	53 (5)	50 (4)	76 (5)	120 (7)	133 (7	130 (6)	159 (6)	127 (4)	147 (4)	168 (4)
2 Revenue Transfers (i+ii)	941 (92)	1279 (93)	1387 (92)	1479 (89)	1768 (90)	1832 (90)	2400 (90)	2729 (92)	3098 (92)	3665 (91)
i. Shared Taxes	95 (9)	130 (9)	156 (10)	226 (14)	288 (15)	363 (18)	383 (14)	395 (13)	591 (18)	828 (21)
ii. Grants	846	1149	1231	1253	1480	1469	2016	2335	2507	2837
	(83)	(84)	(82)	(76)	(75)	(72)	(76)	(79)	(74)	(71)

Note: Figures in parentheses are percent to total
Sources: Budget Documents, Government of Mizoram

As observed from the Table, the composition of the State's aggregate revenue hardly changed during 2002-12. In 2002-03, out of total revenue receipts amounting to Rs 1022 crore, State's own revenue accounted 8 percent (Rs 81 crore) and revenue transfers from Central government 92 percent (Rs 941 crore). As on 2011-12, own revenue receipts of the State constituted 9 percent while Central revenue transfers 91 percent. The share of State's own revenue receipts of the State has marginally improved by 1 percentage points over the period.

2.2.1. Own Tax Revenue: Trends and Composition

The Seventh Schedule to Constitution of India underlines the revenue sources for the Centre and the States respectively in the Union and State lists. The major taxes assigned to the Central Government are income tax, corporation tax, custom duties, excise duties etc. The various taxes assigned to the State Government are State Sales tax/VAT, State Excise, taxes on vehicles, stamps and registration fees, agriculture income tax etc.

The major sources of Own Tax Revenue (OTR) of the States are direct taxes such as profession tax, taxes on property & capital transaction like land revenue, stamp & registration fees and indirect taxes on commodities and services which include Sale taxes/VAT, state excise, taxes on motor mehicles, entertainment taxes etc. The tax system of Mizoram could be classified into three broad groups:

i) Taxes on income and expenditure i.e., profession tax;
ii) Taxes on property and capital transaction i.e., land revenue and stamp and registration fees; and
iii) Taxes on commodities and services which include VAT, State excise duty, entertainment taxes, taxes on motor vehicles and taxes on petroleum (POL) products.

These taxes are examined briefly as below:

(i) The Mizoram Professions, Trades, Callings and Employment Taxation Act 1995: The rates of profession tax for various categories of persons are clearly defined in the Act. The amount of professional tax can not go beyond Rs 2500 per annum which is a constitutional ceiling vide 276 Article of the Constitution of India. The rates for different categories of occupation were revised in 2011.

(ii) The Mizoram (Taxes on Land, Buildings and Assessment of Revenue) Act, 2005: The following taxes and fees were levied and collected under this Act- taxes on property which includes land tax, buiding tax and house tax; taxes on farm, shop, stall, mutation fees, fees on transfers of ownership of property. The Department of Land Revenue and Settlement is responsible for levying and collecting these taxes and fees.

(iii) The Indian Stamp (Mizoram Amendment) Act, 1996: This Act governed the rate of stamp duties on various instruments collected by the State Government. Stamp duties contribute an insignificant amount to the revenue of GoM. It was last amended in 2011.

(iv) The Mizoram Value Added Taxes (VAT) Act, 2005: VAT was introduced from 1st April 2005. The rate structure recommended by the Empowered Committee of State Finances was followed without any deviation. As amended in December 2012, the standard rates were 13.5 %, followed by a lower rate of 0%, 1% and 5 % for specified goods. The State's Taxation Department is the enforcing agency. Taxes on sale of petroleum and petroleum products are levied and collected under The Mizoram (Sale of Petroleum and Petroleum Products, including Motor and Lubricants) Act, 1973.

(v) The Mizoram Excise Act, 1992: Production, sale, import and consumption of liquor is banned under the Mizoram Liqour Total Prohibition Act, 1995. Only the Army and paramilitary forces deployed in Mizoram are permitted to import liquor and consumption. Excise duties were levied on India-made foreign liquor under Mizoram Excise Act, 1992. The Excise and Nacotics Department enforces the Act

(vi) Taxes on Motor Vehicles: There are two tax systems presently enforced- (i) The Mizoram Vehicle (Taxation) Act, 1996 and The Mizoram Passengers and Goods Taxation Act, 1988. Road tax is levied and collected under The Mizoram Vehicle (Taxation) Act, 1996 and the rules made there under. Under the

Mizoram Passengers and Goods Taxation Act 1988, the levy and collection of taxes on fares in respect of passengers and goods carried in a taxable vehicle has been enforced. The Transport Department is the enforcing agency of these two Acts and the Rules made there under.

(vi) The Assam Amusement and Betting Act, 1939: The SGoM adopted this Act for levy and collection of entertainments and other amusements such as exhibitions, dramatic/music performance, Cable TV, cinematographic or video shows tax. The revenue receipts under this Act are minimal.

Table 2.5 : Trend in Own Tax Revenue

(Rs in crores)

Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Own Tax (A+B+C)	27.9	63.6	74.7	105.6	130.2	77.5	183.3	207.2	251.8	178.7
A. Taxes on income & expenditure	3.97	4.08	4.38	4.53	5.00	5.32	5.93	7.93	8.39	11.86
i. Taxes on Professions, Trade, Callings, and Employment	3.97	4.08	4.38	4.53	5.00	5.32	5.93	7.93	8.39	11.9
B. Taxes on Property & Capital Transaction (i+ii)	1.05	0.85	0.97	1.76	0.94	1.71	2.09	3.15	4.68	3.21
i. Land Revenue	0.97	0.72	0.86	1.59	0.73	1.48	1.63	2.76	4.33	2.52
ii. Stamps & Registration Fees	0.08	0.13	0.10	0.17	0.21	0.23	0.46	0.39	0.34	0.69
C. Taxes on Commodities & Services (i to iv)	22.9	28.9	34.2	48.87	61.69	70.49	86.60	96.50	117.0	163.6
i. State Excise	1.29	1.36	1.40	1.46	1.65	1.69	1.87	2.10	2.39	2.31
ii. Taxes on Sale, Trade etc	18.20	23.32	28.08	41.59	53.72	62.04	77.51	85.94	104.7	142.2
iii. Taxes on Vehicles	2.56	3.38	3.80	4.35	5.01	5.37	5.50	6.71	7.72	16.71
iv. Taxes on Goods & Passengers	0.57	0.61	0.69	0.99	0.98	1.07	1.43	1.39	1.72	2.05
v. Other Taxes & Duties	0.34	0.24	0.25	0.37	0.32	0.32	0.28	0.36	0.47	0.37

Source : Budget documents, Government of Mizoram

Table 2.5 presents the trend of own tax revenue (OTR) of the State. As on 2002-03, own tax revenue receipts amounted to only Rs 27.97 crore; but the amount persistently increased to Rs 178.67 crore in 2011-12, indicating a rise of 6.4 times. Revenue receipts from profession tax indicates approximately a three-fold increase from Rs 3.97 crore in 2002-03 to Rs 11.86 crore in 2011-12. Tax revenue from property and capital transaction also witnessed a moderate increase. Commodities and services taxes are the major contributors of State's own tax revenue of the States. The absolute amount contributed by these taxes increased from Rs 22.95 crore in 2002-03 to Rs 163.60 crore in 2011-12, showing more than a seven-fold increase. Sale taxes/VAT increased from Rs 18.20 crore to Rs 142.16 crores-an increase of approximately 8 times over the period.

The composition of State's own tax revenue is given in Table 2.6. It could be observed from the Table that commodity and service taxes accounted 82 percent in 2002-03 which further rose to 92 per cent in 2011-12. On the other hand, share of profession tax has gone down from 14.2 per cent in 2002-03 to 6.6 per cent in 2011-12.

Taxes on property & capital transaction also saw a gradual decline from 3.8 percent in 2002-03 to 1.8 percent in 2011-12. Land revenue which contributed 3.5 per cent of the total own tax revenue receipts in 2002-03 fell down to 1.4 per cent in 2011-12.

Similarly, share of tax revenue from state excise duty and passengers & goods taxation also declined. Revenue from motor vehicle taxes, stamps and registrations had also registered a moderate increase in relative term during the period of study.

Table 2.6: Composition of Own Tax Revenue

(Per cent to total)

Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Own Tax (A+B+C)	100	100	100	100	100	100	100	100	100	100
A. Taxes on income & expenditure	14.19	12.05	11.06	8.22	7.39	6.86	6.27	7.37	6.45	6.64
i. Taxes on Professions, Trade, Employment and Callings	14.19	12.05	11.06	8.22	7.39	6.86	6.27	7.37	6.45	6.64
B. Taxes on Property & Capital Transaction (i+ii)	3.76	2.52	2.44	3.20	1.38	2.21	2.21	2.93	3.60	1.80
i. Land Revenue	3.47	2.13	2.18	2.89	1.08	1.91	1.72	2.57	3.33	1.41
ii. Stamps & Registration Fees	0.29	0.39	0.26	0.30	0.31	0.30	0.49	0.36	0.26	0.39
C. Taxes on Commodities & Services (i to v)	82.05	85.45	86.50	88.57	91.23	90.9	91.52	89.7	89.9	91.6
i. State Excise	4.60	4.02	3.55	2.65	2.44	2.18	1.98	1.95	1.84	1.29
ii. Taxes on Sale, Trade etc	65.07	68.90	70.99	75.54	79.44	80.03	81.92	79.88	80.49	79.56
iii. Taxes on Vehicles	9.16	9.99	9.60	7.90	7.42	6.93	5.81	6.23	5.93	9.35
iv. Taxes on Goods & Passengers	2.02	1.80	1.74	1.81	1.45	1.38	1.52	1.30	1.32	1.15
v. Other Taxes & Duties	1.20	0.72	0.63	0.67	0.47	0.41	0.30	0.33	0.36	0.21

Source : Budget Documents, Government of Mizoram

2.2.2. Own Non-Tax Revenue (ONTR): Trends and Composition

Non-tax revenue of the States covers a wide range of receipts ranging from interest receipts on the loans provided by the State governments, dividends and profits received by the State governments, revenue from general services, such as State lotteries, revenue from user charges, fees and penalties imposed on various social and economic services provided by the State Governments. Various components of Own Non-Tax revenue of the Government of Mizoram are given in Table 2.7. Component-wise, receipts from economic services dominate own non-tax revenue of the State, followed by general services. Non-tax revenue receipts from social services are found to be the lowest. As shown in Table, it is observed that interest receipts from various loans given by the State have increased steadily. Recovery from the expenditure of economic services also showed an upward trend while that of the general services and social services showed a declining trend.

Table 2.7: Trends and Composition of State's Own Non-Tax Revenue

(Rs in crore)

Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Own Non-Tax Revenue (a to d)	52.6	58.0	75.6	120.1	133.4	130.3	158.7	126.5	146.7	168.0
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
a. Interest Receipts	2.4	3.3	3.7	6.9	8.8	15.6	32.9	17.9	12.7	15.6
	(4.6)	(5.6)	(4.8)	(5.8)	(6.6)	(12.0)	(20.7)	(14.1)	(8.7)	(9.3)
b. General Services	17.7	14.4	15.6	12.1	52.5	6.5	12.1	18.1	23.2	9.2
	(33.5)	(24.8)	(20.7)	10.1	(39.4)	(5.0)	(7.6)	(14.3)	(15.8)	(5.4)
c. Social Services	4.8	5.7	5.5	6.7	7.8	8.8	8.3	9.6	10.7	12.4
	(9.0)	(9.8)	(7.3)	(5.6)	(5.8)	(6.8)	(5.2)	(7.6)	(7.3)	(7.4)
d. Economic Services	27.8	34.7	50.8	94.3	64.4	99.4	105.4	81.0	100.2	130.9
	(52.8)	(59.8)	(67.2)	(78.6)	(48.2)	(76.3)	(66.4)	(64.0)	(68.3)	(77.9)

Note: Figures in parentheses represent percent to total
Source: Budget documents, Government of Mizoram

Receipts from Social Services

Social services include broadly the following activities: (a) Education, sports, arts and culture, (b) Medical and public health, (c) Family welfare, (d) Water supply and sanitation, (e) Housing, (f) Urban development (g) Information and publicity, (h) Labour and employment, (i) Social security and welfare, and (j) Other social services. The receipts from these services include tuition fees realised from educational institutions, user charges of medical facilities, water tariff, rental receipts from government buildings and quarters etc. Substantial portion of the receipts from social services is coming from water supply and sanitation services. Other important contributors are education, sports, art and culture services, medical and public health services, and housing. As given in Table 2.8, recovery from water supply and sanitation varied between 68 and 80 percent during 2002-2012. While receipts from education etc showed a rising trend, recoveries from medical & public health services reflected a downward trend. Similarly, the share of recovery from housing also indicated a consistent decline over the years.

Table 2.8: Composition of Non-Tax Revenue under Social Services

(Per cent to total)

Item	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12
Social Services (i to ix)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
i. Education, Sports, Art & Culture	8.8	12.1	6.8	12.0	6.7	5.7	6.3	9.6	13.1	13.0
ii. Madical & Public Health	8.4	5.8	8.3	7.1	7.1	7.5	6.6	2.9	1.7	2.5
iii. Family Welfare	0.1	0.0	0.0	0.0	0.0	0.0	0.0	4.9	0.1	0.0
iv. Water Supply & Sanitation	71.4	69.1	77.5	69.4	68.4	72.6	79.6	76.9	71.6	71.0
v. Housing	8.1	6.5	6.6	6.5	6.6	9.3	5.4	0.5	4.9	5.8
vi. Urban Development	0.0	0.0	0.0	0.0	0.0	0.8	0.4	0.0	1.2	1.8
vii. Information & Publicity	0.0	1.3	0.7	1.0	0.8	0.0	1.6	0.0	2.0	1.3
viii. Labour & Employment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.8
ix. Social Security & Welfare	3.3	5.2	0.0	4.1	10.3	4.1	0.0	5.3	5.3	2.9

Source: Budget Documents of the Mizoram

Receipts from Economic Services

Economic services include a wide range of services provided by the State in the field of agriculture, industries, infrastructure etc. Economic services covered more than 21 activities. It may be surprising to note that while economic services contribute significantly to economic development of the state, nevertheless, recovery of costs from these services is quite low.

Table 2.9: Composition of Non-Tax Revenue Receipts under Economic Services

(Per cent to total)

Items		2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Economic Services (i to xxii)		100	100	100	100	100	100	100	100	100	100
i.	Crop Husbandry	0.98	0.74	0.44	0.24	0.34	0.18	0.22	0.37	0.88	0.56
ii.	Animal Husbandry	1.69	1.76	1.04	0.57	0.88	0.60	0.54	0.90	0.55	0.49
iii.	Dairy Development	0.02	0.09	0.09	0.05	0.13	0.00	0.10	0.21	0.17	0.11
iv.	Fisheries	0.39	0.17	0.00	0.02	0.07	0.06	0.05	0.16	0.33	0.25
v.	Forestry & WildLIfe	13.67	9.12	5.39	4.40	6.30	3.00	2.09	3.12	2.39	2.44
vi.	Food Storge & Warehousing	0.10	0.11	0.07	0.01	0.04	0.00	0.01	0.14	0.08	0.09
vii.	Co-operation	2.90	0.46	3.96	0.71	0.03	0.02	0.02	0.01	0.02	0.02
viii.	Other Agricultural Programme	0.13	2.09	1.03	0.55	0.90	0.59	0.89	1.05	1.04	0.76
ix.	Land Reforms	1.49	1.61	1.36	0.90	1.34	0.00	0.84	1.30	1.04	0.87
x.	Other RD Programmes	0.30	0.02	0.16	0.79	0.00	0.00	0.01	0.06	0.19	0.03
xi.	Minor Irrigation	0.05	0.16	0.06	0.03	0.00	0.00	0.00	0.01	0.00	0.07
xii.	Power	65.52	75.40	80.34	86.71	80.48	84.09	88.63	83.77	72.53	83.68
xiii.	Villages & Small Industries	0.21	0.47	0.15	0.25	0.33	0.05	0.08	0.18	0.32	0.21
xiv.	Industries	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
xv.	Non-Ferrous Mining	0.00	0.09	0.12	0.35	0.69	0.99	1.46	1.74	4.97	5.31
xvi.	Other Industries	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
xvii.	Civil Aviation	2.15	1.59	1.63	1.98	3.86	0.00	1.89	2.32	1.34	0.68
xviii.	Roads & Bridges	0.60	0.45	0.33	0.06	0.39	0.00	0.11	0.53	9.92	1.42
xix.	Roads Transport	7.30	4.30	2.69	1.65	2.71	1.66	1.97	2.49	2.65	1.68
xx.	Other Scientific research	0.00	0.03	0.02	0.01	0.03	0.00	0.01	0.01	0.01	0.05
xxi.	Tourism	1.35	1.17	0.86	0.66	1.28	0.88	1.06	1.52	1.48	1.17
xxii.	Others	1.16	0.19	0.22	0.07	0.19	7.88	0.07	0.09	0.08	0.10

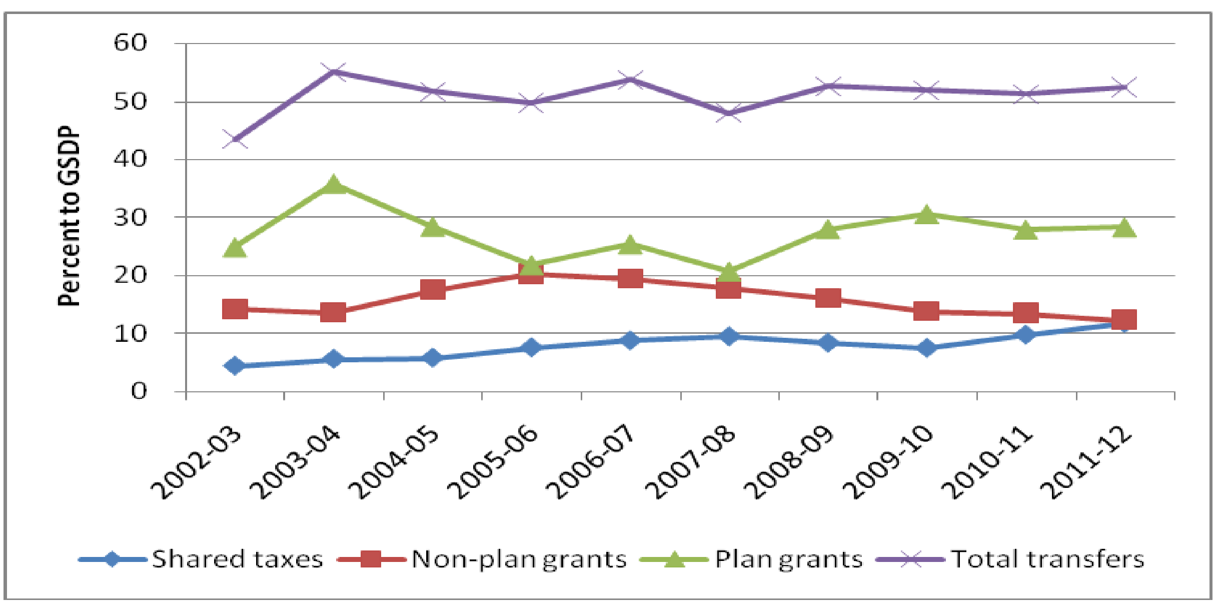
Source : Budget Documents, Government of Mizoram

As given in the Table 2.9, power sector is the main contributor of revenue from economic services. Revenue from power-tariff contributed 66 percent of the total revenue from economic services in 2002-03 and its share showed a upward trend reaching upto 89 percent in 2008-09. As on 2011-12, the share has, however, declined to 84 percent. As a proportion to total non-tax revenue, contribution from forestry and wildlife fell down from 14 percent in 2002-03 to 2 percent in 2011-12. The road transport sector, despite its potential, is an insiginificant contributor. Its share has declined from 7 percent in 2002-03 to less than 2 percent in 2011-12. Contribution from tourism sector is also stagnating at around 1 percent of the total revenue receipts from the economic sector.

2.2.3. Devolution and Revenue Transfers from the Centre

As observed already, central transfers constitute the most important source of revenue for the State of Mizoram. These transfers take place through tax devolutions and grants-in-aid. Broadly speaking, grants are of two types-plan grants and non-plan grants. As a ratio of GSDP, share in Central taxes improved consistently from 4 percent in 2002-03 to 12 per cent in 2011-12. Meanwhile, non-plan grants as a ratio to GSDP, after showing an upward trend from 14 percent in 2002-03 to 20 percent in 2005-06, gradually declined to 12 percent in 2011-12.

Chart 2.1: Trends in tax devolution and revenue transfers from Central Government



Plan grants as a ratio to GSDP varied from 21 to 36 per cent during 2002-03 to 2011-12. Plan grants as a ratio to GSDP which was 36 percent in 2003-04 showed a downward trend and by 2011-12, it reached to 28 percent. The aggregate transfers registered an upward trend from 43 percent in 2002-03 to 52 percent in 2011-12 (Chart 2.1). The increase in aggregate transfers has been mainly contributed by improvement in share in Central taxes and plan grants.

In absolute terms, share in Central taxes rose from Rs 95 crores in 2002-03 to Rs 828 crores in 2011-12, representing approximately a nine-fold increase (Table 2.10). Similartly, non-plan grants grew by almost three times from Rs 308 crores in 2002-03 to Rs 856 crores in 2011-12. The overall plan grants rose from Rs 539 crores in 2002-03 to Rs 1981 crores in 2011-12, registering an increase of 3.7 times over the period.

Table 2.10: Trends in Revenue Transfers from Central Government

(Rs in crores)

Items	**2002 -03**	**2003 -04**	**2004 -05**	**2005 -06**	**2006 -07**	**2007 -08**	**2008 -09**	**2009 -10**	**2010 -11**	**2011 -12**
A. Shared Taxes	95	130	156	226	288	363	383	395	591	828
B. Non-Plan Grants	308	315	468	604	643	679	735	725	819	856
i. Statutory Grants	285	298	340	542	576	605	634	686	736	779
ii. Contrbution to CRF	5	3	15	2	5	14	50	11	9	9
iii. Other Grants	19	14	114	59	62	59	51	28	73	69
C. Plan Gants	539	833	763	649	837	790	1282	1610	1688	1981
i. State Plan Schemes	439	713	563	509	626	660	920	1339	1166	1572
ii. Central Plan Schemes	3	6	2	4	5	9	20	11		13
iii. Centrally Sponsored Schemes	86	100	136	91	169	85	285	223	475	327
iv. Special Plan Schemes	11	14	61	45	38	36	58	37	47	68
D.Total Grants (B+C)	846	1149	1231	1253	1480	1469	2016	2335	2507	2837
E.Total Transfers (A+D)	941	1279	1387	1479	1768	1832	2400	2729	3098	3665

Source : Budget Documents, Government of Mizoram

Table 2.11 showed the component—wise break up of Central transfers in percentage terms. Shared taxes contributed 10 percent to 39 percent of the total central transfers during 2002-12. Share in Central taxes which contributed 10 percent of the total revenue resources transferred to Mizoram in 2002-03 rose to as high as 39 percent in 2008-09. It may be observed that the proportion of shared taxes fell down considerably to 14 percent in 2009; thereafter, it moved upward almost achieving 23 percent in 2011-13. Between 2002-03 and 2005-06, the share of non-plan grants showed an upward trend from 33 percent to 41 percent; the share, however fell down continously afterwards, accounting only for 23 percent of the total revenue transfers.

The contribution of plan grants varied between 65 and 33 percent during 2002-12. Plan grants which accounted 65.2 percent in 2003-04 fell down to 33 percent in 2008-09; the proportionate share rose to 59 percent in 2010-11 and thereafter it fell down again. As on 2011-12, plan grant constituted 54 percent of the total revenue transfers to the State.

Table 2.11: Composition of Revenue Transfers from Central Government

(per cent to total)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
TOTAL TRANSFERS (A+D)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
A. Shared Taxes	10.1	10.1	11.2	15.3	16.3	19.9	16.0	14.1	19.1	22.6
B. Non-plan grants (i to iii)	32.7	24.7	33.8	40.8	36.4	37.0	30.6	26.6	26.4	23.4
i. Statutory Grants	30.2	23.3	24.5	36.7	32.6	33.0	26.4	25.2	23.8	21.3
ii. Contribution to CRF	0.5	0.2	1.1	0.2	0.3	0.8	2.1	0.4	0.3	0.2
iii. Other Grants	2.0	1.1	8.2	4.0	3.5	3.2	2.1	1.0	2.4	1.9
C. Plan Grants (i to iv)	57.2	65.2	55.0	43.9	47.3	43.1	53.4	59.0	54.5	54.0
i. State Plan Schemes	46.6	55.8	40.6	34.4	35.4	36.0	38.3	49.1	37.6	42.9
ii. Central Plan Schemes	0.3	0.5	0.2	0.3	0.3	0.5	0.8	0.4	0.0	0.4
iii. Centrally Sponsored Schemes	9.1	7.8	9.8	6.1	9.6	4.6	11.9	8.2	15.3	8.9
iv. Special Plan Schemes	1.2	1.1	4.4	3.0	2.1	2.0	2.4	1.4	1.5	1.9

Source : Budget Documents, Government of Mizoram

Fund directly transferred to the State Implementing Agencies

Central plan grants given to the State through Centrally Sponsored Schemes which are transferred directly to the societies and implementing agencies at the State level, bypassing, in most cases, the State budgetary routes assume a critical role for social and economic development of the State. Since these transfers are not routed through the state budgets, the Annual Finance Accounts do not capture these flows. Due to this, the total plan fund available and other fiscal indicators/parameters derived from them remained underestimated. Moreover, the FRBM Act insisted that transparency should be maintained in regard to estimates of receipts and expenditure of the state and since these transfers are not properly monitored by any single agency at the state level, the actual quantum of fund flow through these agencies could not be estimated. As given in Table 2.13, these funds alone constituted about 13 to 16 per cent of GSDP during 2008 to 2010. As a percentage to total revenue, these transfers accounted 29 per cent in 2010-11.

Table 2.12: Fund directly transferred to the State Implementing Agencies

(Central schare: Rs in crore)

Schemes	**Implementing Agencies**	**2008-09**	**2009-10**	**2010-11**
1. National Rural Employment Generation Scheme (NREGS/MGNREGA)	Rural Development Department	152.26	276.97	216.17
2. Pradhan Mantri Gram Sadak Yojana (PMGSY)	Public Works Deptt	315.15	44.57	95.59
3. Sarva Shiksa Abhiyan (SSA)	Education Deptt.		85.12	112.92
4. National Rural Health Mission (NRHM)	Health Services	79.86	32.14	54.23
5. Accelerated Rural Water Supply Programme (ARWSP)/NRDWP	PHED	54.48	53.35	80.51
6. Integrated Child Development Scheme (ICDS)*	Social Welfare Deptt.	24.03	15.70	17.83
7. Jawaharlal Nehru National Urban Renewal Mission (JNURRM)*	UDPA		47.17	58.15
8. Indira Awas Yojana (IAY)	Rural Development Department	12.52	18.53	13.36
9. Mid-day Meal*	Education Deptt.	13.17		18.06
10. Rajiv Gandhi Grameen Viyutikaran Yojana (RGGVY)	Power & Electricity Deptt.		81.03	78.28
11. Others		53.32	53.32	238.99
TOTAL		**704.79**	**683.19**	**984.09**

*These schemes are routed through the State Budgets.

Table 2.13: Fund directly transferred to the State Implementing Agencies (Per cent)

Schemes	As a percentage of GSDP			As a percentage of total revenue receipts		
	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
1. National Rural Employment Generation Scheme (NREGS/MGNREGA)	3.3	5.3	3.6	5.7	9.3	6.4
2. Pradhan Mantri Gram Sadak Yojana (PMGSY)	6.9	0.8	1.6	11.9	1.5	2.8
3. Sarva Shiksa Abhiyan (SSA)	0.0	1.6	1.9	0.0	2.9	3.3
4. National Rural Health Mission (NRHM)	1.7	0.6	0.9	3.0	1.1	1.6
5. Accelerated Rural Water Supply Programme (ARWSP)/NRDWP	1.2	1.0	1.3	2.1	1.8	2.4
6. Integrated Child Development Scheme (ICDS)	0.5	0.3	0.3	0.9	0.5	0.5
7. Jawaharlal Nehru National Urban Renewal Mission (JNURRM)	0.0	0.9	1.0	0.0	1.6	1.7
8. Indira Awas Yojana (IAY)	0.3	0.4	0.2	0.5	0.6	0.4
9. Mid-day Meal	0.3	0.0	0.3	0.5	0.0	0.5
10. Rajiv Gandhi Grameen Viyutikaran Yojana (RGGVY)	0.0	1.5	1.3	0.0	2.7	2.3
11. Others	1.2	1.0	3.9	2.0	1.8	7.1
12. TOTAL	15.4	13.0	16.2	26.6	23.0	29.2

Source: Report of the Comptroller and Auditor General of India on State Finances, Government of Mizoram, end- March 2009, 2010 & 2011

2.3. Assessment of Revenue Capacities of the State

(i) Own Revenue and Deficit Correction

The revenue account of the State Government of Mizoram has improved substantially from a deficit of (-) 5 per cent in 2002-03 to a surplus of 4.1 percent of GSDP in 2011-12. Revenue surplus reached as high as 7.4 percent of GSDP in 2008-09. The revenue correction in revenue account has been contributed by own tax revenue and central transfers. Table 2.14 indicates the contribution made by different revenue items in the revenue correction path. As a percent of GSDP, total revenue receipts improved by 10.2 percent; own tax revenue contributed to 1.3 per cent and central transfers 9 percent. Own non-tax revenue-GSDP ratio did not contribute any amount during this period.

However, due to increase in revenue expenditure by 1 percent as a ratio to GSDP, revenue surplus was only 9.2 per cent of GSDP. The total correction in revenue surplus has come from two sources- increase in own tax revenue contributing 14 pecent, and central transfers 98 percent while an increase in revenue expenditure reduced revenue surplus by 12 percent.

Table 2.14: Change in revenue receipts and correction of revenue deficit

(As percent of GSDP)

Year	Own Tax Revenue	Own Non-tax revenue	Share in Central Taxes	Grants-in-Aid	Revenue Receipts	Revenue Expenditure	Revenue Deficit (-) /Revenue Surplus(+)
2002-03	1.3	2.4	4.4	39.1	47.2	52.2	-5.0
2003-04	1.5	2.2	5.6	49.4	59.0	55.4	3.6
2004-05	1.5	2.8	5.8	45.9	56.0	52.0	4.0
2005-06	1.9	4.0	7.6	42.2	55.7	53.5	2.2
2006-07	2.1	4.1	8.8	45.0	59.8	52.2	1.6
2007-08	2.0	3.4	9.5	38.5	53.5	50.0	3.5
2008-09	2.1	3.5	8.4	44.1	58.0	50.6	7.4
2009-10	2.0	2.4	7.5	44.4	56.3	51.4	5.0
2010-11	2.1	2.4	9.8	41.4	55.7	53.7	2.0
2011-12	2.6	2.4	11.8	40.6	57.4	53.3	4.1
Change*	1.3	0.0	7.5	1.5	10.2	1.1	9.2

*change between 2002-03 and 2011-12
Source: Budget Documents, Government of Mizoram

(ii) Bouyancy of Own Revenue Receipts

The Constitution of India assigned State governments significant resposibilities in areas like education, health, road development, power and other infrastructure facilities. Since the revenue sources are weak and inadequate, states are heavily dependent on central transfers like tax devolution, grants etc to meet their expenditure responsibilities for development and maintenance activities. Special category states are much worse in terms of own revenue resource base relative to non-category states and as a result, their dependence on central transfers is much higher. Around ninety percent of the revenue of the GoM is central transfers and the rest are mobilised by the state from its own sources.

State's own resources are divided into own tax revenue and own-non tax revenue. The tax system of the State consists of professional tax, land revenue, stamp and registration fees, VAT, taxes on petroleum products, taxes on motor vehicles, entertainment taxes while own-non tax revenue are interest receipts from loan advanced by the State Government, receipts like fees, user charges etc from general, social and economic services. One indicator of a good tax system is that the revenue receipts must be responsive to the change in economic condition. Over the last decade, the state economy registered a robust growth rate. The revenue effort of the State is examined by estimating the relationship between the different various sources of own tax and own-non tax revenue sources and the State Gross Domestic Product during 2002-02 to 2011-12. The results of the exercises are given in Table 2.14.

Table 2.15: Revenue bouyancy of own tax and own non-tax revenue (2001-02 to 2011-12)

Own taxes	Coefficients	Own Non-Taxes	Coefficients
Professional tax	0.8	Interest Receipts	1.7
Land revenue	1.3	General Services	-0.2
Stamp & Regd	1.6	Social Services	0.7
State Excise duty	0.5	Economic Services	1.1
Sale Taxes (VAT)	1.6	**Total Own Non-Taxes**	**0.9**
Vehicle Taxes	1.2		
Goods & Passengers	1.1		
Total Own Taxes	**1.5**		

Sources : Budget Documents, Government of Mizoram

The regression coefficients are the estimates of the elasticity of the various tax and non-tax revenue receipts of the State with respect to Gross State Domestic Product (GSDP). Among own tax revenue receipts, professional tax and excise duty have elasticities less than one indicating that these taxes are not responsive to increase in GSDP. In regrads to own non-tax revenue, general services has a negative coefficient (-0.2) representing that, as income increases, revenue receipts from General services declined by 0.2 percent. Revenue receipts from Social services also registered elasticity less than one. Revenue receipts having elasticity greater than one indicated that every unit increase in GSDP is associated with more than a one –unit increase in the variables concerned. For instance, land revenue has the coefficient value of 1.3 which indicated that a one unit increase in GSDP brought a 1.3 unit increase in land revenue. Revenue bouyancy of own taxes (1.5) is higher than own non-taxes sources (0.9).

(iii) Financing of Aggregate Expenditure by Own Revenue

There was a gradual improvement in the trends of financing aggregate expenditure by own revenue receipts during 2002-12. The overall own revenue receipts contribution increased from 4 percent to 12 percent of total aggregate expenditure during 2002-12. Own tax revenue (OTR) contributed 1.4 percent to 6.4 percent of aggregate expenditure, while own non-tax revenue 2.7 percent to 5.8 percent during 2002-12.

Table 2.16 : Financing of Aggregate Expenditure by Own Revenue

(Per cent)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
OTR/AE	1.42	1.56	1.87	2.46	2.95	2.98	6.39	5.65	6.05	3.94
ONTR/AE	2.66	2.70	3.58	5.37	5.81	5.01	5.53	3.45	3.53	3.70
OR/AE	4.08	4.26	5.45	7.84	8.76	7.98	11.92	9.10	9.58	7.64

OTR : Own Tax Revenue; ONTR : Own Non-Tax Revenue OR : Own Revenue; AE : Aggregate Expenditure
Source: Budget Documents, Government of Mizoram

(iv) Contribution by State Sales Tax/ VAT

Value Added Tax (VAT) was implemented by the State Government of Mizoram in 2006. As a ratio to GSDP, sales tax/VAT improved from less than 1 per cent (0.8) in 2002-03 to more than 2 per cent 2012-13 (Table 2.17). State sales tax/VAT as a ratio to OTR has shown an increse from 65 per cent in 2002-03 to 80 percent in 2011-12, showing a marked improvement of 15 percentage points. As a ratio to total revenue receipts, State sales tax/VAT improved from 2 percent to almost 4 percent during 2002-03 to 2011-12. State sales tax/VAT as a ratio of aggregate disbursement increased from 1 per cent to 3 percent during the same period.

Table 2.17 : Performance of Sales Tax/VAT

(Per cent)

Year	VAT/GSDP	VAT/OTR	VAT/TRR	VAT/AE
2002-03	0.84	65.07	1.93	0.92
2003-04	1.00	68.89	1.82	1.08
2004-05	1.05	70.98	2.02	1.33
2005-06	1.40	75.55	2.81	1.86
2006-07	1.63	79.44	3.04	2.34
2007-08	1.63	80.03	3.39	2.38
2008-09	1.69	81.93	3.23	2.70
2009-10	1.63	79.88	3.15	2.34
2010-11	1.73	80.49	3.38	2.52
2011-12	2.03	79.57	3.88	3.13

VAT: Value Added Tax, GSDP: Gross State Domestic Product, OTR: Own Tax Revenue, TRR: Total Revenue Receipt, AE: Aggregate Expenditure

Source: Budget Documents, Government of Mizoram

2.4. Measures to Improve Tax-GSDP Ratio

The State Government embarked on tax and non tax reform measures to augment its revenue capacities since the early 2000s. The present section narrates the efforts of the Government of Mizoram to reform its own tax and own–non tax system since the mid-2000s. The main objectives of these revenue reforms are improving tax revenue collection, removal of anamolies in the tax structure of the State, strengthening the tax administration and modernisation of tax collection system through computerisation and application of IT interfaces. Non-tax revenue reform measures were also introduced by enhancing fees, and user charges.

(i) Simplification and rationalisation of Direct and Indirect Taxes: The introduction of The Mizoram Value Added Tax Act (VAT) on 1st April, 2005 and later its upward revision of VAT rate on certain goods 2012 had been one of the most significant tax reform measures ever implemented by the State Government. The GoM followed the rate structure suggested by the Empowered Committee such as 0%, 1%, 4% and 12.5%. Initially, exempted goods which were listed in the first Schedule contained 50 items, later it was raised to 55 items in January 2012. On January 2012, VAT rates on goods taxable at 4

percent has been raised to 5 percent and goods taxable at 12.5 percent at 13.5 percent. The GoM has also rationalised road tax collection by introducing a one-time lump sum payment of road tax. Tax rates under The Mizoram Professions, Trades, Callings and Employment Taxation Act 1995 have also been revised upward on 2011-12 for all classes of categories of persons within its bracket. The Indian Stamp (Mizoram Amendment) Act, 1996 was amended in 2007. As per Government Notification in February 2011, it is now required that levy of stamp duty on monthly payment of salaries to all regular Government officials including the Council of Ministers and Parliamentary Secretaries and on all bills in respect of payment made by various Departments and offices of private parties.

The computerisation of land holdings in the State under the National Land Records Modernization Programme (NLRMP) has been implemented by the State Government. Under The Mizoram (Taxes on Land, Buildings and Assessment of Revenue) Act, 2005, taxes of property that include land tax, building tax and house tax, taxes on farms, shop, stall or private markets, mutation fees, fee on transfer of ownership of property etc have been levied and collected.

(ii) Introduction of New Taxes: Luxury taxes on hotels and lodging houses and other luxury houses have been proposed to be introduced. A proposal is also underway to collect cess on road tax for road maintenance. Imposition of tolls on roads and bridges and water cess in selected areas on minor irrigation has been under active consideration of the State Government.

(iii) Strengthening tax administration: The Taxation Department of the State is being reorganised for VAT administration. Mizoram is divided into Zones and Circles. The Zones are headed by Assistant Commissioner of Taxation, whereas, Superintendent are incharge of Circles. Checkpost were created at several locations across the State especially along border towns to prevent evasion and check movement of goods to and from the State. A computer

software known as VATSOFT has been used to record the particulars of each imported items in the checkpost. The tax collection system is also being computerised. Web-based informations and forms are uploaded in the internet for easy access by the public.

(iv) Upward revision of Sale Tax: Rate of Sale tax has been increased by 2 percent from the existing rate in respect of LPG (2 to 4 percent), Motor Spirit (Petrol) (18 to 20 percent) and High Speed Diesel (HSD) (10 to 12 percent).

The following non-tax measures have also been introduced- (i) The rate for energy charges has been revised upward. The State Government has introduced installation of Electronic Energy Meters; (ii) Restructuring of State Level PSUs has been initiated under Asian Development Bank sponsored fiscal restructuring programme. A High Power Committee on Restructuring PSU has been set up in 2007 to look into policy initiatives for improving operational and managerial efficiencies of PSUs in Mizoram; (iii) Since 2004, the State Government introduced meter billing system. Water charges were levied and collected under the Mizoram Water Supplies (Control) Act, 2006 and from 2004; water meters were purchased availing loans from NABARD. Water charges were confined to towns and sub-towns and no water charges were collected for rural water supply

2.5. Suggestions for enhancing the revenue productivity of the tax system

(i) List revision or list re-arrangment of goods taxable under VAT: VAT is one of the most important taxes of the State in terms of revenue contribution. There are, in broad terms, three different list of goods taxable at different rates under the existing VAT regimes: (i) List of goods taxable at 1 percent; (ii) List of goods taxable at 5 percent; and (iii) List of goods taxable at 13.5 percent. To augment the tax revenue collection from VAT, the State may be allowed to revise or re-arrange the list e.g., some goods under 5 percent may be put under 13.5 percent. Mizos are heavy smokers and consumption of cigarattes is very high

among the Mizos compared to other parts of India. In order to discourage people from smoking and with the purpose of giving negative signal to the public regarding cigarattes consumption, cigarattes may be taken out of the standard slab of 13.5 and a higher tax rate may be applied to it.

High tax leakages are suspected especially in Aizawl city due to inefficient collection system and lack of awareness on the part of the dealers relating to maintaining of account and the buyers on the value of tax compliance as responsible members of the society. Dealer's education on the proper accounting of purchases and sales must be undertaken through seminars, website imfromation, electronic media etc.

(ii) Restructuring of Excise Duty: Mizoram adopted total prohition policy relating to ban on production, sale, import and consumption of liquor in the State by promulgating the Mizoram Liquor Total Prohibition Act, 1995. The generation of revenue from excise duty is highly constrained by this Act. Only the Army and para military security forces are allowed to import and consume liquor in the State. Excise duty is levied and collected on the basis of specific rate. It is suggested that for ensuring sustained buoyancy, the rates of excise duties must be modified to ad valorem instead of having a specific tariff. Consumer sale price declared by the concerned security agency may be the base for fixing the ad valorem rates.

(iii) Upward revision of land revenue and related fees: Taxes like land, building, house shop etc are levied and collected under the Mizoram (Taxes on Land, Building and Assessment of Revenue) Act, 2004. The Governmen fixed the annual amount of tax payable by an individual according to the rate for each grade of land as shown in the Land Settlement Certificates. Land revenue rates and other associated rates/fees should be periodically revised by linking the rate with some land price indices of a particular locality/area of municipality.

(iv) Removal of Professional Tax Ceiling: Professional tax ceiling to be paid is Rs 2500. Since tribal community living in Mizoram do not pay any income tax but paid profession tax, ceiling on it may be removed from those who do not pay income tax. This will call for Constitutional amendementa i.e Article 276 clause 2 of the Indian Constitution needs to be amended. Profession tax may be handed to State Government.

(v) Collection of Cess: To augment the tax revenue collection, cess may be collected on taxes on petroleum product, road rax etc for road maintenance

(vi) Upward revision of existing tax rates: As compared to neighbouring States, POL tax rate imposed by Government of Mizoram is low. Besides increasing the tax rates on POL items, it is a high time to have an upward revision of existing tax rates like entertainment tax, stamp and registration fees etc.

(vii) Introduction of new taxes: The tax system of the state is limited while there is scopes for widening the tax base like toll tax, entry taxes, property tax, environmental taxes etc. For instance, environmental tax may be introduced to promote ecologically sustainable activities. The idea behind environmental tax is simple and clear- any private parties causing environmental damage should bear the burden of their action to the society. Examples of environmental taxes are: (a) severance taxes on the extraction of mineral, energy and forestry products; (b) license fee for camping, hiking, fishing and hunting and associated equipment; (c) waste disposal taxes; (d) taxes on effluents, pollution and other hazardous wastes; and (e) site value taxes on the unimproved value of land.

(viii) Hike in tariffs: There is a need for the state government to hike water and energy charges further. Every year, the government incurs heavy losses in these two sectors. Although, doing away completely the hidden subsidies is not feasible by hiking the tariff alone, there is a tremendous scope for improving

the efficiencies in the functioning of these two sectors which will help in reducing the cost involved in providing these services.

(ix) Hike in user charges: The GoM is providing facilities for accomodations in Mizoram Houses in cities like Silchar, Guwahati, Kolkotta, New Delhi for official use. Tourist lodges are also operated by the Tourism Department in Aizawl and other places in Mizoram. It is noticed that room charges are much lower in these lodges compared to other hotels run by private parties. It is suggested that user charges be revised automatically upward annually in line with increasing price indices at the state/national level or any other criteria may be adopted.

2.6. Capital Receipts: Trends and Composition

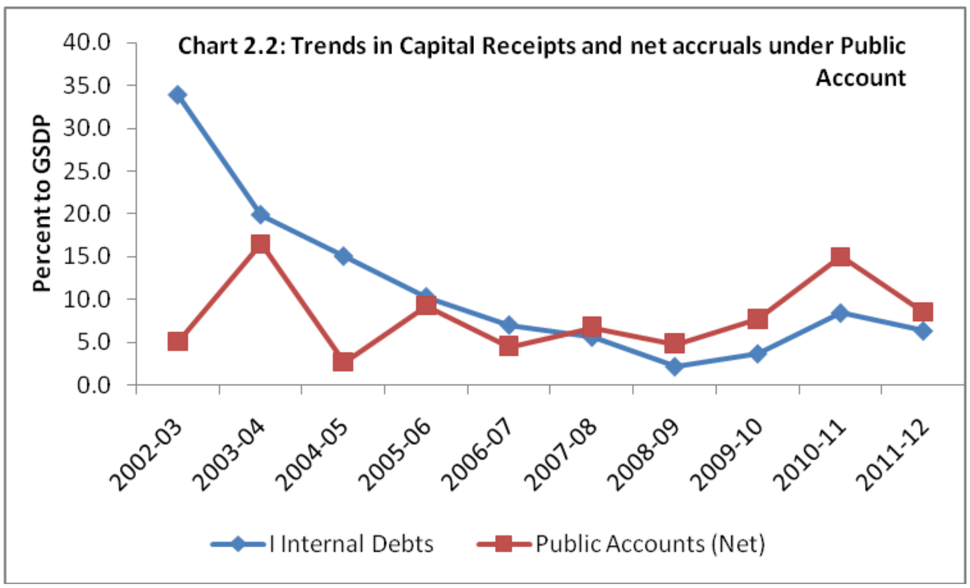
The main components of the capital receipts of the State are given in Table 1.18. Capital receipts, in broad terms, consist of the capital receipts under consolidated fund of the State and net accruals from public account. These include internal debts raised by the State Government, loans and advances from the Centre, recovery of loans and advances. Internal debts further are made up of items like market loans, loans from financial institutions like LIC, NABARD, NCDC, REC etc. special securities issued by NSSF, ways and means advances from RBI. Loans and advances from Centre consists of loan given for non-plan purposes, state plan schemes, centrally sponsored schemes etc.

Capital receipts from Public Account are Provident Funds, reserve funds, deposits and advances, suspense and remittances. Net acruals from public account have emerged as one of the most important sources for raising funds for the state government. Component-wise, the share of capital receipts showed a downward trend in absolute terms while net receipts from public accounts an upward trend.

Table 2.18 : Capital Receipts-Trends and Composition

(Rs in crores)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
TOTAL CAPITAL RECEIPTS (1+2)	912	945	566	614	409	509	351	657	1447	1088
1 CAPITAL RECEIPTS (a to c)	803	562	494	339	261	251	131	251	540	494
a) Internal Debts	734	462	404	307	231	214	100	194	510	443
b) Loans and advances from the Centre	52	80	68	10	5	10	6	32	3	22
c) Recovery of Loans and Advances	17	20	22	23	24	28	25	25	26	28
2 PUBLIC ACCOUNTS(NET)	109	383	72	275	149	258	220	405	907	594



Source: Budget Documents, Government of Mizoram

Trends in capital receipts and net accruals from the public account relative to GSDP are given in Chart 2. 2. It may be observed that capital receipts as a ratio to GSDP declined consistently from 34 per cent in 2002-03 to 2 percent in 2008-09; thereafter, it rose upward gradually settling at 6 percent in 2011-12. Meanwhile, net public account receipts relative to GSDP varied between 16 and 3 percent during 2002-12; showing an upward trend since 2004-05. As on 2011-12, net accruals under Public Account stood at 8.5 per cent. It may be observed that due to various fiscal consolidation schemes implemented by the State, the share of internal debt has dramatically declined as a ratio to GSDP meanwhile net aruals under Public Account showed a moderate increase during 2002-12

CHAPTER 3

EXPENDITURE PATTERN OF THE STATE

Economic development and growth called for active intervention of the government in the economy. Traditionally, the role of government is restricted to the maintenance of law and order and provision of infrastructure like education, road etc., meanwhile economic and business activities are left entirely into the hands of private sectors which operate under free market mechanism. In fact, government intervention in economic activities is regarded as unnecessary and wasteful. Today, there is an emerging consensus among economists and policymakers that both government and markets have a role to play in the process of economic development. It is now firmly established that public expenditure is one of the key instruments for promoting growth and macroeconomic stability. RBI (2009-10) observed, "Public expenditure plays an important role in achieving goals of growth, development, equity and stability. In the context of developing economies like India, public expenditure assumes importance in order to ensure an equitabe distribution of resources"[1].

Under the federal set up in India, State governments have been entrusted with substantial expenditure responsibility in key sectors under social and economic services. In the context of Mizoram, public expenditure assumes a significant role in ensuring growth and development as there are no private investment opportunities in the State due to low infrastructural base of the economy and other constraining factors. This chapter presents an overview of the pattern of public expenditure in Mizoram.

3.1. Aggregate Expenditure: Overall Trend and Composition

The aggregate expenditure of the State is classified into revenue and capital expenditure. Another classification relates to development and non-development expenditure. Revenue expenditure represents all those expenditures for the normal running of the government departments and

[1] State Finances: A Study of Budgets of 2009-10, RBI.

various services, interest charges on debt incurred by Government, subsidies, salaries, wages, office and allied expenses. Maintenance of capital assets and minor works costing below the prescribed limits are also treated as revenue expenditure. All grants given to autonomous bodies are also treated as revenue expenditure even though some of the grants may be used for creation of assets. In a broad sense, expenditure which does not result creation of assets is treated as revenue expenditure[2]. Capital expenditure includes outlays which go for acquisition of assets like land, buildings, machinery, equiment etc as also investment in shares etc., loans and advances made to various parties and repayment of loans and advances. Capital disbursement also incoporates transaction in the Public Account.

Development expenditure refers to expenditure on social and economic services whereas expenditure on general services is termed as non-development expenditure. Expenditure on social and economic services are known as development expenditure because these expenditures have`beneficial impact on the economy and leads to social and economic development. Social services include education, sports, art and culture, medical and public health, family welfare, water supply and sanitation, housing, urban development, welfare of Scheduled Castes, Scheduled Tribes and other Backward Classess, social security and welfare. Economic services comprise agriculture and allied activties, rural development, irrigation, energy, industry and mineral, transport, communication, science and technology etc. Non-development expenditures include public spending under organs of the State, fiscal services, interest payments and servicing of debt, administrative services, pension and miscelleneous general services.

Aggregate expenditure of the State as a ratio to GSDP is shown in Chart 3.1. It has been observed from the Chart that there was a persistent downward trend in aggregate expenditure relative to GSDP during 2002-12. The following major trends may be identified. First, revenue expenditure as a ratio to GSDP exhibits an upward movement while capital expenditure

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[2] Government of Mizoram, Explanatory memorandum on the budget, 2013 - 2014

showed a significant decline. Second, development expenditure as a ratio to GSDP is showing an upward trend till 2005, thereafter, the trend declined. Third, non-development expenditure as a ratio to GSDP which witnessed a marginal trend upward till 2004-05 showed a declining trend afterwards.

Chart 3.1: Aggregate expenditure as a ratio to GSDP

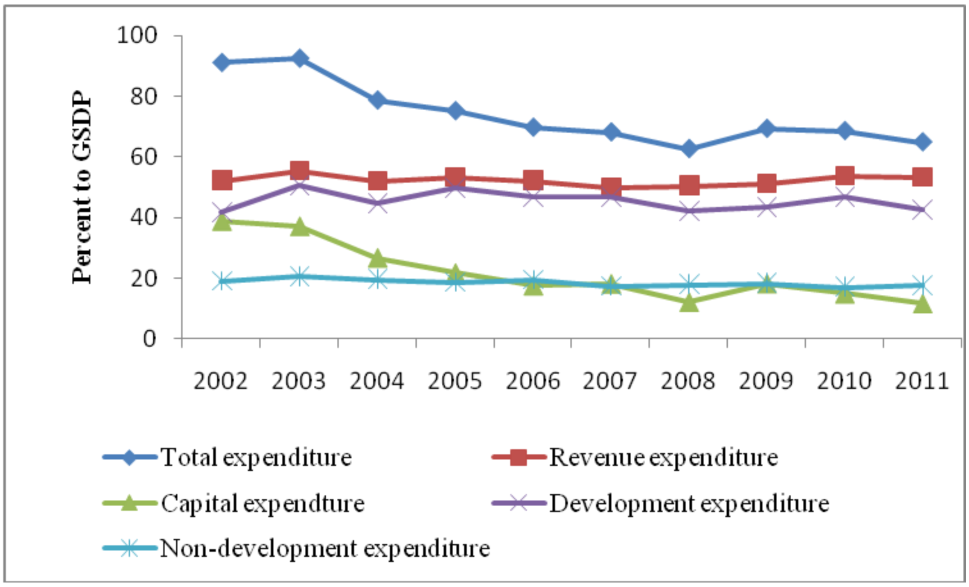


Table 3.1 & Table 3.2 show the composition and growth rates of aggregate expenditure. Component-wise, the share of revenue expenditure to the aggregate expenditure of the State showed an upward trend during 2002-03 to 2011-12. The share went up steadily from 57 per cent in 2002-03 to 82 per cent in 2011-12. On the other hand, the share of capital disbursement fell down significantly from 43 per cent in 2002-03 to 18 per cent in 2011-12. Capital outlay which accounted 10 per cent of aggregate spending rose continuously to 21 percent in 2007-08; thereafter, its share had fallen to 11 percent in 2011-12. When aggregate expenditure was disaggregated into development, non-development and others, it was found that the share of development expenditure has increased much faster than non-development expenditure. Development expenditure which accounted for 46 percent in 2002-03 has risen to 66 percent-representing a 20 percentage points increase whereas non-development expenditure increased from 21 percent to 27 percent- a modest 6 percentage points increase over the same period.

Other expenditure which includes discharge of internal debt, repayment of central loans, loans and advance by State Government has been consistently declining.

Table 3.1 Aggregate Expenditure of Government of Mizoram

(Rs in crores)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Aggregate Expenditure (1+2=3+4+5)	1975 (100)	2153 (100)	2112 (100)	2235 (100)	2295 (100)	2603 (100)	2869 (100)	3666 (100)	4158 (100)	4538 (100)
1. Revenue Expenditure	1131 (57)	1288 (60)	1394 (66)	1588 (71)	1717 (75)	1908 (73)	2314 (81)	2703 (74)	3256 (78)	3724 (82)
of which: Interest Payment	133 (7)	167 (8)	182 (9)	185 (8)	229 (10)	208 (8)	226 (8)	254 (7)	122 (3)	274 (6)
2. Capital expenditure	844 (43)	865 (40)	718 (34)	647 (29)	578 (25)	694 (27)	555 (19)	963 (26)	902 (22)	815 (18)
of which : Capital Outlay	188 (10)	372 (17)	330 (16)	451 (20)	466 (20)	544 (21)	441 (15)	573 (16)	615 (15)	495 (11)
3. Development Expenditure	905 (46)	1180 (55)	1198 (57)	1484 (66)	1542 (67)	1793 (69)	1931 (67)	2302 (63)	2837 (68)	2982 (66)
4. Non-Development Expenditure	414 (21)	479 (22)	526 (25)	555 (25)	641 (28)	662 (25)	824 (29)	974 (27)	1034 (25)	1237 (27)
5. Others*	656 (33)	493 (23)	388 (18)	196 (9)	111 (5)	150 (6)	114 (4)	390 (11)	287 (7)	320 (7)

* Discharge of internal debt, repayment of central loans, loans and advance by State Government

Note : 1. Figures in parentheses are per cent to aggregate expenditure
2. Capital expenditure is net public accounts

Source : Budget Documents of Government of Mizoram

In absolute terms, total expenditure has grown by 10 per cent annually from Rs 1975 crores in 2002-03 to Rs 4538 crores in 2011-12. Revenue expenditure witnessed the highest growth rate, registering an annual growth rate of 14.3 per cent. It was Rs 1131 crores in 2002-03; whereas in 2011-12, it rose to Rs 3724 crore. Capital outlay, which played a crucial role in the economy, indicates a growth rate of 9.5 percent annually. It was Rs 188 crore in 2002-03, which increased to Rs 495 crore in 2011-12.

Table 3. 2: Compound Annual Growth Rates of Aggregate Expenditure (2002-03to 2011-2012)

Items	Per cent
1 Aggregate Expenditure (A+B)	10.2
A. Revenue Expenditure	14.3
B. Capital Expenditure	0.7
of which : Capital Outlay	9.5
2. Development Expenditure	13.6
3. Non-Development Expenditure	12.7

The absolute amount spent on development expenditure which was Rs 905 crore in 2002-03 increased to Rs 2982 crore in 2011-12, indicating an annual growth rate of 13.6 percent. Similar trend has been observed in respect of non-development expenditure. Non-development expenditure which amounted to Rs 414 crore in 2002-03 rose substantially to Rs 1237 crore in 2011-12, showing the annual growth rate of 12.7 percent during 2002-12.

3.2. Trend and Composition of Revenue Expenditure

Revenue expenditure is represented by recurring expenditure on salaries, wages, interest payment and servicing of debt, pensions and grants given by the State. It could be divided into two components-development and non-development revenue expenditure. Development revenue expenditure as a percent to GSDP showed an upward trend from 33 percent in 2002-03 to 36 percent in 2011-12 (Table 3.3). Of the two components, social services are revenue-intensive in terms of expenditure compared to economic services. As a ratio of GSDP, revenue expenditure on social services accounted for 19 to 21 percent during 2002-03 to 2011-12. On the other hand, revenue expenditure on economic services as a ratio to GSDP accounted for 12 to 17 percent during the same period. In fact, as a ratio to GSDP, revenue expenditure on economic services showed an irregular pattern. As on 2002-03, the ratio stood at 15 percent in 2002-13; it then moved up to 17 percent in 2005-06. But the share went down as low as to 12 percent in 2009-10. Since then, the ratio has been consistently increasing, and stood at 17 percent in 2011-12. As a ratio to GSDP, non-development revenue expenditure experienced a declining trend during 2002-03 to 2011-12 from 20 percent in 2003-04 to 17 percent in 2011-12.

Table 3.3: Trends in Revenue Expenditure

(per cent to GSDP)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Expenditure	52	55	52	53	52	50	51	51	54	53
1. Development Expenditure(a+b)	33	35	33	35	33	33	33	33	37	36
a) Social Services	19	19	18	18	18	18	20	21	20	19
b) Economic Services	15	14	15	17	15	15	13	12	17	17
2. Non-Development Expenditure	19	20	19	18	19	17	18	18	17	17

Source : Budget Documents, Government of Mizoram

Table 3.4 indicates trends in revenue expenditure durinmg 2002-12. In absolute terms, revenue development expenditure rose from Rs 725 crore in 2002-03 to Rs 2504 in 2011-12, showing a rise of 3.4 times. Expenditure on social and economic services showed the same trend over the period. Revenue expenditure on social services increased by 3.3 times over the same period from Rs 407 crores to Rs 1346 crore while economic services witnessed an increase by 3.6 times from Rs 319 crore in 2002-03 to Rs 1158 crores in 2011-12. Expenditure on non-development services records a three-fold increase from Rs 406 crores in 2002-03 to Rs 1220 crores in 2011-12.

Under social services, urban development registered the highest growth rate. It rose from Rs 9 crore to Rs 37 showing a fourfold increase, followed by Welfare of SC/ST with an increase of 3.8 times from Rs 53 crore to Rs 202 crore during the period of 2002-12.

Table 3.4: Trends in Revenue Ependiture of Goverment of Mizoram

(Rs in crore)

Items		2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
TOTAL EXPENDITURE (I+II)		**1131**	**1288**	**1394**	**1588**	**1717**	**1908**	**2314**	**2703**	**3256**	**3724**
1.Dev. Expenditure A+B)		**725**	**825**	**880**	**1046**	**1100**	**1263**	**1510**	**1755**	**2245**	**2504**
A. Social services		**407**	**435**	**477**	**548**	**593**	**697**	**898**	**1106**	**1237**	**1346**
i.	Education, Sports, Arts and Culture	199	211	238	278	301	333	399	488	589	698
ii.	Medical and Public Health	59	72	63	66	73	84	158	235	150	167
iii.	Family Welfare	7	10	9	8	9	15	13	17	24	19
iv.	Water Supply and Sanitation	34	37	42	55	47	76	85	105	106	104
v.	Housing	5	5	6	11	11	12	11	7	8	8
vi.	Urban Development	9	12	13	15	18	24	22	28	38	37
vii.	Information & Publicity	3	3	4	4	5	5	5	6	7	7
viii.	Welfare of SC/ST etc	53	51	61	66	71	86	91	140	177	202
ix.	Labour and Labour Welfare	3	4	3	4	4	4	5	5	7	7
x.	Social Security and Welfare	20	17	16	23	23	26	31	40	84	62
xi.	Nutrition	7	7	7	11	14	13	15	20	31	22
xii.	Relief on account of Natural Calamities	4	3	12	4	14	16	57	7	7	8
xiii.	Others	3	3	3	3	4	4	6	8	8	6
B. Economic services		**319**	**390**	**403**	**499**	**507**	**566**	**612**	**649**	**1008**	**1158**
i.	Agriculture & Allied Activities	112	129	150	177	175	206	225	245	502	529
ii.	Rural Development	29	30	28	29	48	51	42	35	65	43
iii.	Special Area Programme	2	8	7	17	26	29	35	32	38	36
iv.	Irrigation & Flood Control	3	4	3	8	3	6	4	5	7	9
v.	Energy	81	130	112	155	137	145	166	171	198	290
vi.	Industry & Minerals	28	20	26	37	31	30	30	34	62	51
vii.	Transport	43	48	50	51	59	68	69	77	78	100
viii.	Communication				0	2	2	5	6	4	2
ix.	Science, Technology & Environment					2	3	3	3	3	3
x.	General Economic Services	21	21	27	24	26	27	34	42	50	95
II. Non-development		**406**	**463**	**515**	**542**	**617**	**646**	**804**	**948**	**1011**	**1220**
A.	Organs of the State	17	25	27	19	19	30	46	45	43	43
B.	Fiscal Services	15	15	17	22	27	23	30	34	43	46
C.	Interest Payment	136	171	186	191	236	222	241	271	122	297
D.	Administrative Services	190	185	194	221	257	273	361	433	552	535
E.	Pensions	47	66	89	89	77	97	126	164	250	298
F.	Miscelneous Gen. Services	1	1	1	1	1	1	1	1	1	1

Source : Budget Documents, Government of Mizoram

Table 3.5 : Composition of Revenue Expenditure of Government of Mizoram (Per cent to total)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Expenditure (I+II)	100	100	100	100	100	100	100	100	100	100
1.Development Expenditure (A+B)	64.1	64.1	63.1	65.9	64.1	66.2	65.3	64.9	69.0	67.2
A. Social Services (i to xiii)	35.9	33.8	34.2	34.5	34.5	36.5	38.8	40.9	38.0	36.1
i. Education, Sports, Arts and Culture	17.6	16.4	17.0	17.5	17.5	17.4	17.2	18.1	18.1	18.7
ii. Medical and Public Health	5.2	5.6	4.5	4.2	4.2	4.4	6.8	8.7	4.6	4.5
iii. Family Welfare	0.6	0.8	0.7	0.5	0.5	0.8	0.6	0.6	0.7	0.5
iv. Water Supply and Sanitation	3.0	2.9	3.0	3.4	2.7	4.0	3.7	3.9	3.2	2.8
v. Housing	0.5	0.4	0.4	0.7	0.6	0.6	0.5	0.2	0.2	0.2
vi. Urban Development	0.8	0.9	1.0	0.9	1.0	1.3	1.0	1.0	1.2	1.0
vii. Information & Publicity	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
viii. Welfare of SC/ST etc	4.7	4.0	4.4	4.2	4.1	4.5	3.9	5.2	5.4	5.4
ix. Labour and Labour Welfare	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
x. Social Security and Welfare	1.7	1.3	1.1	1.4	1.3	1.4	1.4	1.5	2.6	1.7
xi. Nutrition	0.6	0.5	0.5	0.7	0.8	0.7	0.7	0.7	0.9	0.6
xii. Relief on account of Natural Calamities	0.4	0.3	0.8	0.2	0.8	0.8	2.5	0.3	0.2	0.2
xiii. Others	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.2
B. Economic Services (i to x)	28.2	30.3	28.9	31.4	29.6	29.7	26.4	24.0	30.9	31.1
i. Agriculture & Allied Activities	9.9	10.0	10.8	11.1	10.2	10.8	9.7	9.1	15.4	14.2
ii. Rural Development	2.6	2.3	2.0	1.8	2.8	2.7	1.8	1.3	2.0	1.2
iii. Special Area Programme	0.2	0.6	0.5	1.1	1.5	1.5	1.5	1.2	1.2	1.0
iv. Irrigation & Flood Control	0.3	0.3	0.2	0.5	0.1	0.3	0.2	0.2	0.2	0.2
v. Energy	7.1	10.1	8.0	9.7	8.0	7.6	7.2	6.3	6.1	7.8
vi. Industry & Minerals	2.5	1.6	1.9	2.3	1.8	1.6	1.3	1.3	1.9	1.4
vii. Transport	3.8	3.7	3.6	3.2	3.4	3.6	3.0	2.9	2.4	2.7
viii. Communication	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.1	0.1
ix. Science, Technology & Environment	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
x. General Economic Services	1.9	1.6	1.9	1.5	1.5	1.4	1.5	1.6	1.5	2.6
II. Non-Development Expenditure	35.9	35.9	36.9	34.1	35.9	33.8	34.7	35.1	31.0	32.8
A. Organs of the State	1.5	1.9	2.0	1.2	1.1	1.6	2.0	1.7	1.3	1.2
B. Fiscal Services	1.3	1.2	1.2	1.4	1.6	1.2	1.3	1.3	1.3	1.2
C. Interest Payment & Debt Servicing	12.0	13.2	13.4	12.0	13.7	11.6	10.4	10.0	3.7	8.0
D. Administrative Services	16.8	14.4	13.9	13.9	15.0	14.3	15.6	16.0	17.0	14.4
E. Pensions	4.2	5.1	6.4	5.6	4.5	5.1	5.4	6.1	7.7	8.0
F. Miscelneous Gen. Services	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source : Budget Documents, Government of Mizoram

Revenue expenditure on education etc rose from Rs 199 to Rs 698 crore, representing a 3.5 times increase. Water supply and sanitation witnessed a three-fold improvement from Rs 34 to Rs 104 crore. Social security and welfare and nutrition also showed a three-fold increase respectively. Revenue expenditure on medical and public health showed only a 2.8 times increase over the period from Rs 59 to Rs 167 crore.

Revenue expenditure has been dominated by development expenditure. It accounted for 64 per cent of the total revenue expenditure in 2002-03 and the share rose gradually and reached to 67 percent in 2011-12 (Table 3.5). The share of social services increased from 34 percent in 2003-04 to 41 percent in 2009-10 but declined further to 36 percent in 2011-12. The overall increase in social service was mainly due to rise in expenditure on education, urban development and welfare of ST/SC. Component-wise, the highest share has been accounted by education, sports etc., followed by medical and public health, water supply and sanitation, welfare of SC/ST under social services.

The proportion of total revenue expenditure accounted by economic services exhibited an upward trend during 2002-12. The proportionate share was 28 percent in 2002-03 and this has increased to 31 percent in 2011-12. Agriculture and allied activities, energy, transports dominated the economic sector. Increased share of economic services was contributed sole by agriculture and allied activities. In 2002-03, agriculture and allied activities accounted for 10 percent of the total revenue expenditure; the share increased to 14 percent. The share of non-development expenditure has been persistently declining during 2002-03 to 2011-12. As on 2002-03, non-development expenditure accounted 36 percent and its share in 2011-12 decreased to 33 percent. Interest payments, administrative services and pension accounted for a major portion of non-development revenue expenditure.

3.3. Trend and Composition of Capital Expenditure

Capital expenditure includes capital outlay, discharge of internal debt, repayment of loan to the Centre and loans and advances by State Government (Table 3.7). Total capital outlay has, in absolute terms, increased continuously from Rs 188 crore in 2002-03 to Rs 615 crore in 2010-11. As on 2011-12, the amount fell down to Rs 495 crores. The total amount discharged for internal debt which amounted to Rs 587 crore in 2002-03 has declined substantially to Rs 78 crore in 2008-09; thereafter, it rose to Rs 346 crores in 2009-10 and has shown a downward trend again since 2010-11. Since 2003-04, repayment of Centre loan has registered a downward trend. Loans and advance by State Government which fell down during 2002-07 has shown an upward movement during 2008-12.

Table 3.6: Trend in Capital Disbursement

(Rs in crore)

Items	2002 -03	2003 .04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12
Total disbursement* (I+II+III+IV)	844	865	718	647	578	694	555	963	902	815
I Total Capital Outlay (1+2)	188	372	330	451	466	544	441	573	615	495
1. Development expenditure (a+b)	179	355	319	438	442	531	421	547	592	478
a) Social services	74	124	78	90	122	106	93	150	126	114
b) Economic services	105	231	241	348	320	425	328	397	466	364
2. Non-development	9	17	11	13	24	14	20	26	23	17
II. Discharge of Internal Debt	587	354	326	143	79	127	78	346	234	268
III. Repayments of loans to the centre	34	102	27	19	32	17	18	19	23	18
IV Loans and Advances by State Government	35	37	34	34	0	6	17	25	30	34

*(*excluding public account)*
Source : Budget Documents, Government of Mizorm

Component-wise, capital expenditure is dominated by capital outlay for development and non-development purposes. Total capital outlay which accounted only 22 percent in 2002-03 had improved substantially to almost 61 percent in 2011-12. This is a welcome trend in view of the fact that capital outlay has a special significance in growth and development of the State. Discharge of internal debt witnessed a secular decline. It accounted for almost 70 per cent in 2002-03 but its share significantly declined to 33 percent in 2011-12. Capital outlay in economic services formed a significant proportion of capital disbursement and its share is relatively much higher than social service sector. Increase in development capital outlay is mainly driven by an increase in capital outlay in economic services. Repayment of loan to Centre, as a percent to total outlay, also registered a decreasing trend while loans and advance by State Government declined to nil in 2006-07 from 4.1 percent in 2002-03; the share later improved to 4.1 percent in 2011-12.

Table 3.7: Pattern of Capital Disbursement

(percent to total)

Items	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Total disbursement (I+II+III+IV)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
I T otal capital outlay (1+2)	22.3	43.0	45.9	69.7	80.7	78.4	79.5	59.5	68.2	60.7
1. Development expenditure (a+b)	21.3	41.0	44.4	67.6	76.5	76.4	75.9	56.8	65.6	58.7
a) Social services	8.8	14.4	10.9	13.9	21.1	15.3	16.8	15.6	14.0	14.0
b) Economic services	12.5	26.7	33.5	53.7	55.4	61.2	59.2	41.2	51.6	44.7
2. Non-development	1.0	1.9	1.5	2.1	4.2	1.9	3.6	2.7	2.6	2.1
II. Discharge of internal debt	69.6	40.9	45.5	22.1	13.7	18.3	14.1	36.0	25.9	32.9
III. Repayments of loans to the centre	4.0	11.8	3.8	2.9	5.5	2.4	3.3	2.0	2.6	2.2
IV. Loans and advances by state government	4.1	4.3	4.8	5.3	0.0	0.9	3.1	2.6	3.3	4.1

Table 3.8: Composition of Capital Outlay

(Percent to total)

Items	2002-03	2003.04	2004-05	2005-06	2006-07	2007-08	2008-09	2009.1	2010-11	2011-12
Total Expenditure (I+II+III)	100	100	100	100	100	100	100	100	100	100
1. Development expenditure (a+b)	95.5	95.5	96.7	96.9	94.8	97.5	95.5	95.5	96.2	96.6
A. Social services (i to xiii)	39.5	33.4	23.7	19.9	26.2	19.5	21.1	26.2	20.5	23.0
i. Education, Sports, Arts and Culture	2.9	2.0	3.9	2.9	3.5	1.0	1.6	6.7	4.9	1.2
ii. Medical and Public Health	2.0	2.5	1.9	0.6	0.1	0.0	0.9	0.0	0.0	0.0
iii. Family Welfare	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iv. Water Supply and Sanitation	23.0	15.4	13.5	12.9	16.7	14.0	14.6	10.5	7.2	8.9
v. Housing	4.4	2.3	0.6	0.4	0.6	0.5	0.5	1.3	1.2	5.5
vi. Urban Development	5.4	9.8	2.0	1.4	0.4	1.1	1.5	7.6	7.0	7.5
vii. Information & Publicity	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
viii. Welfare of SC/ST etc	1.3	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ix. Labour and Labour Welfare	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
x. Social Security and Welfare	0.0	0.0	1.6	1.6	4.7	2.8	2.0	0.1	0.0	0.0
xi. Nutrition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
xii. Relief on account of Natural Calamities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
xiii. Others	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.0
B. Economic services (i to xi)	56.0	62.1	73.0	77.0	68.6	78.1	74.4	69.2	75.7	73.5
i. Agriculture & Allied Activities	7.4	5.6	5.0	1.5	5.1	13.0	19.7	19.9	20.3	14.8
ii. Rural Development	0.4	0.1	0.6	0.6	0.5	0.5	1.9	1.0	1.2	1.8
iii. Special Area Programme	10.0	6.3	14.5	12.0	14.1	13.2	13.3	3.8	5.1	7.4
iv. Irrigation & Flood Control	2.0	3.1	3.7	2.8	7.2	5.7	17.0	7.8	9.4	10.0
v. Energy	16.7	17.4	16.0	27.2	14.6	12.7	7.9	14.6	11.8	14.0
vi. Industry & Minerals	1.0	0.5	1.2	1.0	1.1	0.7	1.9	0.3	0.6	0.0
vii. Transport	17.2	28.6	31.4	31.0	25.3	28.6	9.7	21.2	24.2	25.6
viii. Communication	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ix. Science, Technology & Environment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
x. General Economic Services	1.3	0.6	0.6	1.1	0.6	3.8	3.1	0.7	3.2	0.0
II. Non-development Expenditure	4.5	4.5	3.3	3.0	5.2	2.5	4.5	4.5	3.8	3.4

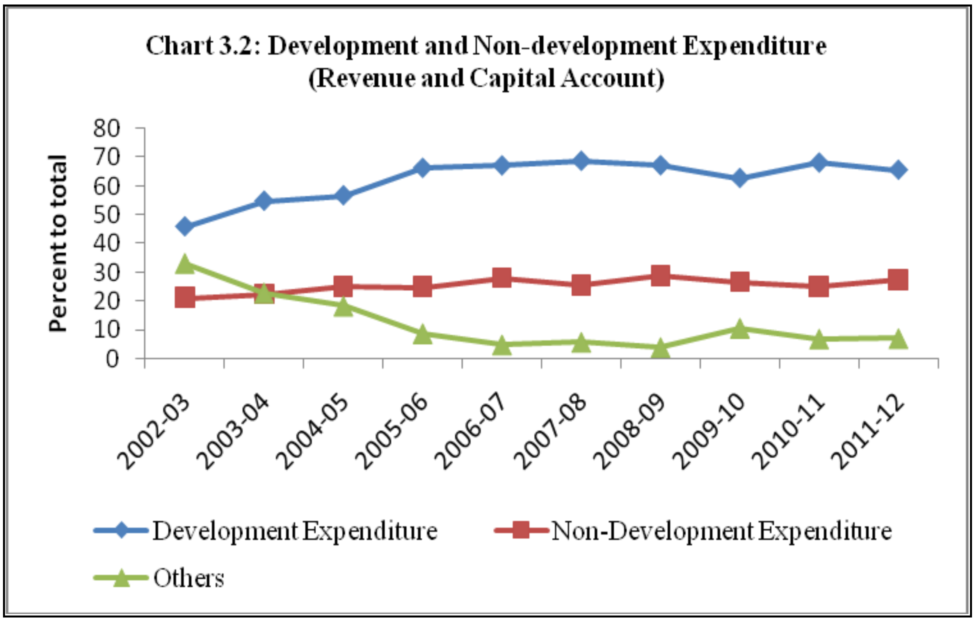
Source: Budget Documents, Government of Mizoram

The composition of capital outlay, as depicted in Table 3.8, revealed that more than 95 percent of the total capital outlay has been dominated by development capital outlay. The table further indicates that capital outlay on social services has seen a downward trend while economic services witnessed an upward trend. Social services accounted 39.5 percent in 2002-03 and the proportion has fallen to 23 percent in 2011-12. Contrast to this, the share of economic services improved from 56 percent to 73 percent during the same period. Capital oulay on social services is dominated by water supply and sanitation, urban development, and housing. Excepting housing and urban development which showed a marginal improvement, all other items including education, health, water supply etc showed a decreasing share. Capital outlays under economic services are dominated by energy, transport, special area programme, agriculture and allied activities. The increase in economic service outlay is mainly contributed by agriculture & allied sectors and transport.

3.4. Development and Non-Development Expenditure

The decomposition of total expenditure into development and non-development ependiture is another way to analyse the composition of aggregate expenditure of the State. Like revenue-capital dichotomy, the classification of state expenditure into development and non-development has important implication in relation to the quality of expenditure. Since development expenditure relates to expenditure on both social and economic services, it has a beneficial impacts and leads to social and economic development. Non-development expenditure mainly consists of liabilities on administrative services, pension and interest payment. In order to have a fast rate of growth in the economy, development expenditure should grow at a faster rate relative to non-development expenditure and its share must be higher in the total composition of expenditure.

Chart 3.2 traces trends in development and non-development expenditure as a percentage to total expenditure. While the share of development expenditure significantly increased, non-development expenditure witnessed a modest improvement. Development expenditure accounted 46 percent of the total expenditure in 2002-03; this share further rose to 69 percent in 2007-08; thereafter, the share has declined consistently and stood at 66 percent in 2011-12. During 2002-03 to 2011-12, overall development expenditure as a ratio to total development expenditure had seen an increase of 20 percentage-points. Meanwhile, the share of non-development expenditure recorded a 6 percentage point increase from 21 percent in 2002-03 to 27 percent in 2011-12. Others items which consisted of discharge of internal debts, repayment of loans to Centre and loans and advances given by State Government witnessed a secular downward trend.



Source: Budget Documents, Government of Mizoram

Table 3.9 shows the composition of expenditure on Social Services under Revenue and Capital accounts. Expenditure on social services are dominated by education, sports, arts and culture, water supply and sanitation, medical and public health, welfare of SC/ST, urban development and social security and welfare. Under social services, expenditure on education and welfare services for SC/ST had seen an improvement in the share of total revenue expenditure. As on 2002-03, education etc accounted 42.4 percent of the total expenditure on social services. This share increased to 48.2 percent in 2011-12 which indicated that almost half of the total expenditure on social services has been accounted by education, sports, arts and culture.

Table 3.9: Composition of Expenditure on Social Services (Revenue and Capital Accounts)

(Per cent to expenditure on social services)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2010-10	2010-11	2011-12
Expenditure on Social Services (a to k)	100	100	100	100	100	100	100	100	100	100
a) Education, Sports, Arts and Culture	42.4	38.9	45.1	45.6	44.3	42.1	41.0	42.0	45.4	48.2
b) Medical and Public Health	13.1	14.5	12.5	10.8	10.3	10.5	16.3	18.7	11.0	11.4
c) Family Welfare	1.5	1.8	1.6	1.3	1.3	1.9	1.3	1.4	1.8	1.3
d) Water Supply and Sanitation	16.0	17.0	15.5	17.7	17.5	18.9	15.0	13.1	11.0	10.1
e) Housing	2.9	2.3	1.4	2.0	1.8	1.9	1.3	1.1	1.2	2.4
f) Urban Development	4.2	8.8	3.6	3.3	2.8	3.7	2.9	5.7	6.0	5.1
g) Information & Publicity	0.6	0.5	0.7	0.6	0.7	0.6	0.5	0.5	0.5	0.5
h) Welfare of SC/ST etc	11.4	10.0	11.0	10.3	9.9	10.7	9.2	11.1	13.0	13.8
i) Labour and Labour Welfare	0.6	0.7	0.5	0.6	0.6	0.5	0.5	0.4	0.5	0.5
j) Social Security and Welfare	4.2	3.0	3.8	4.7	6.3	5.1	4.0	3.2	6.2	4.2
k) Nutrition	1.5	1.3	1.3	1.7	2.0	1.6	1.5	1.6	2.3	1.5

Source: Budget Documents, Government of Mizoram

The share of water supply and sanitation has seen a downward trend. In 2002-03, water supply and sanitation accounted for 16 percent of the total expenditure on social services; the share went down to 10 percent in 2011-12. It may be pointed out while provision of drinking water supply and sanitation facilities in rural areas has been one of the important priorities under Bharat Nirman- a national flagship programme on rural development- its share has been declining in the State budgets. Expenditure on medical and public health as a percentage to total expenditure on social services witnessed a modest decrease from 13.1 percent in 2002-03 to 11.4 percent in 2011-12. The state is implementing National Rural Health Mission and the State has been able to utilise to improve health infrastructure and other support inputs in rural areas under this programme. Expenditure on welfare of SC/ST witnessed an upward trend from 11.4 percent in 2002-03 to 13.8

percent in 2011-12. The State has three Autonomous District Councils (ADCs); grants given to these three ADCs have been accounted under this head.

Composition of expenditure on economic services is summarised in Table 3.10. The key sectors under economic services are agriculture and allied activities, energy, and transport, followed by rural development and industry & minerals.

Table 3.10: Composition of Total Expenditure on Economic Services (Revenue and Capital Accounts)

(Per cent to expenditure on economic services)

Items	2002-03	2003.04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Expenditure on Economic Services (a to j)	100	100	100	100	100	100	100	100	100	100
a) Agriculture & Allied Activities	29.7	24.2	25.9	21.7	23.9	28.0	33.1	34.3	42.5	39.6
b) Rural Development	7.1	4.8	4.7	3.8	6.0	5.3	5.3	3.9	4.9	3.4
c) Special Area Programme	5.0	5.2	8.5	8.4	11.1	10.2	10.0	5.2	4.7	4.8
d) Irrigation & Flood Control	1.7	2.4	2.3	2.4	4.4	3.7	8.4	4.8	4.4	3.8
e) Energy	26.4	31.5	25.5	32.7	24.8	21.6	21.4	24.3	18.4	23.6
f) Industry & Minerals	7.1	3.5	4.7	4.8	4.5	3.4	4.0	3.4	4.5	3.4
g) Transport	17.7	24.8	23.9	22.6	21.4	22.6	11.9	19.0	15.4	14.8
h) Communication	0.0	0.0	0.0	0.0	0.2	0.2	0.5	0.6	0.3	0.1
i) Science, Technology & Environment	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.3	0.2	0.2
j) General Economic Services	5.4	3.7	4.5	3.4	3.5	4.8	5.1	4.4	4.7	6.2

Source: Budget Documents, Government of Mizoram

Expenditure on agriculture & allied activities showed a mixed trend during 2002-12. Initially, its share declined from 30 percent in 2002-03 to 24 percent 2006-07; since then, the share indicated an upward movement from 28 percent in 2007-08 to 42.5 percent in 2010-11. As on 2011-12, the share, however, had slightly declined and stood at 39.6 percent. Another critical expenditure on economic service is energy. Expenditure on energy as a ratio to total expenditure on economic servces recorded a secular decline. The share 0f expenditure on transport showed an upward trend till 2007-08 and thereafter, its share has persistently declined.

Rural development has been one of the top-most priority sectors of the State. Despite several programmes under CSS have been implemented by the State, rural development has seen a declining share as a percentage to total expenditure under economic services. The share of expenditure under Special Area Development showed a variation from 5 percent to 11 percent. Irrigation and flood control accounted between 2 percent and 8 percent of total expenditure of economic services.

Another observation relates to the persistent decline in the share of industry & minerals. The structure of the State's industry is mainly based on micro and small industrial units and its sectoral share in GSDP was 22 percent in 2011-22. Budget expenditure for the sector has been continuously falling from 7 percent in 2002-03 to 3 percent in 2011-12.

Non-development expenditure includes public spending on organs of the State, fiscal services, interest payment & debt servicing, administative services and pensions and miscelleneous general services. Relative to the total expenditure on general services, spending on pensions showed a significant rise while interest payment & debt servicing and administrative services witnessed a declining trend. Component-wise, administrative services and interest payment & debt servicing dominate expenditure on general services. Interest payment accounted for 33 percent in 2002-03 and its share has been reduced substantially to 24 percent in 2011-13. A slight decline was also observed in respect of administrative services whose share has fallen from 46 percent in 2002-03 to 43 percent 2011-12.

Table 3.11: Composition of Expenditure on Non-Development/General Services (Revenue and Capital Accounts)

(Per cent to expenditure on general services)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007 08	2008-09	2009-10	2010-11	2011-12
Non-Development Expenditure (a to f)	100	100	100	100	100	100	100	100	100	100
a) Organs of the State	6.0	8.6	7.2	5.8	6.7	6.7	7.9	7.3	5.6	4.9
b) Fiscal Services	3.6	3.1	3.2	4.0	4.2	3.5	3.6	3.5	3.6	3.7
c) Interest Payment & debt servicing	32.9	35.7	35.4	34.4	36.8	33.7	29.2	27.8	22.6	24.0
d) Administrative Services	45.9	38.6	36.9	39.8	40.1	41.4	43.8	44.5	46.8	43.2
e) Pensions	11.4	13.8	16.9	16.0	12.0	14.7	15.3	16.8	21.2	24.1
f) Miscelleneous Gen. Services	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1

Source: Budget Documents, Government of Mizoram

3.5. Plan and Non-Plan Expenditure

Plan expenditure reperesents investments on new schemes taken up during the plan period while the maintenance expenditure of the schemes after the end of the plan priod is called non-plan expenditure. Under revenue account, the share of plan revenue expenditure recorded a rising trend while that of non-plan revenue expenditure witnessed a decline in its share. As on 2002-03, plan revenue accounted 31 percent of the total revenue expenditure; the share has increased to 37 percent in 2011-12 (Table 3.13). Plan capital outlay constituted 90 percent of the total capital outlay in 2002-03; the share significantly rose to 101 percent in 2005-06. However, plan capital outlay showed a declining trend and by 2011-12, its share was 87 percent.

Box 3.1: Committed expenditure and its compostion

Interest payment, administrative services and pensions are the three liabilities which dominated non-development expenditure of the State Government. These expenditures are committed in nature. Committed expenditure as percentage to GSDP rose from 17 percent in 2002-03 to 18 percent in 2004-05. This was mainly contributed by a rise in interest payment and pension liabilities. Subsequently, committed expenditure as percentage to GSDP fell down to 15 percent in 2010-11, solely contributed by a sharp decline in interest payment and servicing of debt. As on 2011-12, committed expenditure rose to 16 percent of the GSDP.

Table 3.12: Committed Expenditure and its composition relative to GSDP

(percent)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1) Interest Payment & Debt Servicing	6	7	7	6	7	6	5	5	2	4
2) Administrative Services	9	8	7	7	8	7	8	8	9	8
3) Pensions	2	3	3	3	2	3	3	3	4	4
Total	17	18	18	17	17	16	16	17	15	16

Interest payment and debt servicing burden soured with high cost borrowings during the 1990s. There was huge fiscal imbalance and borrowings were used to finance consumption expenditure. Internal debts, loans from the Centre and public sector banks were the main sources of financing the fiscal deficits of the State. Interest payment on these loans remained a major component in the total payments of the State Government of Mizoram. Interest payment-GSDP ratio which showed an upward trend during 2002-07, started to fall down thereafter. By 2010-11, interest payment as percentage to GSDP was 2 percent. As on 2011-12, interest payment-GSDP ratio rose to 4 percent. The decline in interest payments are partly due to the Debt Swap Scheme (DSS) operated during 2002-05 and the Debt Consolidation and Relief Facility (DCRF), recommeded by the Twelfth Finance Commission.

Administrative services constitute other committed liabilities of the State. The charge on administrative services as percentage to GSDP remained stable at around 7 to 9 percent. The cost of providing administrative services in Mizoram is much more expensive than other States. It has a hilly terrain and heavy rainfall induced by monsoon not only caused lanslide but also hamper works in may ways. Recently, new administrative districts are created due to political pressure and the establsiments costs are rising. Despite ban on creation of new posts, the creation of Indian Reserve (IR) battalion causes a huge strain on the State exchequer during the early 2000s.

Pension liabilities have increased substantially since the early 2000s. Expenditure on pension as percentage to GSDP has improved from 2 percent in 2002-03 to 4 percent in 2011-12. With the introduction of new pension scheme, the future rise in pension fund liabilities would be arrested within manageable limits.

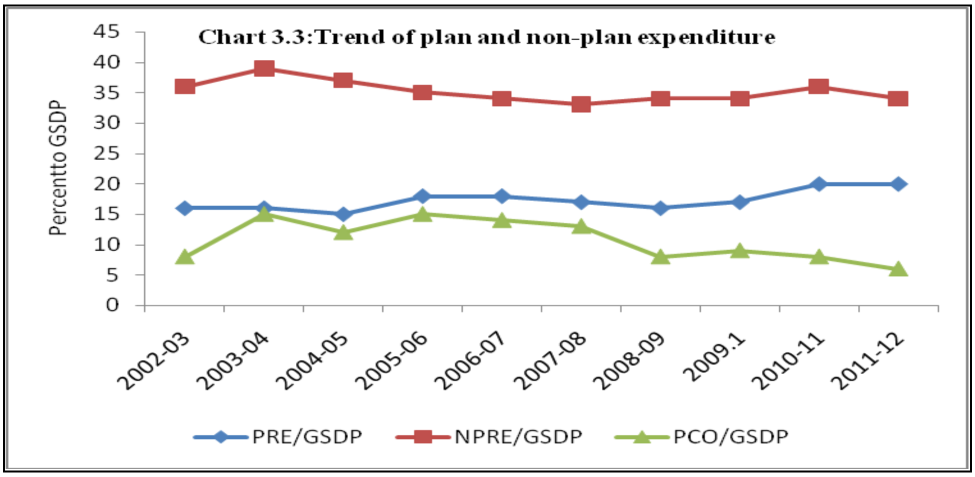
Table 3.13: Trend and Composition of Plan and Non-Plan Expenditure

(Rs in crores)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue account	1131 (100)	1291 (100)	1394 (100)	1588 (100)	1717 (100)	1908 (100)	2314 (100)	2703 (100)	3255 (100)	3724 (100)
a) Plan Expenditure	346 (31)	378 (29)	413 (30)	540 (34)	603 (35)	649 (34)	741 (32)	897 (33)	1197 (37)	1373 (37)
b) Non-Plan Expenditure	785 (69)	913 (71)	982 (70)	1048 (66)	1115 (65)	1259 (66)	1573 (68)	1805 (67)	2058 (63)	2351 (63)
Capital Account	188 (100)	372 (100)	330 (100)	451 (100)	466 (100)	544 (100)	441 (100)	573 (100)	615 (100)	495 (100)
a) Plan Expenditure	170 (90)	360 (97)	320 (97)	454 (101)	452 (97)	490 (90)	367 (83)	465 (81)	499 (81)	429 (87)
b) Non-Plan Expenditure	18 (10)	12 (3)	10 (3)	-2 (0)	14 (3)	55 (10)	74 (17)	107 (19)	117 (19)	66 (13)

Source: Budget Documents, Government of Mizoram

As a ratio to GSDP, plan revenue expenditure showed an upward trend from 16 percent in 2002-03 to 20 percent in 2011-12 whereas non-plan revenue expenditure registered a downward. Plan capital outlay as a ratio to GSDP reflected an upward trend during 2002-2005; thereafter, the percentage fell down significantly during 2006-12. Plan capital outlay which accounted for 8 percent of the GSDP in 2002-03 increased to 15 percent; the ratio fell down to 6 percent in 2011-12.



PRE : Plan Revenue Expenditure, NPRE : Non-Plan Revenue Expenditure, PCO: Plan Capital Outlay, GSDP: Gross State Domestic Prodcut
Source: Budget Documents, Government of Mizoram

As given in Table 3.14, plan expenditure on social and economic service taken together exhibited an upward trend till 2006-07 and later, showed a declining trend. Plan development expenditure which had accounted for 23 percent of GSDP rose to 31 percent in 2006-07. However, the ratio fell down to 25 percent in 2011-12 from 29 percent in 2007-08. Plan expenditure on social services which was 11 percent of GSDP rose to 14 percent in 2003-04; later the ratio fell down significantly to 8 percent in 2005-06. Thereafter, it continued to rise till 2009-10, reaching 17 percent to GSDP. However, the ratio showed a declining trend and by 2011-12, it constituted 11 percent only. The erratic trend observed in plan expenditure on social services is a reflection of the State's failure to project a consistent policy in regard to human development.

Table 3.14: Trend in plan development and non development expenditure (Revenue & Capital outlay)

(Percent to GSDP)

Particulars	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
1.Development	23	36	22	29	31	29	23	19	27	25
a) Social	11	14	7	8	13	12	12	17	12	11
b) Economic	12	22	15	20	17	17	12	6	16	14
2. Non-development	1	2	1	1	1	1	1	2	1	3

Source: Budget Documents, Government of Mizoram

Plan expenditure on economic service-GSDP ratio varied between 22 per cent in 2003-04 and 6 percent in 2009-10. As a ratio to GSDP, plan expenditure on economic services exhibited an overall downward trend. Non-development plan expenditure as a percentage to GSDP varied between 1 percent and 3 percent during 2002-03 to 2011-12.

3.6. Measures to enhance allocative and technical efficiency in expenditure

During 2002-03 to 2011-12, the State Government of Mizoram (SGoM undertook several measures and initiatives in order to improve the quality of government expenditure. Expenditure restructuring favouring capital outlay and development component is the key to improving the allocative efficiency in expenditure use whereas reducing the size of revenue expenditure especially salaries and wages under general services, interest payments etc is an important component for enhancing technical efficiency in public expenditure. Some of the measures undertaken by the State Government have been examined in this sub-section.

(i) Rationalization of non-plan revenue expenditure: Reforming non-plan revenue expenditure holds the key to enhancing the allocative and technical efficiency of public spending in the State. Over the years, the State government took several economy measures like withdrawal of LTC facilities to State government employees, restriction of medical reimbursement facilities to hospitalisation, referred cases and other serious cases, abolition of vacant posts, appointment of teachers on contract basis, redeployment of work charged establishments, tapering of subvention to GIA institutions, privatization of government vehicles, voluntary retirement schemes for drivers, handy-man and despatch riders, including primary school teachers, reduction of explicit subsidies etc. The State government also initiated the power sector reforms and restructuring of public sector undertakings for better fiscal management.

(ii) Privatisation of Government vehicles: The privatisation of vehicles scheme was introduced in 2001. Under this scheme, the State Government set up a committee to identify Departmental vehicles which can be dispossed off. The identified vehicles were disposed off by auction at book value as calculated by the Technical Committee constituted for the purpose. No fresh purchase of vehicle was allowed as replacement while the affected officer was entitled to hire a private vehicle at the rate approved by the State Government. The officer was also entitled to claim cash equivalent of the prescribed monthly quota of Petroleum, Oil and Lubricants (POL). They are also encouraged to purchase their own self-driven, self-finance car under the Mizoram (Special Loans for the purchase of cars) Rules, 2001. The affected drivers, including

handyman, despatch riders are eligible to proceed on retirement under the Mizoram (Voluntary Retirement Scheme for Drivers, Despatch Riders and Handy-man) Rules, 2001. Privatization of government vehicles was successfully implemented during 2007-08 and the sister scheme for providing special car loan at concessional interest was also introduced in the same year[3].

(iii) Voluntary Retirement Scheme: This is the sister scheme of privatisation of government vehicle. It was availed by more than 300 Drivers and 193 Teachers. The State Government availed market loan amounting to Rs 70 crore for implemenetation of voluntary retirement schemes for drivers etc. Structural Adjustment Loan taken from Asian Development Bank was allocated for teachers' voluntary retirement schemes. During 2011-12, more than 300 cases of teachers have been processed to avail this Special Voluntary Retirement Scheme to provide room for qualified teachers as well as to reduce revenue expenditure.

(iv) Non-filling up of vacant post: As a part of economy measures, filling up of vacant post is restricted to the minimum level. Because of this, almost 9000 posts are presently lying vacant under the Government of Mizoram, PSUs and Aided Institutions.

(v) Pension Reforms: Pension expenditure has been the most important items of non-plan revenue expenditure of the State Government. It has recorded a substantial increase over the last few years in terms of absolute amount. Over the period between 2002-03 and 2011-12, the absolute spending on pension liabilities rose by 6.3 times, from Rs 47 crore to Rs 298 crore. As a percentage to GSDP, it increased from 2 percent to more than 4 percent (chart 5.4). Pension expenditure has suddenly increased since 2009-10 due to implementation of the Mizoram (Revision of Pay) Rules, 2010. The State Government estimated the trend growth rate of pension payment at

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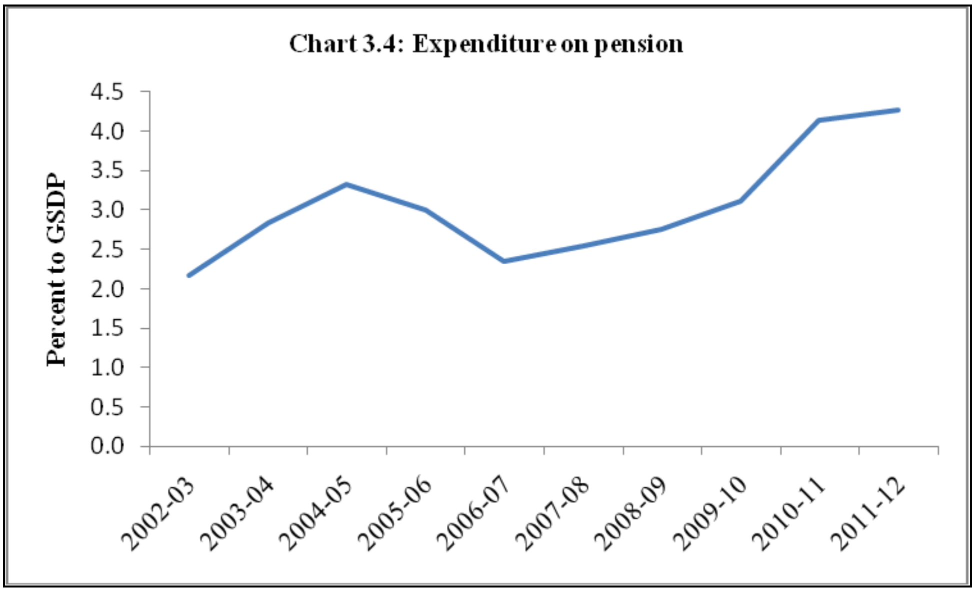
[3] Under the provision of 'The Mizoram Government Employees (Special Loan for Purchase of Car) Rules, 2001, officers deprived of the entitlement have been provided with concessional interest rate of 5.5 percent with a maximum loan ceiling of Rs 5.00 lakh.

15.61per cent. In order to arrest the burgeoning pension liabilities, the State Government has introduced the Mizoram New Defined Contributory Pension Scheme, 2010 for State government regular employees. Another pension scheme meant for contract workers, aided institution employees etc was also introduced under The Mizoram New Contributory Pension for Unorganised Employees and Workers Scheme, 2010.



Source: Budget documents, Government of Mizoram

3.7. Suggestions for improving the efficiency of public spending

The key to State's fiscal consilidation and reform lies in the reform of current expenditure which is broadly constituted by salaries of government employees, pensions and implicit subsidies. Since State public sector units also failed to generate any surplus for reinvestement for the development of the State, reforms of PSEs or disinvestment is high on the agenda of the state fiscal reforms.

(i) Rationalisation of expenditure on salaries and wages: Salary expenditure under non-plan revenue has shown a rising tendency (Table 3.15). As given in the Table, salary as percenatge to GSDP and non-plan revenue expenditure showed an upward movement in the post-FRBMA period. Moreover, there was a big shot in salary expenditure in 2010-2011 due to

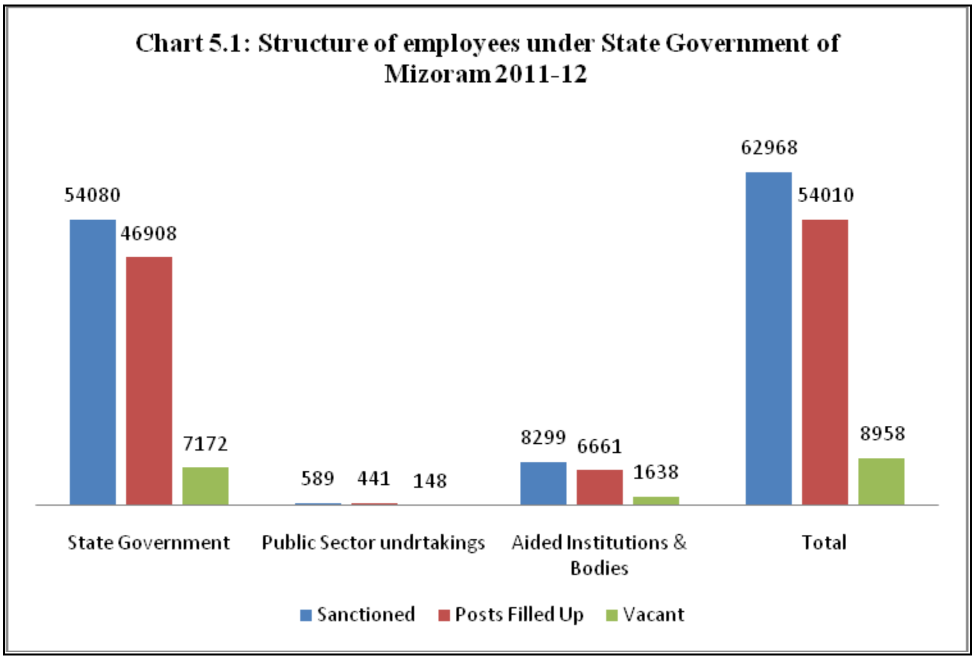
the implementation of Sixth Pay Commission recommendations by the State Government. Salary reforms have always been one of the most important one but a very critical agenda for fiscal reforms in the country.

Table 3.15: Salary Expenditure under Non-plan revenue account

Items	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Salary as percentage of GSDP	15.9	14.7	14.0	15.4	16.1	16.8	19.3	16.5
2. Salary as percentage of Non-Plan Revenue Expenditure	43.6	41.6	41.5	46.7	47.0	48.9	56.9	48.9

Source : Budget Documents, Government of Mizoram

As on 2011-12, there were 54,010 employees under the Government of Mizoram (see chart 3.5). These employees could be classified into three groups- employees under different State Government departments, public sector undertakings employees and employees under aided institutions and autonomous bodies. There were 7172 posts vacant (not filled up) under state government departments.



Source: Government of Mizoram Statement on Salary & Employment Data in Government, PSU and Aided Institutions

As a mean of salary rationalization, the Government has abolished some vacant posts, teachers and others were appointed on contract basis, privatization of government vehicles were introduced, voluntary retirement schemes for government drivers, teacher etc have been initiated.

(ii) Reduction of food subsidies under TPDS: The State suffers serious fiscal schocks every year due to non-recovery of foodgrains costs purchased from FCI. It is a high time that the Government should rationalise the pricing of foodgrains supplied to the APL households through PDS.

(iii Outsourcing of Services: Several of the non-essential services could be outsourced by the State Government to private sector service provider. For instance, vehicle services, drivers, cleaners etc could be effectively outsourced. If the Government of Mizoram could move ahead, there could be a drastic reduction in Government's recurring expenditure and bring efficiency in delivery of services relative to the expenditure.

(iv) Introduction of PPP mode in services and infrastructure sectors: The scope for PPP mode in service and infrastructure sector development is huge and its potential is not yet fully explored. Several projects could be made more efficient under PPP mode and it could be a mean for supplementing Government effort in infrastructure project. Presently, waste disposal in Aizawl city being taken in PPP mode. Other PPP mode may be introduced for car parking complex, ropeway, hydel projects (Tuivai hydel projects (200 MW) is being proposed under VGF), educational institutions, tourist's cottage/lodge management etc.

(v) Reduction of Power Subsidy: Though the State does not provide free power to any sector of the economy, the power sector, however, suffers from heavy losses due to transmission and distribution inefficiencies, power theft and pilferages. The key to improving the performance of the power sector lies in corporatisation of the sector, strengthening the distribution networks, improving collection efficiency and reduction of technical losses.

(vi) Restructuring of State PSEs: Though the State has only five PSEs, they have been causing a huge drain on the State exchequer due to high level of losses incurred by them. Despite restructuring and reform measures proposed and suggested by Committees and Independent study, the state government could not implement any of these measures-it could neither initiate any revival packages nor move ahead with any disinvestment plan or close the units. A bold initiative is required and for this, the State government has no choice but to restructure the ailing PSEs or close down them permanently.

CHAPTER 4

ANALYSIS OF DEFICITS, OUTSTANDING LIABILITIES AND CONTINGENT LIABILITIES

4.1. Major Deficit Indicators

One remarkable feature of the Mizoram State's finance during 2002-03 to 2011-12 was the significant improvement in the fiscal position of the state as measured by the major deficit indicators such as revenue deficit (RD), gross fiscal deficit (GFD) and primary deficit (PD). Revenue deficit represents a shortfall in revenue receipts against revenue expenditure whereas revenue surplus indicates a surplus of revenue receipts over revenue expenditure. During 2002-03, the state witnessed a revenue deficit amounting to Rs 109 crore representing 5 per cent of GSDP (Table 4.1 & Chart 4.1). As given in Table 4.1, it was observed that the state witnessed revenue surplus through out the remaining years since 2003-04. As a percent to GSDP, revenue surplus fluctuated around 2 to 7 percent.

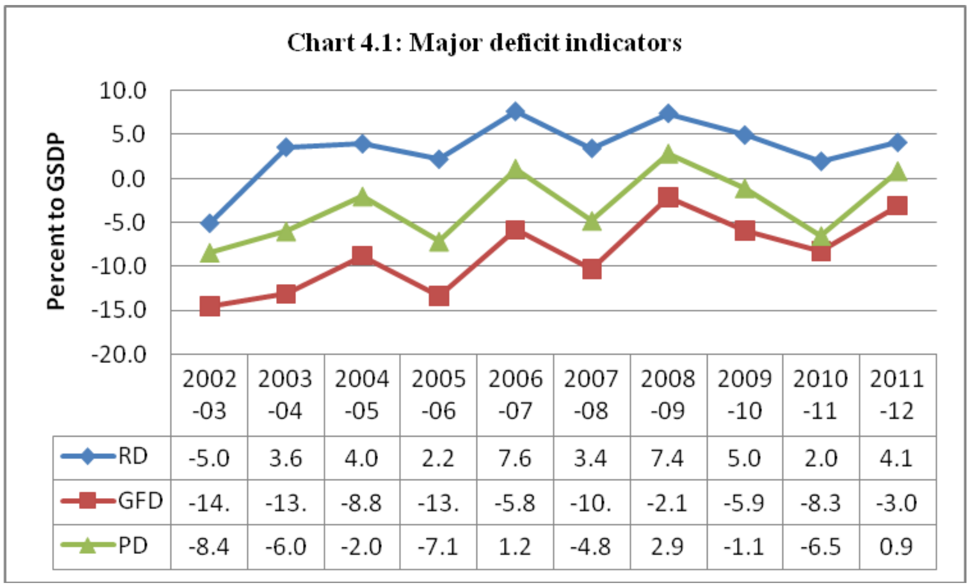
Table 4.1: Major Deficit Indicators

(Rs in crores)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Revenue Deficit	-109	83	106	66	252	131	339	261	120	288
2. Gross Fiscal Deficit	-315	-306	-235	-397	-191	-391	-94	-312	-500	-212
3. Primary Deficit	-182	-139	-54	-212	38	-183	131	-57	-349	62

Source: Budget Documents, Government of Mizoram

Gross fiscal deficit indicates the total borrowing requirements of the State. Revenue deficit and gross fiscal deficits are the key indicators of the fiscal health of the States. As such, reduction of revenue and fiscal deficits has been the key targets for rule-based fiscal reforms proposed by Twelfth and Thirteenth Finance Commission. It was observed from Chart 4.1 that GFD as a percent to GSDP is continously falling during 2002-03 to 2011-12. The ratio varied between 14 percent and 2 percent. As on 2011-12, GFD was 3 percent of GSDP. Another relevant deficit indicator is related with primary deficit. Primary deficit is defined as the fiscal deficit net of interest payment which indicates the extent of deficit which is the outcome of the fiscal transaction of the State during the course of the year. Primary deficit-GSDP ratio has improved significantly during the same period. The ratio which was (-) 8.4 per cent of GSDP in 2002-03 has improved to 1 per cent in 2011-12



Note*: RD: Revenue deficit (-) and revenue surplus (+), GFD: Gross Fiscal Deficit, PD: Primary Deficit*

The decomposition of Gross Fiscal Deficits is shown in Table 4.2. GFD is constituted by revenue deficit/surplus, capital outlay and net lending. It may be noted that a surplus in the revenue account would reduce the borrowing requirement of the state; similarly, a surplus in loan recoveries over its payment also reduced the amount required to borrow. During 2002-03 to 2011-12, gross fiscal deficit has been mainly dominated by capital outlay. Due to surplus in revenue account, a large proportion of capital outlay is met from revenue surplus, thus reducing the borrowing requirement of the state.

Table 4.2: Decomposition of Gross Fiscal Deficit

(Rs in crore)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Gross Fiscal Deficit (i to iii)	-315	-306	-235	-397	(-)191	-391	-94	-312	-500	-201
i. Revenue Deficit (-) Surplus (+)	(-)109	83	106	66	252	132	339	261	120	288
ii. Capital Outlay	-188	-372	-330	-451	-466	-544	-441	-573	-615	-495
iii. Net Lending	-18	-17	-12	-11	24	21	7	0	-4	6

Source: Budget Documents, Government of Mizoram

4.2. Balance from Current Revenue (BCR) for Plan Financing

Broadly, the total resources available for financing various plan schemes at the State level are divided into three categories- resources of State government, resources of Public Sector Enterprises and resources of Local Bodies. The resources of the State are further split up into three components- State government own funds, budgetary borrowings (net of repayment) and central assistance. State government's own fund comprises the following items:

(i) Balance from Current Revenue (BCR) without Additional Resource Mobilisation (ARM);
(ii) Miscellaneous Capital Receipts (MCR);
(iii) Grants from Finance Commission;
(iv) Additional Resource Mobilisation (ARM);
(v) Others

Balance from current revenue (BCR) represents the difference between non-plan revenue recipts (current receipts) and non-plan revenue expenditure. Non-plan revenue receipts comprise of share in central taxes, state's own taxes and non-tax revenue and non-plan grants from the Centre. It may be noted that current receipts are mainly dominated by share in Central taxes and non-plan grants from the Centre. On the other hand, non-plan revenue expenditure represents current expenditure on debt servicing and interest payment, pension, salaries, and statutory transfers to local bodies. Non-plan revenue expenditures are mainly committed expenditure such as interest payment, salaries, pension etc.

A positive BCR indicates there is a surplus in the current account which is available for plan expenditure whereas a negative BCR represents only borrowed funds are used to meet plan expenditure.

Table 4.3: Balance from Current Revenue (Rs in crore)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Non Plan Revenue Receipts	417	413	638	764	826	998	1120	1248	1502	1653
Non Plan Revenue Expenditure	710	791	877	917	1041	1178	1269	1591	1782	2209
a. Non-Development Expenditure	374	437	502	517	594	606	674	845	909	1101
b. Development Expenditure	333	351	372	394	448	475	589	740	846	1062
c. Statutory tranfers to Local Bodies	3	2	2	6	-	6	6	6	27	46
BCR without ARM	-291	-378	-238	-155	-215	-200	-149	-344	-280	-556
ARM	-	-	-	-	16		149	3	-	-
BCR with ARM	-291	-378	-238	-155	-199	-200	-	-340	-280	-556

Source: Finance Department, Government of Mizoram

As Table 5 shows, the State's BCR has always been negative. It was found that the balance was falling from Rs 379 in 2003-04 to zero in 2008-09. However, it becomes negative again after 2009-10 which was due to a substantial rise in salary expenditure following the implementation of Sixth Pay Commission recommendations by the State Government. The table clearly revealed that, due to unabated growth of new schemes, the state has not been able to ensure non-negative BCR which implies that non-plan revenue expenditure could not be accomodated within current revenues

Miscellaneous capital receipts (MCR) is represented by the excess of non-plan receipts over expenditure and the balance is always a negative one. For non-debt capital receipts, recovery of loans is the main source and expenditure is mainly for repayments of loans and payment of advances to the government servants under non-plan only. Special grants given by Finance Commission are also taken as a part of state's own fund.

State's own resources also included borrowing from different sources like financial markets, negotiated loans from various national level financial institutions and contractual borrowings including provident funds and loans from small savings. State governments are not allowed to borrow outside of India but only from internal sources. Specifically, in the context of Mizoram, State's borrowings consist of the following components-

i) net accretion to State Provident Fund;
ii) net small savings from NSSF;
iii) net market borrowings;
iv) Negotiated loans from LIC, GIC, NABARD, REC, IDBI, HUDCO, PFC, NCDC; and
v) Loans protion of ACA for EAPs.

The third component of the resources for State plan schemes is central assistance. These include normal central assistance (NCA), additional central assistance for externally aided projects (ACA for EAPs) and others. Under Gadgil formula, 30 percent of the total plan funds is earmarked for special categories states (SPS) which receive 90 percent central assistance as grants and 10 per cent as loan as against 30:70 grants-loans component for non – category states. External loans are given to states as additional central assistance (ACA) following the same grants-loan components for normal central assistance. The third category 'Others' comprised schemewise ACA, Special Plan Assitance (SPA) and Special Central Assitance (SCA). Schemewise ACA are earmarked funds flowing into the state through central budgets which are given for specified purposes with or without matching provisions. They are called central sector schemes/centrally sponsored schemes and are entirely financed by the central government. As on 2011-12, these schemes covered the followings- (i) AIBP (ii) Shifting Cultivation (iii) BADP (iv) Roads and Bridges (v) NSAP (vi) Grants-in-aid under Art.275(1), (vii) JNNURM (viii) Backward Regions Grant Fund (ix) NEGEP (x) RKVY. Special Plan Assitance has been given for projects/schemes which the State has taken up on priority basis; similarly, SCA has been provided for specific schemes taken up in the State.

In the context of financing of the state annual plan, it has been observed that the growth of normal central assistance was quite minimal and the growth of the state's annual plan was mainly on account of the increased in the earmarked components. This pattern has resulted to serious problems relating to plan fund allocation to various non-earmarked sectors under state government. Another serious distortion observed was that a substantial amount of central plan budget has been transferred to the State through off-budget route, bypassing the State budgets.

4.3. Outstanding Liabilities of the State

The total outstanding liabilities of the state government comprise various account items under consolidated fund, public account and contingentcy fund. Under consolidated fund, public debt and ways and means advances (WMA) including overdrafts are the two main items. Public debt further consists of the following items: (i) Internal debt which comprises of open market borrowings, borrowings from banks and financial insitutions, special securities issued to NSSF and bonds/debentures issued by the state governments (ii) Loans from the centre (iii) ways and means/overdrafts from RBI. The items falling under public accounts are state provident funds, small savings, insurance and pension funds, reserve funds/sinking funds, deposits and advances and other items.

The total outstanding liabilities of the state during 2002-03 to 2011-12 are given in the Table 4.4. The total outstanding liabilities rose from Rs 1832 crore in 2002-03 to Rs 4000 crore in 2011-12, showing an average annual growth rate of 9.2 per cent. As a ratio to GSDP, the outstanding liabilities showed a declining trend from 88 per cent at end-March, 2004 to 57 per cent at end-March, 2012. During 2002-2007, large fiscal deficits were responsible for a persistently high state's outstanding liabilities relative to GSDP.

Table 4.4: Outstanding Liabilities of the State

Year	Outstanding Liabilities (Rs in crore)	Annual Growth (Per cent)	Debt/GSDP
2002-03	1832	-	85
2003-04	2044	11.6	88
2004-05	2288	11.9	85
2005-06	2542	11.1	86
2006-07	2810	10.6	85
2007-08	3062	9.0	80
2008-09	3260	6.4	71
2009-10	3164	-2.9	60
2010-11	3697	16.9	61
2011-12	4000	8.2	57

Source: Budget Documents, Government of Mizoram

The component-wise break up of the outstanding liabilities of State Government of Mizoram (SGoM) from 2002-03 to 2011-12 are presented in Table 4.5 and 4.6.

Table 4.5: Components of State Government Liabilities

(Rs. in crore)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Internal Debt	672	929	1039	1203	1335	1442	1463	1310	1588	1729
i) Market Borrowings	326	422	501	601	709	838	867	838	1084	1218
ii) Special Securities issued to NSSF	38	75	107	-	-	141	138	147	168	173
iii) Borrowings from FI/Banks	307	432	431	602	626	463	457	325	336	338
2. Loans from Centre	582	560	601	592	566	559	546	560	540	542
3. WMA/OD from RBI	113	27	27	27	47	27	27	27	27	46
4. Public Accounts	438	527	621	720	863	1035	1223	1267	1542	1658
i) Provident Funds	397	481	573	668	807	976	1159	1204	1481	1593
ii) Insurance & Pension Funds	42	45	48	51	56	60	64	63	61	65
5. Other Liabilities	27	-	-	-	-					24
6. Grand Total	1832	2044	2288	2542	2810	3062	3260	3164	3697	4000

Source: Budget Documents, Government of Mizoram

Table 4.6: Components of State Government Liabilities

(percent)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Internal Debt	36.7	45.5	45.4	47.3	47.5	47.1	44.9	41.4	43.0	43.2
i) Market Borrowings	17.8	20.7	21.9	23.6	25.2	27.4	26.6	26.5	29.3	30.4
ii) Special Securities issued to NSSF	2.1	3.7	4.7	0.0	0.0	4.6	4.2	4.6	4.5	4.3
iii) Borrowings from FI/Banks	16.7	21.2	18.8	23.7	22.3	15.1	14.0	10.3	9.1	8.5
2. Loans from Centre	31.8	27.4	26.3	23.3	20.1	18.2	16.8	17.7	14.6	13.6
3. WMA/OD from RBI	6.2	1.3	1.2	1.1	1.7	0.9	0.8	0.9	0.7	1.2
4. Public Accounts	23.9	25.8	27.1	28.3	30.7	33.8	37.5	40.0	41.7	41.5
i) Provident Funds	21.7	23.6	25.0	26.3	28.7	31.9	35.5	38.0	40.1	39.8
ii) Insurance & Pension Funds	2.3	2.2	2.1	2.0	2.0	1.9	2.0	2.0	1.7	1.6
5. Other Liabilities	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
6. Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(i) Market Borrowings: Market borrowings constitute an important component of the internal debt of the State Government. The share of market borrowings in total liabilities of the State has moved up from 18 percent in 2002-03 to 30 percent in 2011-12. The State Government of Mizoram issue dated securities

(eg State Development Loan (SDL) of varying tenors which are sold to banks and financial institutions through open market operation-a process managed by the RBI. This component has now become one of the most important sources of State borrowings.

The increase in market borrowings can be attributed to the discontinuation of plan loans to the States since April 1, 2005 in accordance with the recommendations of the Twelfth Finance Commission (TwFC). The Union Budget for 2005-06 indicated that the States and Union Territorries with Legislature would raise loan directly from the market for financing their annual plans. Block loans for state plan is no longer available to the State Governments.

(ii) Special Securities issued to NSSF: NSSF was set up in 1999-2000 and borrowing from this source has become part of the internal debt of the State Governments. In the context of Mizoram, this component consituted 2 percent in 2002-03 and its share has increased to more than 4 percent in 2011-12.

(iii) Loans from Banks and Financial Institutions: The State Government of Mizoram raise loans from a host of financial institutions, inter alia, LIC, NABARD, NCDC, HUDCO, REC etc. The interest rates and other terms and conditions of these loans are negotiated between State Government and the lending institutions. Loans from banks and financial institutions which used to be an important source of borrowings with its share varying from 24 to 14 percent during 2002-03 t0 2008-09 has in recent years witnessed a steady decline. As on 2011-12, its share in the aggregate outstanding liabilities was only 8.5 percent.

(iv) Loans from the Centre: During the 1990s, loans from the Centre have been the most important source of borrowings by the State Governments. These loans could be classified into plan loans, non-plan loans, loans for special

schemes and WMA from the Centre. Plan loans were allocated under state plan schemes, central plan schemes and centrally sponsored schemes. The non-plan loans covered loans against small savings, relief for natural calamities. The share of central loans witnessed a steady decline due to three important developments in the financial markets. First, the setting up of NSSF with effect from April 1, 1999; second, the introduction of Debt Swap Scheme (DSS) during 2002-03 to 2004-05 and third, the discontinuation of Plan loans since April 1, 2005 in accordance with the TwFC have significantly reduced the importance of loans from the Centre in the borrowing profile of the State government. Loans from the Centre which constituted 32 percent in 2002-03 has steadily fell down to 13.6 percent in 2011-12.

In 2002-03, the central government brought out a debt swap scheme to facilitate the state governments to swap their high cost debt owed to Government of India with additional market borrowings and a part of current small saving transfers. Under the Debt Swap Scheme, as recommended by EFC under Fiscal Reform Facility, Mizoram had swapped many of the high- cost loans in the NSSF and NABARD by substituting them with the low-cost market borrowing[1].

(v) WMA/Overdrafts from RBI: RBI acts as the bankers to State governments. Every day, all transactions of the State government are automatically consolidated to determine the net final position. If the balance in the government's account shows a negative position, RBI extends a short-term, interest-bearing advance, called a Ways and Means Advance (WMA) limit or amount for which is set at the beginning of each financial year in April. If WMAs could not be cleared by the concerned States within the stipulated dateline, RBI provided advances under overdraft facilities. Frequent WMA/Overdrafts by State governments reflect poor liquidity management of

[1] Budget Speech of Pu Zoramthanga Chief Minister for 2007-08 in the Mizoram Legislative Assembly on Thursday, the 17th March, 2007, Aizawl

the States. The State Government of Mizoram sometimes resorted to WMA/Overdrafts from RBI; however, its share in the aggregate liabilities had been falling steadily during 2002-03 to 2011-2012 from 6.2 percent to 0.7 percent.

(vi) Public Accounts: The provident funds receipts and small saving schemes administered by the State itself form the major component of public account liabilities. These liabilities emerge when State government acting as a banker accepting deposits and funds and pay interest thereon. Public account liabilities accounted 24 percent in 2002-03 and by 2011-12, its share rose to 41 percent and became the most important source of State's borrowings.

Central Loans through Multilateral Agencies

Central Government, acting on behalf of the States, borrows from multilateral agencies such as World Bank, Asian Development Bank etc and the loan amounts were given to States as plan grants with the grants-loan component in line with Gadgil formula. Special Category States received these loans as 90 percent as grants and 10 percent as loans. The State Government of Mizoram gets loans from multilateral agencies for the following projects (Table 4.7):

Table 4.7: Central loans through Multilateral Agencies, Mizoram

Sl. No	Name of Project	Multilateral Agencies	Agency for Implementation	Nature of assistance & status
1	North East Rural Livelihood Project (NERLP)*	World Bank	North East Rural Livelihood Promotion of Society (MoDONER)	Ongoing loan agreement and project agreement signed in December 2012 for $120 million
2	Mizoram State Road Project	World Bank	State Government (PWD)	Total Project Cost $ 70/Completed in 2010
3	Composite Scheme of Transmission and Distribution in North Eastern Region	World Bank	Ministry of Power, Government of Mizoram	Proposed
4	Public Resource Management Development Programme	Asian Development Bank	State Government (Finance Department)	Ongoing/The program loan of $94 million is accompanied by a Technical Assistance (TA) loan of $6 million

Note: *Other States included are Nagaland,Tripura and Sikkim. Source : Website of M-DoNER accessed on 9.9.2013 *(i) North East Rural Livelihood Project (NERLP):* The objective of the North East Rural Livelihood Project (NERLP) is to improve rural livelihoods especially that of women, unemployed youth and the most disadvantaged, in four North Eastern States. The proposed project has four major components: (i) Social empowerment; (ii) Economic empowerment; (iii) Partnership development & management and (v) Project management. The specific project objectives of NERLP are to:

i) Create sustainable community institutions around women Self-Help Groups (SHGs), youth groups of men and women (YG) and Community Development Groups (CDG).
ii) Build capacity of community institutions for self governance, bottom up planning, democratic functioning with transparency and accountability.
iii) Increase economic and livelihood opportunities;
iv) Develop partnership of community institutions for natural resource management, microfinance, market linkages, and sectoral economic services.

The two districts in Mizoram namely, Aizawl and Lunglei have been covered under the project.

(ii) Mizoram State Road Project: The Mizoram State Roads Project was undertaken to improve the management and carrying capacity of the Mizoram core state road network. The project has six major components.

i) The first component was to increase the carrying capacity and structural strength of part of the core state road network through the widening, strengthening, and new construction of about 184 km of state roads.
ii) The second component covers the implementation of the Resettlement and Indigenous Peoples Development Plan (R&IPDP), Environmental

Management Plan (EMP), and Environmental and Social Management Plan (ESMP) for civil works components.

iii) The third component is to help reduce the periodic maintenance backlog of the state by funding the overlaying, resealing, and minor rehabilitation/maintenance of about 520 km of state roads.

iv) This component covers design, supervision, and technical advisory services for civil works.

v) This component supports the implementation of technical assistance, training, equipment, and pre-investment studies to help implement the Institutional Strengthening Action Plan.

vi) The road safety component includes the provision of safety-related road furniture on both the roads that are being improved and rehabilitated under the Project, and the implementation of a road safety action plan.

The project was approved on March 14, 2002 and the closing date was December 10, 2010. The total project cost was US $ 70 million.

(iii) Public Resource Management Development Programme: The focus areas of the programme are: (i) Tax and non-tax reforms; (ii) Debt Management; (iii) Public Expenditure management; (iv) Sectoral improvements; (v) Pension reforms; and (vi) PSE reforms.

Table 4.8: Action taken on focus areas

Area of focus	Action taken
1. Tax and non-tax reforms	• Revenues from stamp duties and registration fees have been increased • Maximum professional tax (as per Constitution of India) imposed on selected nonsalaried professional groups • User charges for water usage has been raised
2. Debt management	• Premature retirement of high-cost debt has been done; • Guarantee Redemption Fund has been constituted;
3. Public expenditure management	Mizoram Finance Commission instituted; treasury computeristion has been completed
4. Sectoral improvements	• US $ 25 million has been invested as Corpus Fund (Rs 117.8 crores)under Mizoram Health Care Scheme (MHCS) ; Coverage under MHCS has been increased; • VRS has been provided to all eligible and interested teachers; US $ 15 million have been spent; • Teachers that opt for VRS are replaced by suitably qualified; teachers; • Teachers Eligibility Test has been conducted
5. Pension reforms	• All new recruits in state government are covered by the new defined contributory pension scheme
6. PSE reforms	• PSE study has been done and reform measures suggested has been under consideration by State Government

Source : Fiscal Management Unit, Finance Department (GOM)

4.4. Contingent Liabilities of the State

Contingent liabilities of the State government represent guarantees issued on behalf of the PSEs and other institutions including urban local bodies to enable them to raise resources to meet the requirement of public investment. Guarantees are liabilities contingent on the Consilidated Fund of the State in case of default by the borrowers for whom the guarantee has been extended. Mizoram State Legislative Assemby enacted 2011 “the Mizoram Ceiling on Government Guarantees Act, 2011” to regulate State government guaranttees issued on behalf of the Government Departments, Public Sector Undertakings, Local Authorities, Statutory Boards & Corporations and Coopertaive Institutions and for promoting fiscal dsicipline. The broad features of the Act are:

i) The total outstanding of government guarantees as on the first day of April of any year shall not exceed 25 percent of GSDP estimated for the year;
ii) The total fresh Government guarantees given in a year shall not exceed 3 percent of the GSDP estimated for the year. Under extreme exigencies and occurrence of natural calamities which require the government to take immediate fiscal policy measures, the government may exceed the ceilings;
iii) Government guarantees shall ordinarily be extended by the Government on behalf of Departmental Undertakings, PSUs, Local Authorities, Statutory Boards & Corporation, Cooperative Institutions and other Authorities and Agencies under the Government. No government guarantees shall be extended to co-operative sector unless the shared capital contribution from the non-government sources is not less than ten percent of the total equity proposed;
iv) No government guarantees shall be given in respect of any loan of any individual, private institutions or private companies;
v) The Government shall charge a minimum of 0.75 percent of the amount of guaranteed loan as guarantee commission, which can not be waived under any circumstance;
vi) The government shall constitute a fund called the Guarantee Redemption Fund and the guarantee commission shall form the corpus of the Fund and it shall be remitted in the Public account of the State.

Table 4.9 indicates the total guarantees given by the State Government of Mizoram during 2002-03 to 2011-12. As observed in the Table, the total guaranteed amount is not available with the State government during 2002-03. Since 2003-04, maximum amount guarantees steadily increased till 2008-09 and thereafter, the guarantees fell down. As on 2011-12, the guarantee amounted to Rs 243 crore. As a percent to GSDP, maximum amount guarantee fell down from a high of 10.6 percent to 5.1 percent during 2002-03 to 2011-12 whereas the outstanding amount as a ratio to GSDP declined from 5.7 to 2.7 percent during the same period of 2005-12.

Table 4.9: Guarantees given by the Government of Mizoram

Gurantees	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Maximum Amount Guarantee (Rs in crore)	NA	169	229	270	249	232	305	189	189	243
Outstanding amount of Guarantees (Rs in crore)	NA	113	136	145	150	153	134	103	102	232
Maximum Amount Guarantee as a percent to GSDP	-	8.3	10.0	10.6	8.9	7.6	9.3	6.0	5.1	6.1
Outstanding amount of Guarantees as a percent to GSDP	-	5.5	5.0	5.7	5.3	5.0	4.1	3.2	2.7	5.8

Source : Budget documents, Government of Mizoram

CHAPTER 5

IMPLEMENTATION OF FISCAL POLICY RULE AND PUBLIC EXPENDITURE AND FINANCIAL MANAGEMENT (PEFM) REFORMS

Fiscal policy rule is defined as a permanent constraint on fiscal policy through numerical limits on budgetary aggregates (Kopits and Symanski, 1998). The distinguishing features of fiscal rule are fixing numerical limits on budgetary aggregates such as revenue and fiscal deficits, total debt outstanding etc. As on 2009, 80 countries adopted fiscal rules at the national or supranational level. The use of fiscal rules is associated with improved fiscal performance[1]. In India, the rules-based fiscal framework, the Fiscal Responsibility and Budget Management Act (FRBMA) was adopted in 2003. This Act became effective on 5th July, 2004. The Act's objectives are to ensure intergenerational equity in fiscal management, achieve fiscal sustainability necessary for long-term macro economic stability, and improve the transparency in Central government fiscal operations. The FRBM Act, 2003 set out the elimination of revenue deficit by 2008-09 and reduction of GFD-GSDP ratio at 3 per cent in 2008-09. The following numerical rules have been provided in the Act:

(a) reduction of current deficit by at least 0.5 percent of GSDP in each financial year beginning with 2004-05;
(b) reduction of the fiscal deficit by at least 0.3 percent of GDP in each financial year so that the fiscal deficit is brought down to not more than 3 percent of GDP at the end of March 2008;
(c) limit of 0.5 percent of GDP on the incremental amount of guarantees given by the central government; and
(d) initial annual limit on debt accumulation of 9 per cent of GDP, to be progressively reduced by at least one percentage point of GDP per year.[2]

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[1] International Monetary Finance (2009): Fiscal Rules-Anchoring Expectations for Sustainable Development (Washington, D.C: IMF)
[2] Ministry of Finance (Dept. of Economic Affairs) The Gazette of India, Extra Ordinary, July 2, 2004, New Delhi.

5.1. Fiscal Reforms and Consolidation during Pre-FRBM Act, 2006

State's fiscal health is crucially linked with overall macroeconomic stability of the country, successive Finance Commissions, especially since Eleventh Finance Commission recommended fiscal consolidation and reforms at the State level by providing incentives and insisting fiscal responsibility legislations. The State Government of Mizoram also passed and enacted the Mizoram Fiscal Responsibility and Budget Management Act (FRBMA) in 2006. The State is now committed to adopt fiscal reforms and consolidation path in line with the road map laid down by the Eleventh, Twelfth and Thirteenth Finance Commissions. This sub-section examines two fiscal reform measures initiated by the State Government of Mizoram before fiscal responsibility legislation was passed in 2006. These include the signing of MOU with Ministry of Finance, Government of India and States' Fiscal Reform Facility (FRF) recommended by the Eleventh Finance Commission.

(i) Memorundam of Understanding with Government of India

Since attaining Statehood in 1987, the State Government of Mizoram has been continuously facing adverse fiscal imbalance. The fiscal position has deteriorated to such an extent that it has turned into a worrisome situation in the later part of 1990s due to mainly revision of pay scale of State Government employees at par with Fifth Pay Commission recommendations. Ultimately, the State Government of Mizoram was obligated to sign MoU with the Government of India on 8th April, 1999. The MoU required the State government to undertake austerity measures to achieve economy in expenditure, especially in non-salary, non-plan expenditure components and reduce revenue deficit by imposing higher tariff on power and water charges and revise state taxes like land revenue, passenger fare, house tax etc.

(ii) States' Fiscal Reform Facility (FRF) and Incentive Fund (2001-05)

Later, the Eleventh Finance Commission (EFC) recommended creation of States' Fiscal Reform Facility (FRF) covering 2000-01 to 2004-05, backed with an Incentive Fund to incentivise the States to collectively eliminate revenue deficits by 2004-05. Consequently, Government of India constituted the Incentive Fund and advised States to prepare their Medium Term Fiscal Reforms Programmes (MTFRP) outlining the reforms measures in line with EFC's suggestions to bring about necessary correction in the revenue deficits. The Incentive Fund would be released to State Governments based on improvement in single monitorable fiscal indicator i.e. Revenue Deficit (RD) as percentage of revenue receipt (TRR) by 5 percentage points annually and 2 percentage points for Special category states prospectively with effect from 2002-03.

Like any other State, the Government of Mizoram also drew up a monitorable Medium Term Fiscal Reform Programme ((MTFRP) for the period 2000-01 to 2004-05. The fiscal consolidation road map was formulated in the broad contours of fiscal reform objectives outlined by the EFC. Broadly, the State's MTFRP emphasized augmentation of revenue receipts by restructuring and widening of tax bases and improvement in non-tax revenue together with rationalization of non-plan revnue expenditure. Effort were taken to augment non-tax revenue by upward revision of user charges on electricity and water, collection of motor vehicle parking fees, vehicle fees, upward revision of room tariff in Government accomodation. The State's finances witnessed a turn-around in the fiscal consolidation and restructuring path under the State's Reform Facilities (2000-05). These facts are presented in Table 5.1 which indicated the position of the monitorable fiscal parameters during the MTFRP period.

Table 5.1: Monitorable Fiscal Indicators during MTFRP (2001-05)

Monitorable indicators		2001-02	2002-03	2003-04	2004-05
1.	Revenue deficit as percentage of revenue receipts	(-) 30.0	(-) 10.7	(+) 6.1	(+) 7.1
2.	Interest payment as percentage of revenue receipts	16.8	13.0	12.2	12.1
3.	Fiscal deficit as percentage of GSDP	(-) 22.4	(-) 15.12	(-) 13.83	(-) 9.63
4.	Debt outstanding as percentage of GSDP	83.72	87.97	92.34	93.71

Source: Statement on Prospect of the State Economy and Medium Term Fiscal Policy (As laid before the Mizoram Legislative Assembly on 15th March 2007), Finance Department, Government of Mizoram

It could be observed from Table 5.1 that the revenue deficit as percentage of revenue receipts which went up as high as 30 percent in 2001-02 has been reduced to 10.7 percent in 2002-03. In 2003-04, the State Government was able to generate a revenue surplus to the extent of 6.1 percent of the total revenue receipt. In 2003-04, the percentage of revenue surplus to revenue receipts stood at 7.1 percent. Interest payment as a percentage of revenue receipts also shows a continuous decline during the reform period. However, though the State witnessed a turn around in the revenue deficit management during the MTFRP period, fiscal deficit and outstanding debt as ratio to GSDP continues to remain unsustainably high. The State Government needs to push forward the fiscal reform agenda to achieve a better fiscal efficient management. Fiscal deficit as percentage of GSDP in 2001-02 which was as high as 22.4 per cent was pushed down to around 9.6 percent in 2004-05. The state's outstanding debt as percentage to GSDP continued to swell up from 84 percent in 2001-02 to 94 percent- showing 10 percentage-points increase over the period.

As Table 5.2 shows, other fiscal indicators like own tax revenue, own revenue receipts, revenue expenditure etc as percentage of GSDP all showed an improvement during 2001-05. Revenue deficit which was 13.8 percent of GSDP in 2001-02 had improved to a situation of revenue surplus, accounting 2.4 percent of State's GDP in 2005-06. Fiscal deficit as percentage of GSDP also fell down by 7.7 percentage points from 22.4 in 2001-02 to 14.7 percent in 2005-06. Own tax revenue as percenatge of GSDP improved by 1 percentage-point from 1 percent in 2001-02 to 2 percent of GSDP in 2005-06. However, revenue expenditure as percentage of GSDP which fell down to 54.3 percent in 2002-03 from 60 percent in 2001-02 showed an upward trend again afterwards. As on 2005-06, revenue expenditure as percentage of GSDP was 59 percent.

Table 5.2: Improvement in State finances during 2001-05

Items	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Deficit as % of GSDP	(-) 13.8	(-) 5.2	(+) 3.7	(+) 4.4	(+) 2.4
Fiscal Deficit as % of GSDP	22.4	15.1	13.8	9.6	14.7
Own Tax Revenue as % of GSDP	1.0	1.3	1.5	1.6	2.0
Own Revenue Receipts as % of GSDP	3.4	3.9	4.2	4.7	6.5
Share in central taxes & duties as % GSDP	2.3	4.5	5.9	6.4	8.4
Revenue Expenditure as % GSDP	60.0	54.3	58.2	57.2	58.9

Source : Same as table 5.1

The share of the Government of Mizoram in the Incentive Fund as recommended by the Eleventh Finance Commission was Rs 254.70 crore for the five year period of 2000-01 to 2004-05 of which Part A (15% withheld amount of the revenue deficit grant as recommended by the Eleventh Finance Commission) had been Rs 251.45 crore and Part B (incentive component) was Rs 3.25 crore. The Government of Mizoram drew up a Medium Term Fiscal Reforms Programmme (2000-05) and signed Memorandum of Understanding with the Government of India. Inspite of the best efforts, the GoM could not achieve the stipulated target of reduction in revenue deficit as percentage of revenue receipts consistently from the beginning of the award period of the EFC. However, the State could avail the facility from the Incentive Fund during 2003-04. The total amount release was Rs 53.43 crore of which Rs 52.66 crore was from Part A (withheld grant) and another Rs 0.77 crore was from Part B (incentive component)[3].

[3] Budget Speech of Pu Zoramthanga Chief Minister for 2005-06 in the Mizoram Legislative Assembly on Thursday, the 17th March, 2005, Aizawl

5.2. Mizoram Fiscal Responsibility and Budget Management Act (FRBMA), 2006

The Twelfth Finance Commission insisted a two fold strategy for fiscal consolidation and elimination of revenue deficit at the State level. Government of India should not provide loans to the States and the State may take recourse to the markets for their borrowing requirements. The TFC has further recommended consolidation of all existing loans proided to the States upto March 31, 2004 and which are outstanding as on March 31, 2005, upon the States meeting the pre-condition of adopting fiscal responsibility legislation on the line recommended by the TFC.

The State's Debt Consolidation and Relief Facility (DCRF) 2005-2010 provides a general debt relief comprising consolidation, reschedulment and lowering of interest rate to 7.5 per cent to the States from the year they enacted the fiscal responsibility legislation in line with TwFC recommendations. A scheme of debt waiver based on fiscal performance linked to the reduction of revenue deficits of States has also been framed under which repayments due on Central loans from 2005-06 to 2009-10, after consolidation and reschedulement will be eligible for write-off.[4]

Twelfth Finance Commission (2005-10) recommended that each state should enact fiscal responsibility legislation. This has been stipulated as a precondition for availing the debt-relief scheme as recommended by TFC. This legislation should, at a minimum, provide for (a) eliminating revenue deficit by 2008-09; (b) reducing fiscal deficit to 3 per cent of GSDP or its equivalent defined as ratio of interest payment to revenue receipts; (c) bringing out annual reduction targets of revenue and fiscal deficits; (d) bringing out annual statement giving prospects for the state economy and related fiscal strategy; (e) bringing out special statements along with the budget giving in detail number

[4] Ministry of Finance (GOI): Recommendations of Twelfth Finance Commission Report, New Delhi.

of employees in government, public sector, and aided institutions and related salaries. The GoM also passed the State's Fiscal Responsibility Legislation (FRL) in 2006. The State Government has also drawn up the Fiscal Correction Path as per guidelines issued by GOI on Debt Consolidation and Relief Facility.

The Mizoram Fiscal Responsibility and Budget Management Act, 2006[5] was framed in line with the recommendations of the TFC. The objectives of the Act are: (i) take appropriate measure to eliminate the revenue deficit and contain the fiscal deficit at sustainable levels; (ii) pursue policies to raise non-tax revenue with due regard to cost recovery and equity; (iii) lay down norms for prioritization of capital expenditure and pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare.

The State Government shall be guided by the following fiscal management principles: (i) transparency in setting the fiscal policy objectives, in implementation of public policy and in publication of State Government accounts so as to allow the public to scrutinize the conduct of fiscal policy and the state of public finances; (ii) stability upto a reasonable degree and predictability in he fiscal policy making process; (iii) responsibility in the management of public finances.

The Act also stipulated that along with the annual budget Medium Term Fiscal Policy Statement and Fiscal Policy Strategy Statement should be laid before the State Legislature in each financial year. The Medium Term Fiscal Policy is concerned with the fiscal objectives and strategic priorities of the State Government. It shall include an assessment of sustainability relating to –(a) the balance between revenue receipts and revenue expenditures; (b) the use of capital receipts including borrowings for generating productive assets; (c) the

[5] See Mizoram Fiscal Responsibility and Budget Management Act, 2006 & Mizoram Fiscal Responsibility and Budget Management Rules, 2007

estimated yearly pension liabilities worked out on actuarial basis, for the next ten years.

The Fiscal Policy Strategy Statement provides for : (a) the fiscal policy of the State Government for the ensuing financial year relating to revenue receipts, expenditure, borrowing and other liabilities, user charges on public goods/utilities; (b) the strategic priorities of the State Government in the fiscal area for the ensuing financial year;(c) key financial measures and the rationale for any major deviation in fiscal measures pertaining to revenue receipts, subsidy, expenditure, administered pricing, borrowings, and other liabilities including guarantees; (d) evaluation of current policies of the State Government vis-a-vis fiscal management principles set out. The following key fiscal management targets are also set out:

(a) progressively reduce revenue deficit from the financial year 2006-07, so as to bring it down to zero by 2008-09 and generate revenue surplus thereafter;
(b) reduce fiscal deficit to 3 percent of the estimated GSDP by 2008-09;
(c) reduce revenue and fiscal deficit annually at an average annual reduction rate consistent with the goal set out in (i) and (ii);
(d) ensure that total outstanding debt, excluding public account, and risk weighted outstanding guarantees in a year shall not exceed twice of the estimates receipts in the Consolidated Fund of the State at the close of the financial year;
(e) ensure to bring out annual statement giving prospect for the State economy and related fiscal strategy;
(f) ensure to bring out special statement along with the annual budget giving in detail, number of employees in Government Public Sector and Aided Institutions and related salary. The Act also provided the appointment of Public Expenditure Review Committee.

State's Fiscal Consolidation (2010-2015)

The Thirteenth Finance Commission was required to review the operation of the State DCRF, and suggest measures to maintain a stable and sustainable fiscal environment consistent with equitable growth. A new fiscal correction path has been worked out for each state and States are required to enact/amend their Fiscal Responsibility and Budget Management (FRBM) Acts to conform to it. States are also required to set up independent review/monitoring mechanism under their FRBM Acts. The road map for Mizoram is given as below:

Table 5.3: Thirteenth FC Roadmap for Mizoram (2010-2015)

(As a percent of GSDP)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Deficit Targets	0	0	0	0	0
Fiscal Deficit Targets	7.5	6.4	5.2	4.1	3.0
Outstanding Debt Targets	87.3	85.7	82.9	79.2	74.8

Source : Thirteenth Finance Commission Report

In line with these roadmaps, the Mizoram Fiscal Responsibility and Budget Management Act, 2006 was amended in 2010 which provided that the fiscal deficit would be reduced to 3 percent of the GSDP by 2014-15 and the annual percentage reduction rate will be as follows-8.5 percent in base year 2010-11, 6.4 percent in 2011-12, 5.2 percent in 2012-13, 4.1 percent in 2013-14 and 3 percent in 2014-15. The Third Amendment Act, 2011 also envisaged that outstanding debt as a ratio of GSDP should be reduced to 87.3 percent in 2010-11, 85.7 percent in 2011-12, 82.9 percent in 2012-13, 79.2 percent in 2013-14 and 74.8 percent in 2014-15

Outcome indicators of State's Fiscal Correction Path (2005-06 to 2011-12)

Table 5.4 shows select fiscal indicators of State's Fiscal Correction Path during 2005-06 to 2011-12. The Mizoram FRBM Act 2006 envisaged the State

Government to eliminate revenue deficit and reduce fiscal deficit to 3 per cent of GSDP by 2008-09. The State Government has already eliminated revenue deficit in 2003-04; revenue surpluses were maintained subsequently. However, it was observed that the State government had a high deficit which was as high as 13.4 percent of its GSDP in 2005-06. There was a need for a sharp reduction in fiscal deficit to attain the FRBM Act targets as well as to control the burgeoning debt liabilities which has already attained an unsustainable level. The State Government has been able to reduce GFD at 2.1 percent of GSDP in 2008-09 which can be attributed to a continuous increase in central shared taxes resulting to a surplus in the revenue account of the State. Unfortunately, GFD as a percentage of GSDP has significantly increased to 8.3 percent; and in 2011-12, the ratio was, however, reduced to 3 percent.

The outstanding Central government loans have been rescheduled for a fresh term of 20 years with lower interest rate and a debt write-off of the repayment for 2006-07 and also the rescheduled repayment of central loans in 2007-08. Due to these positive steps, total outstanding liabilities as a percentage of GSDP has been significantly reduced. Accordingly, interest payment as percentage of total revenue receipt also declined consistently. The emergence of revenue surplus has left revenue receipts available for increased capital outlay. Eventually, capital outlay as percentage of GFD has been continuously increasing. It was 113.7 percent of the GFD in 2002-03 which rose to 244.2 percent in 2003-04 and further to 468 percent in 2008-09; thereafter, it showed a downward trend.

Revenue surplus has been contributed solely by increase in gross transfers from the Central Government. Gross transfers from the Centre as percentage of aggregate disbursement rose to 83.7 percent in 2008-09 from 70.4 percent in 2007-08; later it showed a gradual declining trend. However, the percentage further moved upward and stood at 80.8 percent in 2011-12. As percentage to total revenue receipts, committed expenditures showed a mixed trend. While interest payment has recorded a downward trend, salary and pension expenditure soured upward.

Table 5.4

Select Fiscal indicators of the State's Own Fiscal Correction Path(2005-06 to 2011-12)

	Items	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
i)	GFD as percenatge of GSDP	13.4	5.8	10.3	2.1	5.9	8.3	3.0
ii)	Revenue Deficit(-)/Surplus (+) as Percentage of GSDP	2.2	7.6	3.4	7.4	5.0	2.0	4.1
iii)	Revenue Deficit(-)/Surplus (+) as Percentage of TRR	4.0	12.8	6.4	12.8	8.8	5.9	7.2
iv)	Total Liabilities-GSDP Ratio	85.6	85.3	80.2	71.2	60.1	61.0	57.2
v)	Total Liabilities-Total Revenue Receipts (%)	153.7	142.7	150.1	122.9	106.8	109.6	99.7
vi)	Total Liabilities-State's Own Reveneu Receipts (%)	1451.6	1398.2	1473.6	1287.0	1351.6	1335.8	1153.7
vii)	State's own Revenue Receipts-Revenue Expenditure (%)	11.0	16.8	10.9	11.0	8.7	8.5	9.3
viii)	Capital Outlay as Percentage of GFD	113.7	244.2	139.0	467.9	183.8	123.2	232.8
ix)	Interest Payment as Percentage of Revenue Receipts	11.2	12.2	10.2	8.5	8.6	3.1	6.8
x)	Salary Expenditure as Percentage of Total Revenue Receipts	26.3	23.5	36.0	39.2	29.8	34.7	28.7
xi)	Pension Expenditure as Percentage of Total Revenue Receipts	5.4	3.9	4.8	4.8	5.5	7.4	7.4
xii)	Non-development Expenditure as Percentage of Aggregate Disbusrement	26.1	24.4	30.9	28.7	25.9	24.1	26.9
xiii)	Gross Transfer from the Centre as Percentage of Aggreagte Disbursement	-	-	70.4	83.7	74.5	72.1	80.8
xiv)	Own Non-Tax Revenue as Percentage of Total Reveneu Receipts	7.3	6.8	6.4	6.0	4.3	4.4	4.2

Note: GSDP figures relates to 2004-05 prices
Sources : Budget Documents, GoM

Non-development expenditure as percentage of aggregate disbursement showed a rising trend till 2007-08 from 26.1 to 30.9 percent; thereafter, it showed a downward movement. As on 2011-12, the ratio remained at 27 percent of the aggregate disbursement. The outcome indicator of the State’s own fiscal correction path during 2004-12 is given in the Annexure 2.

5.3 Public Expenditure and Financial Management (PEFM) Reforms implemented in the State

Reforms in Public Expenditure and Financial Management (PEFM) hold the key to improving delivery of public services and effective implementation of pro-poor policies. The Report of the Second Administrative Reforms Commission (2009) pointed out that there was tremendous scope to improve the efiiciency of government spending and public service delivery by strengthening the institutional framework for Public Financial Management. Over the years, several reform initiatives have been undertaken at the national level in the field of public expenditure management.

One such initiative was the Performance Budget, which was introduced in 1968 following the recommendations of the first Administrative Reform Commission, designed to improve the budgeting system. The Government of India has decided to adopt another version of performance budget called the Outcome Budget in 2005. The "Outcome Budget" reflects the endeavour of the Government to convert "Outlays" into "Outcomes" by planning expenditure, fixing appropriate targets and quantifying deliverables of each scheme.

The "Outcome Budget" is an effort of the Government to be transparent and accountable to the people[6]. Outlay budgets involve the following steps- identification of measurable objectives/outcomes, estimates of outlays (plan and non-plan etc), quantification of physical outputs, timelines and identification of risk factors.

[6] *Outcome Budget, 2013-2014,* Ministry of Finance, Government of India,

Table 5.5: PEFM Reform Measures introduced in India

Areas	Measures introduced	Whether adopted by Mizoram
Budgeting System	(i) Performance Budget (1968) (ii) Outcome Budget (2005) (iii)Performance Monitoring and Evaluation System (2009)/Results Framework Document (RDF)	Performance Budget practiced by very few Departments and that too irregular, RDF adopted by some Departments
Medium Term Perspective in Expenditure Planning	The High level Expert Committee on Expenditure Management (2011) recommended removal of plan and non-plan expenditure, holistic view of expenditure for a budgeting in a multi-year mode etc	Nil
Fiscal Rules and Budget Management	Reduction of fiscal deficits at 3 percent of GDP/GSDP, balance current account and control public debt	The Mizoram Fiscal Responsibility and Budget Management Act 2006 was legislated
Integrated Financial Advisors (FA)	To support the Departments in achieving their targets and represent the Finance Department	Nil
Adoption of Accrual Accounting	Adopted in 2005 by the Government of India following recommendation of Twelfth Finance Commission. Government Accounting Standards Advisory Board (GASAB) has been entrusted to prepare a detailed roadmap and an operational framework to adopt accrual based accounting system	Nil
Updating the Internal Audit System	Government of India constituted a Task Force in 2006 to benchmark the status of internal audit in the Central Government and outline a roadmap for its improvement.	Nil
External Audit	Comptoller and Auditor General of India (CAG) recently introduced performance audit	Performance budget have also been done in Mizoram
Intergovernment Transfers	CSSs become a key source of funding in social and economic sectors at the State level. The PFM concern is the bypassing of State budget and direct transfers of fund to implementing agencies; Central Plan Monitoring System has been introduced	CSSs play a significant role in health, education, infrastructure development-large fund leakages have been suspected
Institutional changes	Establish Debt Management Office, Fiscal Council and Commission suggested by Thirteenth FC to monitor the implementation of FRMB Acts,	Public Expenditure Review Committee (PERC) and State Finance Commission have been set up

Sources: Pratap Ranjan Jena (NIPFP Working Papers) & Finance Department, Government of Mizoram

In 2009, the Government of India introduced Performance Monitoring and Evaluation System (PMES) for Departments which provides a framework to measure perfromance of all schemes and projects run by the departments. The Results Framework Document (RFD) is the main instrument for PMES which records an understanding between the departmental Minister and the Secretary of the department, providing physical performance indicators to be achieved during a year.

Recently, several reform measures were suggested by the Finance Commssion of India and Planning Commission to improve fiscal discipline, allocation of resources in line with government priorities and targets and increaase efficiency and effiectivenes of public expenditure. Fiscal responsibility legislations (FRL) have now been passed by all the States following the fiscal reform agenda outlined by the Twefth and Thirteenth Finance Commission. The central objectives of FSLs are to reduce fiscal deficit to GDP ratio at 3 percent and to balance the current account and to maintain long term fiscal sustainability and prevent an increase in future indebtedness[7]. The TwFC also recommended the switching of cash based accounting system to accrual based accounting system.

The Planning Commission also appointed two important Expert Committees to examine the working of Centrally Sponsored Schemes and the Expenditure Management. The Committee on Restructuring of Centrally Sponsored Schemes (CSS) suggested the existing 147 CSS be restructured into three categories and consolidated into 59 schemes-9 flagship CSS, 39 umbrella Schemes and 11 ACA/CSS[8]. The high level Expert Committee on Efficient Management of Public Expenditure also recommended removing the dichotomy between plan and non-plan expenditure, and suggested taking a holistic view of expenditure for budgeting in a multi-year mode, developing a 3 year

[7] NIPFP Working Papers by Pratap Ranjan Jena

[8] Government of India, Planning Commission (Sept., 2011), Report of the Committee on Restructuring Centrally Sponsored Schemes (CSS) under the chairmanship of B.K. Chaturvedi, Member,

expenditure framework to be updated in the light of resource availability, with sectoral priorities and performance[9].

The Government of Mizoram has, in recent years, adopted two important PEFM reform measures. These were the Mizoram Fiscal Responsibility and Budget Management Act, 2006 and the Mizoram Finance Commission Act, 2010. The broad features of these two Acts are summarised in the next two sub-sections

5.4. The Mizoram State Finance Commission: Composition and Functions

The Mizoram State Finance Commission Act was passed by the State Legislature in 2010. The first Mizoram Finance Commission was established in 2012 (See Box 5.1). The Commission consists of a Chairperson who shall be selected from among persons who have had experience in public affairs and other Members not exceeding four in numbers. The members shall be selected from among persons who have special knowledge of the finances and accounts of the Government; or have had wide experience in financial matters and administration; or have special knowledge of economics. The terms of office is as per specified in the order of the Governor. The function of the Commission is to review the financial position of the Village Councils, Municipalities or Municipal Boards and also the Autonomous District Councils and making of recommendations on the following matters:

[9] Government of India, Planning Commission (2011), Report of the High Level Expert Committee on Efficient Management of Public Expenditure.

Box 5.1: First Mizoram Finance Commission

The First Mizoram Finance Commission was appointed by the Governor in 2012. The Commission shall make its report available by the 30th day of October, 2014, covering the period of five years commnecing on the 1st day of April, 2015. The Terms of References of the First MFC include the followings:

1. The Commission shall make the recommedations as to the followinh matters, namely:

(1) The principles which should govern – (i) the distribution between the state and the Village Councils/Municipalities/Municipal Boards/the Autonomous District Councils of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them to enable these bodies to perform the functions assigned, and which may be assigned, to it under any laws in force or orders, and the allocation between the Village Councils,municipalities and the autonomous district councils at all levels of their respective shares of such proceeds;

(i) the determination of the taxes, duties, tolls, fees which may be assigned to, or appropriated by the Village Councils, Aizawl Municipal Council and the Autonomous District Councils; (iii) the grant-in-aid to the Village Councils, Aizawl Municipal Councils, and the Autonomous District Councils;

(2) The measures needed to improve the financial position of the Village Councils, Aizawl Municipal Council and the Autonomous District Councils;

2 In making its recommedations, the Commission shall have regard, among other considerations, to-

- i) the resources of the State Government, for five yeasr commencing on 1st April, 2015, on the basisi of levels of taxation and non-tax revenues likely to be reached at the end of 2014-15,
- ii) the demands on the resources of the State Government, in particular, on account of civil administration, keeping of law and order, debt servicing and other committed expenditure and liabilities,
- iii) the objectives of State's fiscal consolidation roadmap recommended ny the Thirteenth Finance Commission, which bind the management of public finance of Mizoram;
- iv) the functions which may be transferred to the Village Councils, Aizawl Municipal Councils and the Autonomous District Councils for the coming five years with effect from 1st April 2015; and the manner in which the existing functionaries of the State Government, who are at the time of making of recommendations are performing the functions recommended for transfers to the local bodies, shall be transferred to the Village Councils, Aizawl Municipal Council and the Autonomous District Councils;
- v) the taxation efforts of the State Government in relation to levy of all types property tax by the local bodies for additionla resources mobilisation to enhance the financial independence and capacity of the local bodies to perform the functions assigned to them;
- vi) the need to enhance disaster management at the local levesl so as to avoid minor disasters such as landslips, etc at the local levels;
- vii) the need to manage to ecology, environment and climate change at the local levels;
- viii) the need to improve the quality of public expenditure to obtain better outputs and outcomes through innovative monitoring and appraisal system at the local levels;

3. In making its recommendation on various matters, the Commission shall take the base of population figures as of 2001, in all such cases where population is a factor for determination of devolution of taxes and duties and grants-in-aids.

4. The Commission shall indicate the basis on which it has arrived at its findings and make available the estimates of receipts and expenditure of the State Government and each of the local bodies.

Source : Mizoram Finance Commission (2012)

(a) The principles which should govern –

i) the distribution between the state and the Village Councils/Municipalities/Municipal Boards/the Autonomous District Councils of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them to enable these bodies to perform the functions assigned, and which may be assigned, to it under any law in force or orders, and the allocation between the Village Councils, Municipalities and the Autonomous District Councils at all levels of their respective shares of such proceeds;
ii) the determination of taxes, duties, tolls and fees which may be assigned to, or appropriated by the Village Councils, the Municipalities, and the Autonomous District Councils;
iii) the grant-in-aid to the Village Councils, the Municipalities and the Autonomous District Councils from the Consolidated Fund of Mizoram;

(b) the measures needed to improve the financial position of Village Councils, the Municipalities, and the Autonomous District Councils;

(c) any other matter referred to the Commission by the Governor in the interests of sound finances of the Village Councils, Municipalities, and the Autonomous District Councils.

6.5. PEFM Reform Measures Suggested by Mizoram Public Expenditure Review Committee

The Public Expenditure Review Committee (PERC) was constituted in 2007 and the first meeting was held on 21 February, 2008. The Mizoram Fiscal Responsibility and Budget Management Act 2006 stipulated that Public Expenditure Review Committee (PERC) should be constituted which shall consist of not more than five members with professional expertise in the fields of Finance, Economic Management, Planning, Administration, Accounts and

Audit and Law. The Committee shall have the following composition- (a) Secretary to the government of Mizoram, Finance Department; (b) Not more than 4 persons having knowledge and professional expertise in the fields of Finance, Fiscal and Economic Management, Planning, Administration, Account, Audit and Law.

Besides above, the Government reserves the right to nominate a few special invitees in the meetings of the Committee for effective deliberations and cross-fertilization of ideas; however, the number of special invitees shall not exceed the number of members of the committee. The Government may appoint an officer in the Finance Department, not below the rank of Deputy Secretary, to act as the Member-Secretary of the Committee. The term of reference of the Committee shall be as follow:-

(a) The Committee shall discuss and review the progressive of receipts and expenditure in the State's Annual Budget and see if it is consistent with the Fiscal Management Targets and objective as laid down in the Act.
(b) The Committee may make suggestions for taking necessary corrective measures consistent with the Fiscal Management Targets and objectives in the mobilization of resources and spending of the Government.
(c) The suggestion of the Committee shall be recommendatory in nature.
(d) The other issues as may be entrusted by the Government from time to time.
(e) The Committee shall meet once in every six months in a financial year.

In the course of review and discussion on the progress of State receipts and expenditure, certain issues and concerns were raised and emerged which have far reaching impacts on sound state financial management. These are summarised below:

(i) Slow progress of plan expenditure & rush of expenditure during the month of March: Rush of plan expenditure during the month of March was noted with

grave concern. About 35-45 percent of the plan expenditure was incurred during this month. This is a clear sign of lack of financial controls on the part of State Government and that it is also leading to various forms of misappropriation of Government money. Expenditure rush is attributable to slow disbursement on Plan account and the Committee is of the view that strict adherance to Works Calender would be a solution. Efforts should be taken by appropraite authorities to ensure smooth flow of expenditure during the course of the year.

(ii) Unrecovered cost of foodstuff: Purchase of rice from FCI at economic costs by the State government and sell to the public at the subsidized PDS rates had caused severe strain on government finance. The Committee is of the view that efforts should be made by the concerned Department to make full recovery of the expenditure. It is noted that high non-plan capital expenditure is the result of non-recovery of expenditure towards purchase of foodstuff and other stock suspense under PWD, PHE and Printing & Stationery Department.

(iii) Strengthening of the State Planning Board: State Planning Board needs to be formally constituted for better streamlining of the various plan processes, planning and programme implementation in the State Annual Plans and for effective monitoring and evaluation of programme implementation. Calender of works may be revived in which time frame for finalisation of plans, approval of Department Plan and modalities for smooth flow of plan expenditure sould be laid down.

(iv) Economy and Prudence in Government Expenditure: The Committee was of the view that various services provided by the State Government at a huge cost of public money were not really efficient in many cases. In these respects, the Committee suggested the Government may move slowly towards a path of outsourcing of its non-essential services. This will bring not only reduction of Government's recurring expenditure but also bring in efficiency in delivery of services. As a part of effecting economy in Government expenditure, the

Committee noted the neccessity of taking up various services on Public Private Partnership (PPP) mode by attracting private capital in taking up the services. Deficient resources in public spending for infrastructure sector may be gradually supplemented by taking up infrastructure projects under PPP mode

Another issues noted was the necessity to observe a higher degree of prudence in Government expenditure. Specifically, various incidence of revision of estimates in the infrastructure projects taken up by the Government was observed. The neccesity of fixing responsibilities in revision of estimates without proper justification may be thought of by the Government.

(v) Rationalisation of plan and non-plan expenditure: Reduction of revenue expenditure especially salaries, wages etc under plan account need to be pursued vigorously to allocate a larger outlay for capital formation. The need of rationalisation of non-plan expenditure at the State level, district level and sub-divisional level in respect of Other Expenditure (OE) stationery was also noted to reduce non-plan revenue expenditure.

(vi) Quality of Public Expenditure: High proportion of revenue expenditure under plan account was noted. Efforts should be made to bring down the share of revenue expenditure under Plan account so that plan resources are utilised for capital formation and for infrastructure development of the State. Effective mechanism for periodical review of expenditure in the State's Plan may be taken up by the Government. Utilisation of plan funds including unearmarked components for meeting administrative expenditure and for supplementing non-plan expenditure should be discouraged at any cost. There was a tendency on the part of Department to utilise only the earmarked and tied funds for taking up capital projects.

(vii) Absence of coordination among Government Departments: Lack of coordination among the various departments makes it difficult to achieve common targets in the plan activities of the Government and overlapping plan

schemes were also observed. Departments are apparently taking activities neglecting other departments as if there exist a watertight partition amongst them. There should be more and more convergence of activities to bring better outcome; excessive departmentalisation should be discouraged.

(viii) Close monitoring of economy measures: Over the years, the State government initiated several economy measures to reduce expenditure on offices expense and other establishment expenses of the Government. For instance, vehicle privatisation was undertaken with a view to reduce repair and maintenance expenditure including POL expenses. Whether there is a visble saving or not/ any reduction in intended items needs to be evaluated/monitored.

(ix) Labour security & welfare: Security of labour and their welfare is utmost critical to strengthen the private sector activities in the economy. In the absence of meaningful wage policy, labour welfare in the form of insurance and other securities, the State economy may not be conducive for well established private sectors in the organised and urorganised sectors. State government should take appropriate measures in these regards.

(x) Resource mobilisation by using incentives: In order to motivate and encourage State Government Departments to generate more revenue, to provide better awareness on resource mobilisation and to ensure optimum utilisation of Plan fund in the direction and in the right time, the following incentives may be suggested:

(a) A mechanism/system should be instituted within the State Government framework in which the three best performing Departments on Revenue Receipts and utilization of Plan fund in a financial year is awarded an Appreciation Certificate by the Government. The awardees may be selected based on their performance during the previous financial year;

(b) Those Departments whose performance under Revenue Receipts and utilisation of Plan Fund are not only below expectation but very poor during the pervious financial year be penalised through less allocation of plan fund in the next financial year;

(c) A system be instituted in which the performance of Department on collection of Revenue Receipts and utilisation Plan Fund should be linked with the Performance Appraisal Report of that Department's Head.

(d) To ensure proper implementation of these proposals, it is further suggested that a Committee may be formed and the composition may be decided by the Finance Department in due course of time.

(xi) Institution of strong mechanism for monitoring CSS: Fund under Centrally Sponsored Schemes like SSA, RMSA, NRHM etc are sanctioned and released by the Central Government to Implementing Agencies/Department without routing through State Government's account, not even a sanctioning copy is endorsed to the State Finance Department. This system not only deprives the State Government of accountability and authority on implementation of that scheme but also prompts malpractices and misutilisation of fund. As a part of an effort to ensure proper utilisation of such CSS fund and to instill cautious environment among the officials involved in the implementation process, a Monitoring Committee be formed to oversee the speed of utilisation of such fund, to ensure proper use of fund as per the Guidelines and to witness the performance of that scheme's implementation process or the PERC itself may also be used instead of establishing a separate committee.

CHAPTER 6

SUBSIDIES, POWER SECTOR AND STATE PUBLIC SECTOR ENTERPRISES

The chapter examines some of the critical issues facing the State economy which are crucial for the sustainable fiscal management of the State. These issues are related with subsidies given by the State, power sector reform presently taken up by the State and finally, the working of State Public Enterprises (SPEs).

6.1. Subsidies given by the State

Subsidies given by the State Government could be classified into two broad group- direct subsidy and indirect subsidy. Direct subsidy given by the State is quite minimal as compared with the amount of indirect subsidy. Indirect or implicit subsidies which represent the unrecovered costs in the public provision of goods and services that are essentially used by individual for private consumption have increased considerably over the years. Implicit subsidies are quite significant under PDS, energy and water sectors

Direct Subsidies

State governemnt incurred subsidy for providing agriculture machineries and related implements to farmers. Other departments like Cooperation, Fisheries etc also incur direct subsidiy. This amount is quite negligible as it constituted just about 0.07 percent of the total revnue receipts of the State in 2010-11. In fact, due to severe fiscal constraint faced by the State Government, the actual expenditure on explicit subsidies has progressively decreased over the years (Table 6.1). In 2007-08, the State Government incurred a sum amounting to Rs 7.5 crore for direct subsidy which accounted 0.4 percent of Total Revenue Receipts. As a ratio to GSDP, direct subsidy was 0.2 percent. The amount further declined to Rs 1.7 crore in 2011-12 – just 0.04 percent of TRR and 0.02 percent of GSDP.

Table 6.1: Direct Subsidies given by State Government

(Rs crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Subsidies (Rs in crore)	7.54	5.88	4.08	2.15	1.66
Subsidies as a percentage ofRevenue Receipts	0.37	0.23	0.14	0.06	0.04
Subsidies as a percentage of GSDP	0.20	0.13	0.08	0.04	0.02

Source: (i) Report of CAG of India on State Finances; (ii) Budget Documents, Government of Mizoram

Indirect Subsidies

(i) Unrecovered cost from social and economic services

Table 6.2 presents cost recovery from social and economic services. From the level of cost recovery, one can have the magnitude of the implicit subsidies, i.e., the unrecovered cost in proving social and economic services. State governments are responsible for providing a wide range of social and economic servcies to the people. Revenue from user charges imposed on various social and economic services provided by the state government has been an important components state's own non-tax revenue. Other non-tax revenue sources of the states are interest receipts on the loan given by the state, dividends and profits from the state-level enterprises, and state lotteries. In Mizoram, state's own non-tax revenue contributed 3 to 6 per cent of the total receipts of the state and more than 94 per cent of state's own non-tax revenue came from user charge receipts. User charges have been advocated from a sound public finance point of view.

Generally, in the absence of reliable information on cost recovery, the ratio of non-tax revenue to non-plan revenue expenditure is taken as a proxy for the cost recovery from these services (RBI, 2009). These data for Mizoram are given in the table. Cost recovery from development expenditure showed a consistent improvement over the years. It has increased from 8.3 per cent in 2002-03 to 12.2 per cent in 2011-03. Cost recovery from social services accounted between

1.6 per cent and 2.8 per cent while cost recovery under economic services rapidly increased from 17 per cent in 2002-03 to 23 per cent in 2011-13.

Table 6.2: Cost Recovery from Social and Economic Services (Ratio of Non-Tax Revenue to Non-plan Revenue Expenditure)

(Per cent)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Development Expenditure (A+B)	8.3	8.7	11.9	19.3	13.8	17.1	14.4	10.3	10.2	12.2
A. Social Services	2.1	2.4	2.1	2.5	2.8	2.5	1.8	1.9	1.6	1.9
i. Education, Sports, Art & Culture	0.3	0.5	0.3	0.6	0.3	0.3	0.2	0.3	0.4	0.5
ii. Medical & Public Health	1.4	1.3	1.5	1.6	1.9	1.5	1.1	0.4	0.2	0.4
iii. Water Supply & Sanitation	17.7	16.2	17.1	16.6	38.7	17.9	17.3	16.0	15.5	15.8
B. Economic Services	17.3	15.0	24.5	36.7	25.0	36.1	31.8	21.1	23.7	23.1
i. Power	32.3	13.3	27.7	28.0	19.1	31.9	22.6	15.2	14.6	9.2
ii. Transport	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1

Sources : Budget Documents, Government of Mizoram.

(ii) Unrecovered cost of foodgrains under Targetted Public Distribution System of the State

The State Government is incurring heavy loss due to non-recovery of a huge amount of expenditure on account of purchase of foodstuff under Stock Suspense of Food, Civil Supplies & Consumer Affairs Department. This had happened due to the purchase of rice from Food Corporation of India at an economic cost and selling it to the APL households at PDS rate. The following table bears testimony to this issue:

Table 6.3 : Loss/Gain due to trading of foodgrains under TDPS (Rs in crore)

Particulars	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Loss/Gain	- 11	- 10	+ 2	- 7	- 53	-85	-103

Source: PERC Minutes (3rd July, 2012)

The Government of Mizoram covered the entire population, numbering 10.91 lakh as 2011 Census under Targetted Public Distribution System. There were 2,21,077 households as on 2012. Under TPDS, 26,100 households were under AAY, 41,900 households were under BPL and the rest under APL category. The total quantities of foodgrains procured from FCI amounted to 13,221 metric tonnes monthly while TPDS allocation from Central Government at the subsidized rate is 5,221 metric tonnes. The state government procured an additional 8000 metric tonnes at economic cost of Rs 2100-2200 per quintal from Food Corporation of India (FCI) which was sold to the APL households at the rate of Rs 9.50 per kg. Leaving aside other related and incidental expenses, the State government incurred approximately Rs 10 crores per month on foodgrains to subsidize APL family i.e Rs 12 per kg approximately

6.2. Power Sector Situation

The state of Mizoram, being a mountainous one, has a rich potential for hydropower resources but the utilization/exploitation level is very low. The transmission sector is afflicted with heavy transmission loss while the distribution system is also suffering from inefficient and poor management. Mizoram has huge water resources to be tapped not only for generation of hydroelectricity but which can also be used for drinking water supply, irrigation and for various water sports. The total identified capacity for hydropower is 2196 MW while the capacity developed and under-construction is only 2.8 per cent of the total potential (60 MW). Table 6.4 provides the status of hydro potential of the State.

Table 6.4

Status of Hydro Electric Potential Development in Mizoram

(In terms of installed capacity-above 25 MW as on 12.12.2012)

Sl.No	Particulars	Mizoram		NER	
		Total	Percent	Total	Per cent
1	Identified Capacity as per reassessment study (MW)	2196	-	58971	
2	Identified Capacity as per reassessment study (MW) – (Above 25 MW)	2131	-	58356	
3	Capacity developed (MW)	0.0	0.00	1200	2.06
4	Capacity under Construction (MW)	60.0	2.82	2852	4.89
5	Capacity developed + Under Construction (MW)	60.0	2.82	4052	6.94
6	Capacity yet to be developed (MW)	2071	97.08	54304	93.06

Sources : Ministry of Power (GOI) website

Power Generating Sector

Power is generated from three sources-hydel, diesel and thermal. Use of diesel and thermal as a source of generating power has been avoided due to its high cost. The hydro-power potential of Mizoram is estimated at more than 2000 MW out of which a little more than 60 MW (2. 82%) have been developed and under-construction. The State's power demand is presently estimated at 107 MW. The state's installed capacity is 29.35 MW out of which 22.92 MW came from Bairabi Thermal Plant which, however, is used only for emergency purposes and presently non-functioning because of high cost of generation. The state depends on power allocated to the state through central sector; in fact, 73.48 MW have been allocated to the state through central sector during 2011- 2012. The installed capacity and generation of power in the State during 2011-12 is indicated below:

Table 6.5 : Status of Power Generation in Mizoram

Sources	Installed Capacity in MW	Gross Generation in MU
Hydel	29.35	22.78
HFO based	22.92	0.00
Diesel	0.5	0.01
Total	52.77	22.79

Source: Economic Survey of Mizoram 2012-13

There are some new projects proposed to be taken up such as Tuivai HEP (210 MW), Lungreng HEP (815 MW), Chhimtuipui HEP (635 MW), Mat HEP (76 MW) etc.

Power purchased and revenue generated

During 2011-12 only 5 per cent of the total energy available for the state is met within the state and the remaining 95 per cent was imported from central sector projects like TSECL, Tripura, NEEPCO, NHPC and others. The total power purchase was 441.10 MU at a cost of Rs 150.81 crores. Energy sale takes place within the state and outside the state. After the implementation of ABT (Availability Based Tariff), Mizoram has a chance to sell its unused power share through Unscheduled Interchanged (UI) or bilateral sale as the case may be. During 2011-12, the total sale of energy fetched revenue amounting to Rs 107.37 crore; sale or energy within accounted as much as Rs 89.08 crore (83%) against Rs 18.29crore (17%) received from sale of energy outside the state.

Consumption of Electricity

There were about 1.78 lakh consumers of various categories as on 31st March 2012. The consuming units are classified into seven categories and power tariffs are charged at different rate. Domestic consumption accounted 65 per cent whereas industrial sector consumed only 1 percent.

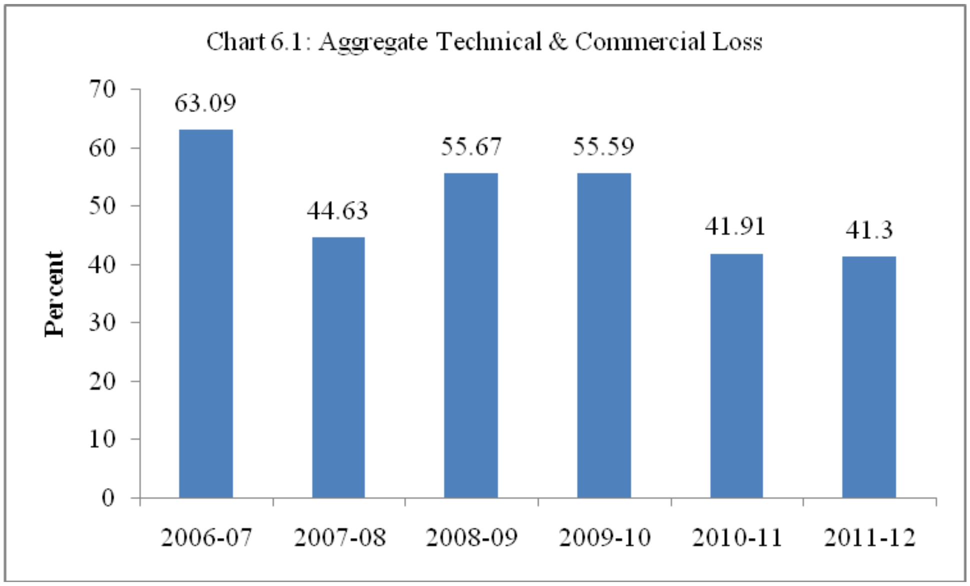
Rural Electrification

As per 2001 Census, there were 707 inhabited villages in Mizoram. As per the new definition of electrified village, 570 villages have been electrified aganist 707 inhabited villages. Under RGGVY, efforts are made to electrify 137 unelectrified villages, intensive electrification for 570 villages and electrification of 27,417 BPL households. As on 2008, elctrification of 93 unelectrified villages completed, 346 villages intensive electrification work and provision of free connection to 14,920 BPL households have also been done.

Power Transmission Sector

Power allocated to the State from the central sector projects is transmitted to the State through the North East Grid at 132 kV level through the following lines: (i) 132kV SC Jiribum (Manipur) to Aizawl (PowerGrid) line; (ii) 132kV SC Badarpur (Assam) Aizawl (PowerGrid) line; and (iii) 132kV Kumarghat (Tripura) to Aizawl (PowerGrid) line. These lines converge into 132 kV PGCIL Sub Station at Aizawl Luangmual from which power is transmitted to various parts of the State through State's own 132 kV Sub-Stations in Mizoram for further distributions at various voltage levels.

The transimission sector is plagued by high ransmission & distribution losses Aggregate Technical & Commercial losses (AT & T) in Mizoram was more than 40 percent in 2011-12. As Chart below shows, aggregate technical & commercial loss has been reduced through 2006-07 to 2011-12. The State is taking up the scheme under Re-Structured Accelerated Power Development and Reform Programme (R-APDRP). The basic objective of the scheme has been to prepare base line data for establishment of consumer indexing, GIS mapping etc for reduction of AT & C loss to the level of 15% and the second part of the scheme consists of strengthening and improvement of distribution networks.



Sources : (i) Report of the Comptroller and Auditor General of India on Civil, Revenue and Commercial for the year ended 31 March 2011 (Report No 2), Government of Mizoram ; (ii) Annual Report 2011-12, PED, Government of Mizoram

Several reasons have been attributed to the reasons for high AT & C loss by the power sytem in the State. Technical losses occur due to the inherent character of equipment used for transmitting and distributing power and resistance in conductors through which the energy is carried from one place to another. Commercial losses, on the other hand, occur due to theft of energy, defective meters and drawal of unmetered supply. Further, the Report of CAG of India (2011) noted that one percentage reduction in the Transmission and Distribution losses could fetch revenue amounting to Rs 1.03 crore to the Department.

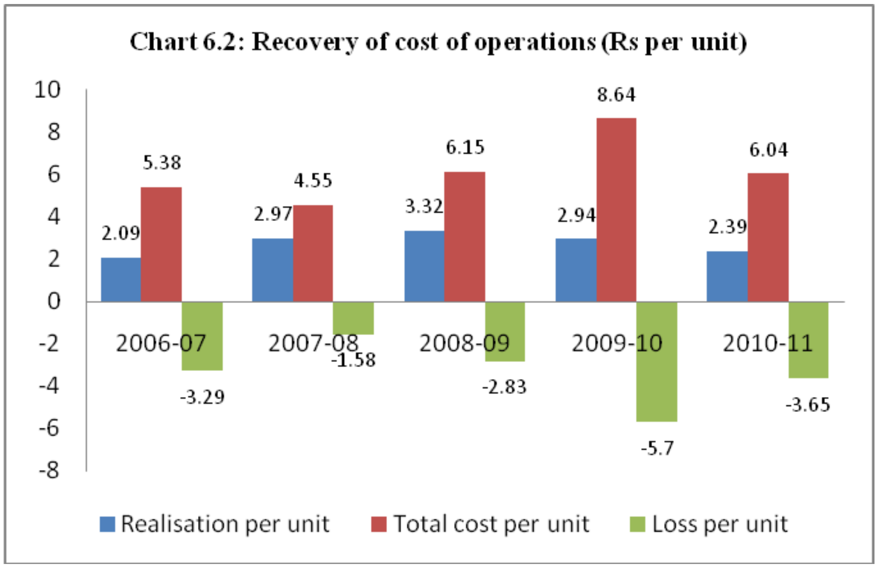
PED has completed 97 percent consumers metering. It is suggested that 5-10 percent of the meters may be faulty meters. Unmetered supply constitues less than 10 percent of the total power supply. Equipment theft cases were not reported during 2012. Electricity bills are generated regularly and the Department put in place a system to ensure that bills are paid promptly by the consumers. The billing efficiency is 71 percent while the collection efficiency is 82 percent The officials opined that the present tariffs are based on sound commercial principles.

Initiaves in the Power Sector Reform

The State Government and Ministry of Power (GOI) signed Memorandum of Agreement (MOA) on 10.7. 2002 to reform power sector in the state of Mizoram. The Central Government will provide fund-90 percent grants and 10 percent loans- under APDRP to implement the objectives of the MOA. The state government will implement disbribution reform and improve performance efficiency. Some of the important milestones provided in the MOA to be achieved by the State government are : (i) To set power corporation/board/autonomous body by 2006-07; (ii) To set up SERC/JERC by April 2003 and tariff petition should be filed by December, 2003; (iii) 100% metering of all consumers by March, 2006, (iv) 100% electrification of villages by June, 2005; (v) setting up of the computerised billing centres to be done by July 2003-one after the effective date of the MOA.

The status of achivements of these reform measures: (i) Power & Electricity Department is not yet coporatised. The recommendations of the Administrative Staff College of India (ASCI), Hyderabad, consultant for corporatising P & E Deaprtment, are under examination by the State Government; (ii) Joint Electricity Reforms Commission for the States of Manipur and Mizoram was constituted in February 2008; (iii) 100% village electrification is yet to be achieved; (iv) Computerised billing centres had been set up in Aizawl city, covering the entire city along with its suburbs. Computerised billing centres in rural areas remained to be set up.

Power sector is one of the most highly subsidised sectors of the economy. In the context of Mizoram, cost recovery from the power sector decreased continuosly during 2002-12; this shows an increase in the expenditure of implict subsidies in the sector. Cost recovery was 32.3 percent in 2002-03 but fell to 9.2 percent in 2011-12. Revenue lost per unit of the cost of operation, given in Chart 2 showed an erratic pattern but represented a huge amount of public revenue has been incurred to provide power at a highly subsidised rate.



Source: Report of the Comptroller and Auditor General of India on Civil, Revenue and Commercial (for the year ended 31 March 2011 (Report No.2) Government of Mizoram

The State Governmet signed a Memorundam of Agreement (MoA) in July 2002 with the Union Ministry of Power for implementation of power sector reforms. According to the MoA, the Central Government will provide fund to the State under APDRP to implement the objectives set out in the agreement. Following the agreement, Joint Electricity Reform Commission (JERC) for the States of Manipur and Mizoram was set up in February 2008. The Agreement also envisaged the formation of Power Corporation/Board/Autonomous Body by 2006-07 which is yet to be achieved. The Administrative Staff College of India (ASCI) was appointed to examine the issues of corporatisation of Power Department and the recommendations are under examination by the State

Government. Under Structural Adjustment Loan (SAL) under Asian Development Bank (ADB), power sector reform and restructuring has been an important objective.

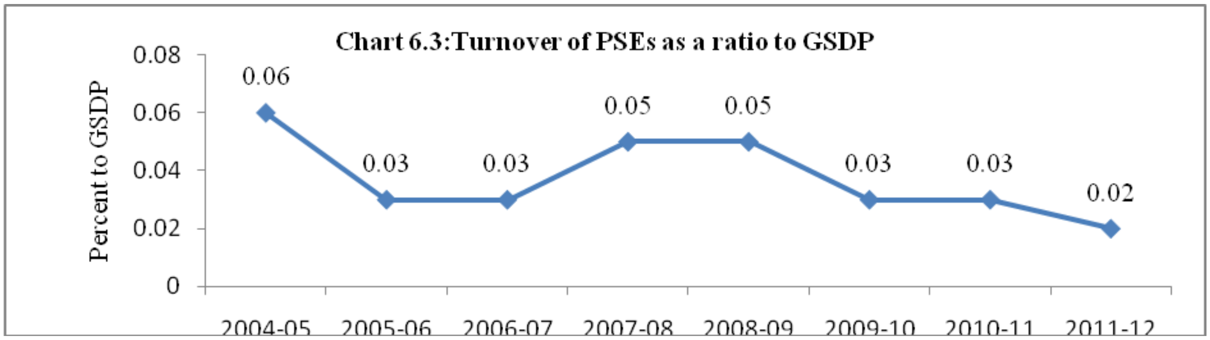
Several reasons have been attributed for high AT & C loss by the power sytem in the State. Technical losses occur due to the inherent character of equipment used for transmitting and distruting power and resistance in conductors through which the energy is carried from one plce to another. Commercial losses, on the other hand, occur due to theft of energy, defective meters and drawal of unmetered supply. Further, the Report of CAG of India (2011) noted that one percentage reduction in the Transmission and Distribution losses could fetch Rs 1.03 crore to the revenue of the Department.

6.3. Reform in State Public Enterprises

As on 2011-12, the State has five State Public Sector Enterprises[1]. Budgetary supports given by the State Government include subscription of their equity capitals, provision of loans, grants and subsidies. Another important support mechanism extented to these PSEs by State Government was giving guarantees for their loans taken from banks and other financial institutions. These PSEs are established to carry out activities of commercial nature and to generate surpluses which should be ploughed back to State in the form of profits and dividends, thereby becoming one of the important sources of revenue for the State. The total employees under these PSEs were 267 persons. Five State PSEs were incurring losses continuously over ther years. During 2011-12, these PSEs incurred an annual loss of Rs 4.56 crore and their accumulated losses amounted to Rs 50.58 crore. The contribution made by these PSEs is insignificant to the State economy. The annual turnover as a percentage of

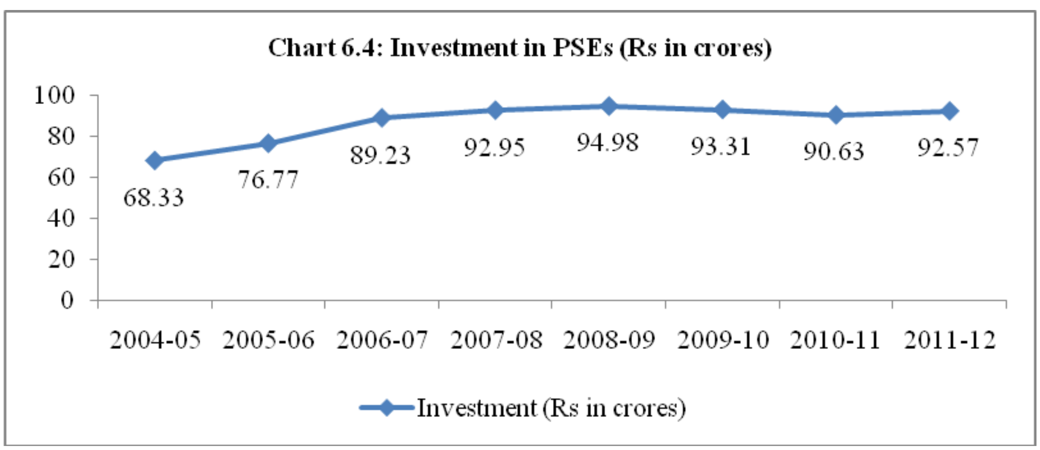
[1] These are Mizoram Agricultural Marketing Corporation Limited (MAMCO), Zoram Industrial Development Corporation Limited (ZIDCO), Zoram Electronics Development Corporation Limited (ZENICS), Mizoram Food and Allied Industries Corporation Limited (MIFCO), Mizoram Handloom and Handicrafts Development Corporation (ZOHANCO)

GSDP was 0.02 percent in 2011-12. As Chart 6.3 indicates, the turnover as percent to GSDP has been continuously falling since 2004-05.

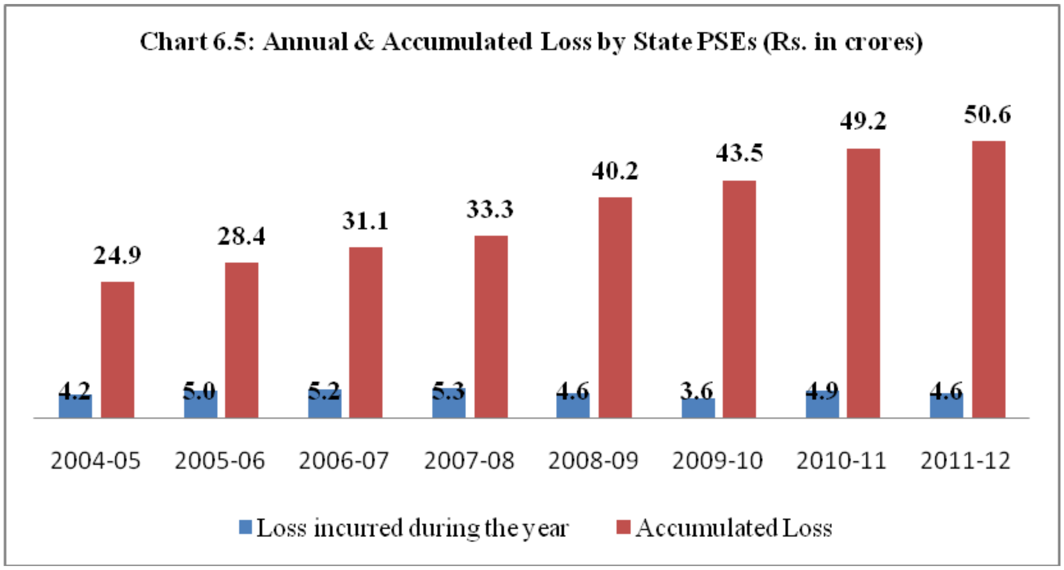


Source : Report of the Comptroller and Auditor General of India on Social, Economic, General Revenue and Economis (PSUs) Sectors, for the ydear ended 31 March 2012

Even though state enterprises are incurring losses, they continue to get investment from State Government and other financial institutions. As on 31 March, 2012, the total investment in the five PSEs was to the tune of Rs 92.57 crores (Chart 6.4). The annual and accumulated losses incurred by them are also presented in Chart 6.5. This being the case, the State Government has explored all possible options and alternative measures of state public sector reforms and restructuring.



Source : Same as Chart 6.3



Source : Same as Chart 6.4

The High Power Committee (2008) recommended policy framework for restructuring of Public Sector Undertakings (PSUs) under the Government of Mizoram[2]. The Committee examined the whole issues surrounding the functioning of the PSEs and the common problems and the reasons for their sickness. The following issues were identified as the debilitating factos of the operational efficiency of the PSEs : (i) Political appointment of the members of management board without considering technical or mangerial capabilities; (ii) irregular fund flow to the PSEs; (iii) Overstaff with persons not having technical or managerial expertise, causing huge salary expenditure on administrative staff; share capital hardly covered the administrative expenses ; (iv) no policy back up towards better performance; (v) non-existence of proper monitoring mechanisms at any level; (vi) general infrastructure backwardness and absence of entrepreneurship. The restructuring framework recommended by the High Power Committee includes, among others, adoption of Chairman-cum-Managing Director (CMD) and induction of experts as board of directors, VRS

[2] This initiative was undertaken as a part of SAL, negotiated with ADB.

for employees, capacity building to enhance efficiency of employees, no further disbursement of loans etc[3]

[3] See Report on Restructuring of Public Sector Enterprises under Government of Mizoram, High Power Committee, GoM, 2008

CHAPTER 7

DECENTRALISATION INITIATIVES IN THE STATE

7.1. Current Administrative Structure in Mizoram

Mizoram as an administrative unit underwent three stages- first, it was one of the autonomous districts under Assam, then a Union Territory and ultimately one of the States under Indian Union. The Sixth Schedule to the Indian Constitution provided the powers and function of Autonomous District Council. The first District Council election was held on 4 April 1952 which was inaugurated on 25 April, 1952[1]. A Regional Council was started for the region inhabited by the Pawi and the Lakher in 1953. The Lushai Hills District was renamed Mizo District by an Act of Parliament in 1954. Village Councils were constituted under the Lushai Hills District (Village Council) Act, 1953. Chieftainship was abolished by an Act passed by Assam State Assembly in 1954, the much hated impressed labour had been done way, land and forest resources were managed by the elected bodies.

Mizoram was given Union Territory in 1972, and development efforts had become much more intensified than before[2]. Mizoram has its own legislative bodies with full-fledged Council of Ministers. The Mizo District Council was dissolved and the Pawi-Lakher Regional Council was divided into three autonomous district councils of Mara, Lai and Chakma. During 1951 to 1971, the total flow of plan fund was a mere Rs 11 crores. The Fifth Five Year Plan could be regarded as the beginning of planning era in Mizoram. The Mizo Peace Accord (1986) and Statehood (1987) offered a unique opportunity of peace and development. The peace-making process in Mizoram also represented a model

[1]Upto 12 November, 1951, the Superintendent and his Advisory Council administered Mizoram.

[2] The political map of the entire North-East Region was changed with the passage of the North-east (Reorganisation) Act, 1971. Mizo Hills District was upgraded to the union territory status. The Terrritory , now consists of three districts namely, the Aizawl District, Lunglei District and Chhimtuipui District (comprising the Regional Council of Pawi -Lakher area). The Headquarters of the new districts were located at Aizawl, Lunglei and Saiha respectively.

wherein democratic process and the participation of the church including civil society group could make a difference in the peace deal.

State administration

Administratively, the state is divided into 8 districts, with 26 development blocks and more than 740 village councils. There are three autonomous district councils for the three ethnic groups in the South, namely, Lai, Mara and Chakma. It became the 23rd Indian State on 20 February, 1987. The State has one Legislative Assembly with a total membership of 40[3], one Lok Sabha and one Rajya Sabha member. The State has more than 40 State Departments to run the affair of the States. Over the years, several development policy initiatives and schemes have been evolved by the State Government (Table 7.1)

District Administration

The District administration is responsible for maintenance of law and order in the district, collection land revenue, block and village administration and socio-economic development at the district level. The district administration is said to have three components- district, sub-divisional and village level. The head of the district administartion of is Deputy Commissioner. The State has been divided into eight districts and the offices of all Deputy Commissioner have functioned while other supporting administrative departments have also coming up. From development perspective, the responsibility of the district administration could be summarised as follows: (i) land reforms; (ii) rural development; (iii) social extension; (iv) Cooperation; (v) Public distribution system; (vi) poverty alleviation programmes; and (vii) rural employment.

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[3] The minimum membership prescribed for the State Legislature is 60. Since Mizoram has a small population, 40 is specifically prescribed for Mizoram by the Indian Constitution.

Table 7.1: Major Policy Initiatives and Development Schemes of the State Government

Economic	Social	Fiscal	Sectoral
▪ State Industrial Policy 1989 revised in 2001; ▪ New Land Use Policy, 1984 (Replaced by Jhum Control Project (1987), 1989, and Revised NLUP has been designed (2009) ▪ State IT Policy formulated 2001; ▪ Mizoram Intodelhna Project was formulated in 2002 ▪ Hydro Proejcts above 25 MW are proposed to be taken up under PPP ▪ In order to bring about comprehensive land reforms and land settlement, a new land law is being formulated ▪ North Eastern Region Capital Cities Development Investment Programme set up for taking urban renewal programme projects in Aizawl City along with other four North Eastern Capital Cities are proposed ▪ Power sector reforms and restructuring of public sector undertakings for better fiscal management initiated.	▪ Mizoram Health Care Scheme, by which health insurance scheme for non-government employees was launched ▪ Cancer hospital ▪ ITI at Champhai and Women ITI at Aizawl ▪ Establisment of Family Courts ▪ Strengthening of cooperative movement by grant-in-aids ▪ Proposed to set up institution like Indian Institute of Information Technology, Institute of Medical Sciences and Agriculture University (2009-10) ▪ National Institute of Technology established in 2011 ▪ Mizoram Education Reforms Commission set up (2009) and report submitted ▪ State Medicinal Plant Board has been constituted to develop medicinal plants cultivation in the State; ▪ Mizoram Youth Commission has been formed to look into the issues facing problems and potential of Mizo youth in 2009-10 ▪ *Catch them young*- a comprehensive policy for promotion of sports with development of infrastructure and Sport Promotion Center is proposed to be set up at all district headquarters	▪ Medium-Term Fiscal Reforms Programme (MTFRP) introduced. ▪ Sinking Fund created ▪ Introduced Value Added Tax in 2006 ▪ The Mizoram Fiscal Legislation and Budget Management Act, 2006 ▪ Steps taken for introduction of Entry tax, Luxury Tax on hotels and lodging houses and other luxury houses; ▪ Guarantee Redemption Fund has been set up in 2009-10; Mizoram Guarantee Act 2011 ▪ Introduction of toll on road and bridges and water cess on minor irrigation (2007-06) suggested; ▪ Focus is given on finding resources from alternative sources like external assistance in the form of EAP and private capitals through PPP ▪ Public Expenditure Review Committee (PERC) constituted in 2009 ▪ Privatisation of government vehicles and special voluntary retirement schemes for government drivers, handymen and despatch drivers. ▪ Scheme for providing special car loan at concessional interest was given to government officers	▪ Promote organic farming –Organic Farming Act passed ▪ Setting up of Bamboo Technology Park- Bamboo Mission launched; Bamboo Policy 2002 ▪ Urban water supply schemes under Accelerated Urban Water Supply Programme taken up; ▪ Assessment of water charges based on meter reading; ▪ Bamboo Flowering and Famine Combat Scheme launched; ▪ The Mizoram Industrial Area (Management, Regulation & Control) Rules 2008 formulated; ▪ Integrated Infrastructure Development ▪ Cadastral Survey of non-agricultural land ▪ Law Commission constituted ▪ Attempt has been made to formulate a comprehensive forest and soil conservation ad managemenet policy initiated in 2009-10 ▪ A suitable Oil & Natural Gas Policy is being formulated ▪ Renewable Energy Resource Policy has been formulated ▪ Hydro Electric Power Policy 2010

The demographic characteristics of the eight districts are indicated in the table.

Table 7.2: District wise Population (2011 Census)

District	Population			Density (per Sq Km)	Sex Ratio	Literacy %
	Male	Female	Total			
Mamit	44567	41190	85757	28	924	60
Kolasib	42456	40598	83054	60	956	94.54
Aizawl	201072	202982	404054	113	1009	98.50
Champhai	63299	62071	125370	39	981	93.51
Serchhip	32824	32051	64875	46	976	98.76
Lunglei	79252	74842	154094	34	944	89.40
Lawngtlai	60379	57065	117444	46	945	66.41
Saiha	28490	27876	56366	40	978	88.41
MIZORAM	**552339**	**538675**	**10,91,014**	**52**	**975**	**91.85**

Source : Census of India,Mizoram 2011 Provisional Data

The Planning Commission while formulating the Eleventh Five Year Plan (2007-2012) and in the annual plan 2007-2008 decided that district plan process should be an integral part of the process of the prepartion of state’s plan. For this purpose, District Planning Committee (DPC) needs to be constituted, as envisaged in the Constitution. Eighty percent of members of DPC should be from the elected members of the Panchayat and urban local government in each district and the remaining 20% to be nominated by state government from persons having expertise in some fields. Preparation of district plan should be done based on the vision documents (10 to 15 years) of the district. The functioning of district planning was examined in the light of Planning Commission directives on district planning; it was observed that the State has not done anything in this regard. District Planning should cover the following aspects:

i) Preparation of a Vision Document (10 to 15 years)
ii) Preparation of District Human Development Report
iii) Identify key reasons for backwardness/development constraints and address issues impeding development
iv) Assess financial resource available for the District-own resources, revenue transfers from SFC and Central FC, plan grants-untied, CSS, EAP, community contribution etc

Though Aizawl district constituted the district planning committee, not even one meeting was convened. It is not an effective instrument for development planning. In one of the districts, the State created a High Power Committee to oversee development works in the district.

Village Administration

Village administration is basically governed by the Lushai Hills District (Village Council) Acts 1953, adapted later under UT and State administration. Village councils have very limited functions and powers mostly administrative and judicial of petty nature under the Village Councils' Act 1953. The village council is responsible for law and order maintenance and socio-economic development in their respective village. House sites could be allotted to the households living in the village, community labour could be mobilised to do community-related works like clearing of inter-village roads, maintenance of local spring water sources etc. Despite the good works done by village councils at the village level, they have been denied the devolution of financial resources, administrative responsibilities, political powers, development roles, planning and decision-making processes. Since the Village Council lacks both polictical and financial decentralization, sustaianable rural development at the village level is far beyond the scope of village administration. The Village Councils are responsible to demarcate village forest safety reserves, village forest supply reserve and protected forest reserve under the Mizo District (Forest) Act, 1955. Prasad (2003) observed: "The Village Councils have neither created significant impact at the village level nor have provided leadership to the local community due to lack of financial and polictical power. Briefly, the Village Councils have failed to evoke local initiative and people's participation in development activities and bring about social and economic changes in the rural areas owing to a strong centralising tendency in the State. Such a centralising is just not compatible with the principle of decentralisaton of planning and decision-making processes."

Autonomous District Councils in Mizoram

Mizoram has three Autonomous District Councils under the provision of the Sixth Schedule to the Constitution of India and one Development Council. Mizoram, then known as Mizo Hills was one of the autonomous districts under Assam was upgraded into Union Territorry with a Council of Ministers in 1972 following the implementation of the North-Eastern Areas (Reorganisation) Act 1971. The Pawi and Lakher Regional Council, located in the southern most part of Mizoram, was also given autonomous councils, splitting into three councils, viz., Lai Autonomous District Council (LADC), Mara Autonomous District Councils (MADC) and Chakma Autonomous District Council (CADC).

The Autonomous District Councils consist of elected members and nominated member by the Governor. Each council is headed by an executive committee consisting of the Chief Executive Member (CEM) elected by the council members and other executive members (EM) appointed by the Governor on the recommendation of the Chief Executive Member.The Chairman and the deputy chairman of the councils are elected from the members. Each council has extensive powers on a wide-range of subjects that can be classified into legislative, judicial, executive and financial. The State government has entrusted to the district council twenty subjects that greatly enhance their executive powers.

Under the Constitution, the District Council has law making powers concerning:

i) Management of land and forests other than reserve forest;
ii) Use of canal or water for the purpose of agriculture;
iii) Regulation of the practice of jhum;
iv) Establishment of village or town committee and matters relating to village or town administration including public health and sanitation;
v) Inheritance of property;

vi) Marriage and divorce; and
vii) Social customs etc

Although the level of socio-economic development is still very low, all the three autonomous districts have made impressive progress in terms of literacy level over the last four decades. However, provision of health and other physical facilities like road, power, drinking water, etc are highly inadequate. The level of poverty is also relatively high in these districts. Fiscal management by District Councils further showed a weak revenue base and a heavy dependence on grants-in-aid from the state government. Due to serious fiscal constraints, the district councils could hardly implement any decentralising planning, seriously hampering growth and development. Moreover, dubious expenditure and irregular fund utilization by the district council authority revealed the need to improve the quality of fiscal governance in the Autonomous District Councils. The following issues may be put forward for consideration for the proper governance and development of the district councils:

i) Fiscal devolution to the district councils-tax as well as grants;
ii) Direct central funding of plan expenditure- amend the constitution to facilate direct funding of district plan and centrally sponsored schemes;
iii) Emowerment of Village Councils;
iv) Reservation of seats for women in the District and Village Councils;
v) Application of anti-defection law etc.

7.2. Transfers of powers to urban and rural local bodies

(i) Aizawl Municipal Council (AMC)

So far, the State has 22 notified towns. However, only Aizawl city has municipal council and the rests were governed by Village Councils. The Mizoram Municipalities Act was passed by the Mizoram Legislative Assembly in 2007. The Aizawl Municipal Council started functioning from July 1, 2008 at its office at Thuampui Veng, Aizawl. The Council office is headed by a Chief Executive Officer. The AMC consists of 19 elected members representing 19 Wards of the city of Aizawl and other 12 members (11 MLAs and 1 Lok Sabha MP) appointed by the Governor of Mizoram. Roughly one-thirds (i.e. 6) of the total membership is reserved for women, these six seats shall be rotated after every five years. The tenure of the Council is five years.

(ii) Lunglei High Powered Committee

The State government, to initiate a faster developmental process with inclusive growth, has reconstituted the Lunglei High Powered Committee in 2009 by amalgamating it with the then Lunglei District Planning Board to address the problems of Lunglei District. The High Powered Committee was empowered to formulate district plan and schemes and implement district level plan out of the outlay earmarked as discretionary funds and also review and monitor all district level plan and projects. The major development schemes covered the following sectors: Agriculture and its allied activities, Water Supply, Sport & Youth Services, and Urban Development etc. The Chief Minister is the Chairman of the Committee. The State Planning Board provides technical and secretarial inputs.

(iii) Sinlung Hill Development Council (SHDC)

The SHDC was constituted on July 1997 consequent upon the signing of peace accord between the Hmar People Convention (HPC) who were waging armed struggle demanding a separate Autonomous District Council for the Hmar ethnic group. The struggle lasted about six years, and after several round of talk, peace accord was signed on 27.7.1994. The SHDC was functioning as an autonomous body with a small amount of fund. The total budget for the year 2010-2011 was 250.00 lakhs. The budget for the year 2012-2013 & 2013-2014 was Rs 300.00 lakhs which will be utilized for various developmental works apart from maintenance of vehicle, engagement of staff and accommodation of office in Aizawl and Sakawrdai on rental basis. The powers and functions of the Councils are:

(i) To make plan out of the earmarked fund. The plan will be implemented by the Department concerned. The plan made by the Council will be subject to the approval of the Government;

(ii) To reallocate fund from the one scheme to another within the area and within the sectoral allocation, provided that in case the propose new scheme is not identical in nature with approved scheme, approval of the Government will be necessary;

(iii) To draw up calender of works for various Departments in the area and oversee their implementation;

(iv) To make recommendation to the Government as deemed neceassary in the interest of better planning, implementation and monitoring;

(v) To obtain information from any officers in the area regarding progress of plan schemes;

(vi) To review the progress of the plan once in a quarter; and

(vii) Any other functions that the Government may allot from time to time.

7.3. Reforms undertaken under JNNURM conditionalities

Aizawl city, the State capital of Mizoram is an eligible city for funding under the JNNURM after municipal council was made functional in line with 74th Amendment of the Constitution. Aizawl comes under the Category C (upto I million population). The population of Aizawl as per 2001 census is around 2.28 lakhs. Aizawl is a conglomeration of 71 village councils. It is presently in a transition stage and The Mizoram Municipalities Act was already passed and a municipal council is already functional in line with the 74th Constitution

Amendment Act. Aizawl, the capital city of the state of Mizoram, is the first Municipality after the Bill is passed.

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched by the Prime Minister of India, on 3rd December 2005. The Mission programme covers the whole of India for focussing urban perspective framework for a period of 20–25 years indicating policies, programmes and strategy. It is the largest national urban initiatives with Rs. 50,000 Crores of Central Government support for 63 identified cities. JNNURM is composed of two sub-missions:- (i) Urban Infrastructure and Governance (UIG)' and (ii) Basic Services to the UrbanPoor (BSUP). UIG & BSUP are confined to the selected 63 of Mission Cities. Aizawl being State Capital is one of the Mission cities. There are two more programmes to cover other small and medium cities/ towns, namely:- (i) Urban Infrastructure Development Scheme for Small & Medium Towns(UIDSSMT); and (ii) Integrated Housing & Slum Development Programme (IHSDP). Under JNNURM, the Government of Mizoram had been implementing 18 projects. The sharing pattern between the Central & State Government is 90:10 for the State of Mizoram.

(i) Urban Infrastructure and Governance (UIG): Under this sub-mission, the Ministry of Urban Development allocated Rs 148.22 crore for the state of Mizoram which was utilized for urban infrastructure development -Rs 133.40 crore was allocated for infrastructure and Rs 14.82 crore for e-governance (Capacity Building). The ongoing project and their progress are presented in the table below:

Table 7.3: Progress of Projects under UIG *(Rs in lakhs)*

Sl.No	Name of Project	Project Cost	Financial Progress	Physical Progress
1.	GAWS-I, Renovation of Azl	1681.80	1151.87	96.00%
2.	Purchase of Buses (Urban Transport)	325.00	177.51	68.00%
3.	Widening & Improvement of Vaivakawn to Mizoram University Road (10.50 km)	1907.64	429.22	In Progress
4.	Sihhmui to Mizoram University as Spur of Aizawl City Ring Road (16.70 km)	5309.32	1194.00	In Progress
5.	Improvement & Widening of Aizawl City Road Phase I	3873.40	871.52	In Progress
	TOTAL	**13096.36**	**3597.67**	

Source: Progress Report Handbook, UD&PA, 2013.

Greater Aizawl Water Supply Scheme Phase I project was sanctioned in the year 2007 and the work is being done by the PWD, GOM. The funds are to be released in four (4) instalments. The first three instalments have already been released. There are 27 work items under this project but their progress is not uniform. Some of the works are already completed whereas others are just completing upto 10% of the work.

The Urban Transport Project work is undertaken by the Transport Department, GoM. Under this project there is a provision to purchase 25 buses; out of this only 14 buses have been purchased from the 1st instalment. Besides this, out of the state matching share 3 buses were also bought. From the 2nd installment, the department in charge will purchase yet another 8 buses.

As seen in the above table, there are three major road projects under UIG. The 1st instalment of the fund has been released by the Central Government and the said fund has also been transferred to the PWD, GoM who is undertaking the project work.

Besides the above five (5) projects under UIG, the UD&PA Department submitted 2 major project proposals to the Central Government and if granted, the department will be having 7 projects under UIG. The project proposals submitted are: (i) Development of Strom Water Drains & Rehabilitation of

Natural Drains of Aizawl City (Phase I) (Zone 1A)- Rs 1997.56 lakhs; (ii) Development of Strom Water Drains & Rehabilitation of Natural Drains of Aizawl City (Phase I) (Zone 1B)- 3485.16 lakhs;

(ii) Basic Service to Urban Poor (BSUP) : The main provision of BSUP is the construction of dwelling houses for the Economically Weaker Section (EWS) of the society whose annual income falls below Rs 100,000/- . The centrally allocated fund for this purpose is Rs 80.11 crore. There are four (4) projects under BSUP, which, when completed will be able to provide dwelling houses for 1096 families. The following table highlights the progress of these projects:

Table 7.4: Progress of BSUP

Sl.No	Name of Projects	No. of Dwelling Units	Project Cost	Financial progress as on March 2013	Physical Progress (%)
1.	EWS Housing, Chite	200	1376.35	688.18	40.00
2.	EWS Housing, Lawipu	208	2056.75	1028.38	40.00
3.	EWS Housing, Rangvamual	368	3075.14	1459.57	26.00
4.	EWS Housing, Durtlang	320	2623.73	1280.72	30.00
	Total of BSUP	**1096**	**9131.97**	**4456.85**	

Source: Progress Report Handbook, UD&PA, 2013.

Due to non-availability of land, EWS Housing Chite could not be taken up at Chite and was combined with EWS Housing Lawipu at Lawipu with the approval of the SLSC. A combined detailed project report was prepared as advised by the Ministry of HUPA and was approved by the CSMC on 28 February, 2013 at the combined cost of Rs. 34.03 crore. Release of subsequent instalments from the Central Government is awaited.

7.4. Check list for the urban reforms under JNNURM, Mizoram

The various reforms programmes under JNNURM is divided into 3 (three) levels viz. State, ULB and Optional Level. At the State level, JNNURM requires certain reforms to be undertaken by states/ cities in implementing the 74th

Constitutional Amendment Act in its letter and spirit. The State should ensure meaningful association and engagement of Urban Local Bodies in the entire gamut of urban management functions, including but not limited to the service delivery function by the agencies. Over a period of seven years, the Mission aims to ensure that all special agencies that deliver civic services in urban areas to ULBs are either transferred and/or platforms are created for accountability to ULBs for all urban civic service providers in transition. At the state level there are 7 reforms, out of which 5 have been completed and 2 are in progress.

At the ULB level, JNNURM also requires certain reforms to be undertaken by states/ cities in the area of institutional convergence at the city level, with an objective to assign or associate elected ULBs with "city planning and delivery functions". During the Mission period, JNNURM envisages that the process of planning and delivery of all urban infrastructure development and management functions and services will converge with the functioning of the ULB. In Mizoram at the ULB level, out of the 6 major reforms only one has been completed and the other 5 reforms are in progress.

At the Optional level, JNNURM further requires certain reforms to be undertaken by states/ cities towards putting in place an effective Property Title Certification System. The cities need to ensure proper management and record of all property holdings within the city. The new system should reflect authentic ownership at all points and information on holdings should be easily accessible. In Mizoram at the Optional Level, we have 10 reforms, out of which only 3 are completed. The progress summary of each level is presented in the table below:

Table 7.5 : Progress Summary of State and ULB Level Reforms

Reform Level	Sl. No	Reform Name	Current Status
State Level Mandatory	1.	Implementation of the 74th Constitutional Amendment Act Reform	Completed
	2.	Integration of City Planning & Delivery Function Reform	In Progress
	3.	Rent Control Reforms	Completed
	4.	Rationalisation of Stamp Duty Reform	In Progress
	5.	Repeal of ULCRA Reforms	Completed
	6.	Community Participation Law Reform	Completed
	7.	Public Disclosure Law Reform	Completed
ULB Level Mandatory	1.	Municipal Accounting Reform	In Progress
	2.	E Governance Reform	In Progress
	3.	Property Tax Reform	In Progress
	4.	User Charges Reform	In Progress
	5.	Assessment of Internal Earmarking of funds for Services to Urban poor reform	Completed
	6.	Basic Services for Urban Poor Reforms	In Progress
Optional Reform	1.	Assessment of Introduction of property title certification system in ULB's reform	In Progress
	2.	Revision of building byelaws to streamline the approval process reform	Completed
	3.	Revision of building byelaws to make rainwater harvesting mandatory in all buildings reform	Completed
	4.	Assessment of Earmarking at least 20-25 per cent of developed land in all housing projects reform	In Progress
	5.	Assessment of Simplification of legal and procedural frameworks for conversion of agricultural land for non-agricultural purposes reform	In Progress
	6.	Assessment of Introduction of computerized process of registration of land and property reform	In Progress
	7.	Assessment of Byelaws on Reuse of Recycled Water Reform	Completed
	8.	Assessment of Administrative Reforms	In Progress
	9.	Assessment of Structural Reforms	In Progress
	10.	Assessment of Encouraging Public Private Partnership Reform	In Progress

Source: Progress Report Handbook, UD&PA, 2013.

CHAPTER 8

MAJOR FINDINGS AND CONCLUSION

The present study examined in detail the performance of Mizoram State finances during 2002-03 to 2011-12. The main findings of the study are summarised in the present chapter as well as the conclusion that emerged from the study.

Pattern of Aggregate Receipts of the State

1 The aggregate receipts of the State is dominated by revenue receipts whose share had increased from 53 percent to 79 percent during 2002-12 while capital receipts witnessed a declining share from 47 percent to 21 pecent. State's own revenue contributed 4 to 8 percent while revenue transfers constituted 49 to 80 percent.

2 Aggregate receipts grew by almost 20 percent from Rs 1933 crore in 2002-03 to Rs 5100 in 2011-12. State's own revenue grew by 17 percent while Central transfers by 15.2 percent. Share in Central taxes witnessed the highest growth rate (24.8 percent) followed by Own tax revenue (22 percent). Capital receipts have grown at the rate of 2.35 percent annually. Internal debt grew at the rate of (-) 6.4 percent while net accruals from Public account at the rate of 5.6 percent.

3 As a ratio of GSDP, aggregate receipts fell down from 100 percent in 2003-04 to 73 percent in 2011-12. Revenue receipts, as a ratio of GSDP, varied between 47 percent in 2002-03 and 60 percent in 2006-07 while capital receipts between 42 percent in 2002-03 and 8 percent in 2008-09.

Aggregate Revenue Receipts: Trends and Composition

4 Aggregate revenue receipts are classified into State's own revenue and revenue transfers from the Central Government. Central transfers consisting of

share in central taxes and grants dominate the aggregate revenue receipts of the State. Share of own revenue varied from 7 to 11 percent and that of revenue transfers from 93 to 89 percent. Own tax revenue improved from 2 percent to 4 percent while own non-tax revenue varied between 4 to 7 percent. Share in Central tax rose significantly from 9 percent to 21 percent while the share of grants-in-aid showed a gradual decline from 84 percent in 2003-04 to 72 percent in 2011-12.

State's Own Revenue Receipts

5 The State has seven major tax systems. Commodities and service taxes dominate own tax revenue receipts of the State accounting 72 to 92 percent. Receipts from economic services constituted the highest component from own non-tax revenue receipts of the State (53 to 78 percent), followed by receipts from general services. Social services receipts are found to be the lowest. Receipts from water supply and sanitation happens to be the most important source of revenue under social services contributing 70 to 80 percent of the total social service receipts. Economic services covered more than 21 service items. Power sector is the main contributor of revenue in this category.

Devolution and revenue transfers from the Centre

6 Central transfers accounted for 89 to 93 percent of the total revenue receipts. Share in Central taxes witnessed approximately a nine-fold increase from Rs 95 crores to Rs 828 crores during 2002-12. Non-plan grants grew by almost three times from Rs 308 crores in 2002-03 to Rs 856 crores in 2011-12. The overall plan grants rose from Rs 539 crores in 2002-03 to Rs 1981 crores in 2011-12, registering an increase of 3.7 times over the period.

7 Share in Central taxes accounted for 10 percent to 39 percent of the total central transfers. Non-plan grants which showed an upward trend during 2002-2006 witnessed a declining trend afterwards, accounting only 23 percent

of the total revenue transfers in 2011-12. Plan grants which accounted 65.2 percent in 2003-04 fell down to 33 percent in 2008-09; the proportionate share rose to 59 percent in 2010-11 and thereafter it fell down again. As on 2011-12, plan grant constituted 54 percent of the total revenue transfers to the State.

8 Plan fund directly transferred to the State Implementing Agencies constituted about 13 to 16 per cent of GSDP during 2008 to 2010. As a percentage to total revenue, these transfers accounted 29 per cent in 2010-11. Since several of these funds are not routed through the State Government, there was serious distortions in estimating the actual flow of plan fund to the State and also violated the transparency rules given in FRBM Act, 2006.

Assessing the Revenue Capacities of the State

9 The total correction in revenue account has come mainly from two sources- increase in own tax revenue and central transfers which contributed 14 and 98 percent respectively; while an increase in revenue expenditure reduced revenue surplus by 12 percent.

10 The estimates of buoyancy indicated that professional tax and excise duty have elasticities less than one while general services has a negative coefficient (-0.2). Revenue receipts from Social services also registered elasticity less than one. Land revenue has the coefficient value of 1.3. Revenue bouyancy of own taxes (1.5) is higher than own non-taxes sources (0.9).

11 The overall own revenue receipts contributed 4 to 12 percent of total aggregate expenditure during this period. Own tax revenue contributed 1.4 percent to 6.4 percent of aggregate expenditure, while own non-tax revenue 2.7 percent to 5.8 percent during 2002-12.

12 As a ratio to GSDP, sales tax/VAT improved from less than 1 per cent (0.8) in 2002-03 to more than 2 per cent 2012-13. State sales tax/VAT as a ratio to OTR has shown an increase from 65 to 80 percent in, showing a

marked improvement of 15 percentage points. As a ratio to total revenue receipts, State sales tax/VAT improved from 2 percent to almost 4 percent. State sales tax/VAT as a ratio of aggregate disbursement increased from 1 per cent to 3 percent.

Measures taken to improve Tax-GSDP Ratio

13 The following measures have been undertaken: (i) Introduction of The Mizoram Value Added Tax Act (VAT) on 1st April, 2005; (ii) Rationailsation of road tax collection by introducing a one-time lump sum payment of road tax has been undertaken. (iii) Profession tax rates have been revised upward on 2011-12 for all classes of categories of persons within its bracket. (iii) The Indian Stamp (Mizoram Amendment) Act, 1996 was amended in 2007. (iv) Computerisation of land holdings in the State has been implemented by the State Government. Property taxes have also been levied and collected.(v) The State's Taxation Department is being reorganised for VAT administration. (vi) Revision of rates in respect of LPG, Motor Spirit, and High Speed Diesel (HSD).

14 The non-tax measures introduced the revision of the rate for energy charges and the installation of Electronic Energy Meters, restructuring of State Level PSUs has been initiated and introduction of water meter billing system and water charges were levied and collected under the Mizoram Water Supplies (Control) Act, 2006. Water charges were confined to towns and sub-towns and no water charges were collected for rural water supply.

Suggestions for enhancing the revenue productivity of the tax system could be formulated

15 The State may be allowed to revise or re-arrange the VAT list e.g., some goods under 5 percent may be put under 13.5 percent. Mizos being heavy smokers and to discourage people from smoking, cigarettes may be taken out of the standard slab of 13.5 and a higher tax rate may be applied to it. Dealer

education on the proper accounting of purchases and sales must be undertaken through seminars, website information, electronic media etc.The rates of excise duties must be modified to ad valorem tariff instead of having a specific tariff. Land revenue rates and other associated rates/fees should be periodically revised by linking the rate with some price indices. Professional tax ceiling may be removed from those who do not pay income tax. It may be may be handed to the State Government. Cess may be collected on taxes on petroleum products, road tax etc for road maintenance. POL tax rate imposed by the Government of Mizoram must be increased. Upward revison of existing tax rates like entertainment tax, stamp and registration fees etc must be taken on the basis of prevailing price indices. Scopes for widening the tax base may be explored like toll tax, entry taxes, property tax, environmental taxes etc. Hike of water and energy charges further along with improving the efficiencies in the functioning of these two sectors is required. User charges be revised automatically upward annually in line with increasing price indices at the state/national level or any other criteria may be adopted.

Capital Receipts

16. Capital receipts as a ratio to GSDP declined consistently from 34 percent to 6 percent. Meanwhile, net public account receipts relative to GSDP showed a downward trend since 2003-04. As on 2011-12, net accruals under Public Account stood at 8.5 per cent.

Aggregate Expenditure of the State

17. Aggregate expenditure relative to GSDP has been persistently declining while Revenue expenditure showed an upward trend. Capital expenditure has also seen a downward trend. As a ratio to GSDP, development expenditure showed an upward trend till 2005, thereafter, the trend declined while non-development expenditure witnessed a marginal increase till 2004-05 and then declined afterwards.

18. The share of revenue expenditure went up steadily from 57 to 82 per cent during 2002-12 while the share of capital disbursement fell down significantly from 43 to 18 per cent. Meanwhile, capital outlay which accounted 10 per cent of aggregate spending rose continuously to 21 percent in 2007-08; thereafter, its share had fallen to 11 percent. In absolute terms, total expenditure has grown by 10 per cent annually from Rs 1975 crores to Rs 4538 crores during 2002-12. Revenue expenditure witnessed the highest growth rate at 14.3 per cent annually which increased from Rs 1131 crores in 2002-03 to Rs 3727 crore in 2011-12. Capital outlay had seen a growth rate of 9.5 percent annually from Rs 188 crore in 2002-03 to Rs 495 crore in 2011-12.

19 Development expenditure which accounted 46 percent in 2002-03 rose to 66 percent in 2011-12 while non-development expenditure increased from 21 percent to 27 percent. The share of 'Others' significantly declined from 33 percent in 2002-03 to 7 percent in 2011-12.

Trend and Composition of Revenue Expenditure

20. Development revenue expenditure as a percent of GSDP showed an upward trend from 33 percent in 2002-03 to 36 percent in 2011-12. As a ratio of GSDP, revenue expenditure on social services accounted 19 to 21 percent during 2002-03 to 2011-12. On the other hand, revenue expenditure on economic services as a ratio to GSDP accounted 12 to 17 percent during the same period. In fact, as a ratio to GSDP, revenue expenditure on economic services showed an irregular pattern. As a ratio to GSDP, non-development revenue expenditure experienced a declining trend from 20 percent in 2003-04 to 17 percent in 2011-12.

21. Revenue expenditure on social services increased by 3.3 times from Rs 407 crores to Rs 1346 crore while economic services witnessed an increase by 3.6 times from Rs 319 crore in 2002-03 to Rs 1158 crores in 2011-12.

Expenditure on non-development services records a three-fold increase from Rs 406 crores in to Rs 1220 crores in 2011-12.

22. Revenue expenditure was dominated by development expenditure; it rose from 64 per cent of the total revenue expenditure in 2002-03 to 67 percent in 2011-12. The share of social services varied between 34 percent in 2003-04 and 41 percent in 2009-10. The highest share under social services has been accounted by education, sports etc., followed by medical and public health, water supply and sanitation, welfare of SC/ST under social services. Economic services which accounted 28 percent in 2002-03 increased to 31 percent in 2011-12. Agriculture and allied activities, energy, transports dominated the economic sector. Increased share of economic services was contributed alone by agriculture and allied activities.

Trend and Composition of Capital Expenditure

23. Capital outlay increased from Rs 188 crore in 2002-03 to Rs 495 crores in 2011-12. Developmental capital outlay increased from Rs 179 crore to Rs 478 crore. Disbursement from capital account is dominated by capital outlay for development and non-development purposes. The share of discharge of internal debt witnessed a secular decline. Capital outlay in economic services formed a significant proportion of capital disbursement and its share is relatively much higher than social service sector. Increase in development capital outlay is mainly driven by an increase in capital outlay in economic services. More than 95 percent of the total capital outlay has been dominated by development capital outlay. Capital outlay on social services has seen a decreasing trend while economic services witnessed an upward trend.

Development and Non-Development Expenditure

(i) Composition of expenditure on Social Services

24 Expenditure on social services is dominated by education, sports, arts and culture, water supply and sanitation, medical and public health, welfare of SC/ST, urban development and social security and welfare. . As on 2002-03, education etc accounted 42.4 percent of the total expenditure on social services. This share increased to 48.2 percent which indicated that almost half of the total expenditure on social services has been accounted by education, sports, arts and culture.

(ii) Composition of expenditure on Economic Services

25 The key sectors under economic services are agriculture and allied activities, energy, and transport, followed by rural development and industry & minerals. Expenditure on agriculture & allied activities accounted 22 to 42 percent while energy claimed 33 percent to 18 percent. The share of industry also fell down from 7 percent to 3 percent during 2011-12.

(iii) Composition of Non-Development Expenditure

26. Administrative services and interest payment & debt servicing dominate expenditure on general services. Interest payment accounted 33 percent in 2002-03 and its share has been reduced substantially to 24 percent in 2011-13. A slight decline was also observed in respect of administrative services whose share has declined from 46 percent in 2002-03 to 43 percent 2011-12.

Plan and Non-Plan Expenditure

27 Plan revenue expenditure which accounted 29 percent of the total revenue expenditure in 2003-04 witnessed its share increased to 37 percent in 2011-12. Plan capital outlay constituted 90 percent of the total capital outlay in 2002-03. As a ratio to GSDP, plan revenue expenditure showed an upward trend from 16 percent in 2002-03 to 20 percent in 2011-12 whereas non-plan revenue expenditure registered a downward trend. Plan capital outlay which

accounted 8 percent of the GSDP in 2002-03 increased to 15 percent; the ratio fell down to 6 percent in 2011-12.

28. As a ratio to GSDP, plan development expenditure varied between 36 percent in 2003-04 and 19 percent in 2009-10. Plan expenditure on economic service as a ratio to GSDP varied between 22 per cent in 2003-04 to 6 percent in 2009-10. As a ratio to GSDP, plan expenditure on economic services exhibited an overall downward trend. Non-development plan expenditure as a percentage to GSDP varied between 1 percent and 3 percent during 2011-12.

Measures to enhance allocative and technical efficiency in public expenditure

29. Rationalisation of non-plan revenue expenditure by withdrawing LTC facilities to the State government employees, restriction of medical reimbursement facilities to hospitalisation and referred case, abolition of vacant posts, appointment of teachers on contract basis, privatization of government vehicles, VRS for primary school teachers, drivers etc. Another important component has been the introduction of pension reform by introducing contributory-based pension reform for the State employees.

Suggestions for improving the efficiency of public spending broadly cover the following aspects

30 Reduction of food subsidies under Targetted PDS, outsourcing of services, introduction of PPP mode in services and infrastructure sectors, reduction of power subsidy and restructuring of PSEs have been suggested.

3 ANALYSIS OF DEFICITS, OUTSTANDING LIABILITIES AND CONTINGENT LIABILITIES

Major Deficit Indicators

31 Though the state witnessed a revenue deficit amounting to Rs 109 crore representing 5 per cent of GSDP in 2002-03, revenue surplus has been achieved throughout the remaining years since 2003-04. As a percent to GSDP, revenue surplus fluctuated around 2 to 7 percent. GFD as a percent to GSDP is continuously falling during 2002-03 to 2011-12. As on 2011-12, GFD was 3 percent of GSDP. Primary deficit-GSDP ratio has improved significantly during the same period. The ratio which was (-) 8 per cent of GSDP in 2002-03 improved to 1 per cent in 2011-12

Balance from current revenue (BCR) for plan financing

32 The State's BCR has always been negative. Balance from current revenue (BCR) represents the difference between non-plan revenue recipts (current receipts) and non-plan revenue expenditure. A positive BCR indicates there is a surplus in the current account which is available for plan expenditure whereas a negative BCR represents only borrowed funds are used to meet plan expenditure.

The outstanding liabilities of the state

33 The total outstanding liabilities of the State recorded an average annual growth rate of 9.2 per cent- from Rs 1832 crore in 2002-03 to Rs 4000 crore in 2011-12,. As a ratio to GSDP, the outstanding liabilities showed a declining trend from 88 per cent at end-March 2004 to 57 per cent at end-March 2012.

34 The share of market borrowings increased from 18 percent in 2002-03 to 30 percent in 2011-12. The share of loans from banks and financial institutions has in recent years witnessed a steady decline. As on 2011-12, its

share in the aggregate outstanding liabilities was only 8.5 percent. Loans from the Centre which constituted 32 percent in 2002-03 has steadily fell down to 13.6 percent in 2011-12. Public account liabilities which accounted 24 percent in 2002-03 rose to 41 percent in 2011-12. It has become one of the most important source of State's borrowings

Contingent liabilities of the state

35 As a percent to GSDP, maximum amount gurantee fell down from 10.6 percent to 5.1 percent during 2002-03 to 2011-12 whereas the outstanding amount as a ratio of GSDP declined from 5.7 percent in 2005-06 to 2.7 percent in 2011-12.

5 IMPLEMENTATION OF FISCAL POLICY RULE AND PEFM REFORMS

36 State finance witnessed a significant improvement since the middle of 2000 due to various fiscal reform measures initiated by the State Government. Before FRBM Act was passed in 2006, two fiscal reform measures were initiated by the State Government of Mizoram - the signing of MOU with Ministry of Finance, Government of India (1999) and States' Fiscal Reform Facility (2000-05) recommended by the Eleventh Finance Commission.

37 The Mizoram Fiscal Responsibility and Budget Management Act, 2006 was framed in line with the recommendations of the TFC. The objectives of the Acts are: (i) take appropriate measure to eliminate the revenue deficit and contain the fiscal deficit at sustainable levels; (ii) pursue policies to raise non-tax revenue with due regard to cost recovery and equity; (iii) lay down norms for prioritization of capital expenditure and pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare.

38. The Mizoram Fiscal Responsibility and Budget Management Act, 2006 was amended in 2010 which provided that the fiscal deficit would be reduced

to 3 percent of the GSDP by 2014-15 and the annual percentage reduction rate will be as follows-8.5 percent in base year 2010-11, 6.4 percent in 2011-12, 5.2 percent in 2012-13, 4.1 percent in 2013-14 and 3 percent in 2014-15. The Third Amendment Act, 2011 also envisaged that outstanding debt as a ratio of GSDP should be reduced to 87.3 percent in 2010-11, 85.7 percent in 2011-12, 82.9 percent in 2012-13, 79.2 percent in 2013-14 and 74.8 percent in 2014-15

PEFM reforms

39 Several PEFM reforms have been implemented in the country. The Performance Budget was introduced in 1968. A new version 'Outcome Budget' was introduced in 2005. In 2009, the Government of India introduced Performance Monitoring and Evaluation System (PMES) for Departments which provides a framework to measure perfromance of all schemes and projects run by the departments. The Results Framework Document (RFD) is the main instrument for PMES. Other PEFM reforms include Fiscal responsibility legislations (FRL) which have now been passed by all the States;

40 The Government of Mizoram has, in recent years, adopted two important PEFM reform measures. These were the Mizoram Fiscal Responsibility and Budget Management Act, 2006 and the Mizoram Finance Commission Act, 2010. The State's Public Expenditure Review Committee (PERC) was intrroduced in 2007.

6 SUBSIDY, POWER SECTOR NAD STATE PSEs

(i) Subsidy-Direct and Indirect

41 In 2007-08, the State Government incurred a sum amounting to Rs 7.5 crore for direct subsidy which accounted 0.4 percent of Total Revenue Receipts. As a ratio to GSDP, direct subsidy was 0.2 percent. The amount further declined to Rs 1.7 crore in 2011-12 – just 0.04 percent of TRR and 0.02

percent of GSDP. Indirect subsidides are mainly composed of unrecoverd cost from social and economic services, foodgrains subsidy under Targetted PDS. Cost recovery from development expenditure showed a consistent improvement over the years. The State government incurred approximately Rs 10 crores per month on foodgrains to subsidize APL family.

(ii) Power Sector Reforms

42 The Aggregate Technical & Commercial losses (AT & T) in Mizoram was more than 40 percent in 2011-12. The State is taking up the scheme under Re-Structured Accelerated Power Development and Reform Programme (R-APDRP). The basic objective of the scheme has been to prepare base line data for establishment of consumer indexing, GIS mapping etc for reduction of AT & C loss to the level of 15% and the second part of the scheme consists of strengthening and improvement of distribution networks.

43 The State Government and Ministry of Power (GOI) signed Memorandum of Agreement (MOA) on 10.7. 2002 to reform power sector in the state of Mizoram. The Central Government will provide fund-90 percent grants and 10 percent loans- under APDRP to implement the objectives of the MOA. The state government will implement disbribution reform and improve performance efficiency. Some of the important targets are: (i) To run the State power sector and set power corporation/board/autonomous body by 2006-07; (ii) To set up SERC/JERC by April 2003 and tariff petition should be filed by December, 2003; (iii) 100% metering of all consumers by March, 2006, (iv) 100% electrification of villages by June, 2005; (v) setting up of the computerised billing centres to be done by July 2003-one after the effective date of the MOA.

44 Status of power sector reforms: (i) Power & Electricity Department is yet to be coporatised. (ii) Joint Electricity Reforms Commission for the States of Manipur and Mizoram was constituted in February 2008; (iii) 100% village electrification is yet to be achieved; (iv) Computerised billing centres had been

set up in Aizawl city, covering the entire city along with its suburbs. Computerised billing centres in rural areas remained to be set up.

45 Cost recovery from the power sector decreased continuously. This shows an increase in the expenditure of implict subsidies in the sector. Cost recovery was 32.3 percent in 2002-03 but fell to 9.2 percent in 2011-12. Revenue loss per unit of the cost of operation showed that a huge amount of public revenue has been incurred to provide power at a highly subsidised rate.

Reforms of State Public Enterprises

46 State Public Enterprises are incurring heavy losses but no reform agenda is being taken up by the State Government. As on 2011-12, the State has five State Public Sector Enterprises. Budgetary supports given by the State Government include subscription of their equity capitals, provision of loans, grants and subsidies. Another important support mechanism extended to these PSEs by the State Government was giving guarantees for their loans taken from banks and other financial institutions.

47 Five State PSEs were incurring losses continuously over the years. During 2011-12, these PSEs incurred an annual loss of Rs 4.56 crore and their accumulated losses amounted to Rs 50.58 crore. The contribution made by these PSEs is insignificant to the State economy. The annual turnover as a percentage of GSDP was 0.02 percent in 2011-12. The turnover as percent to GSDP has been continuously falling since 2004-05.

48 Eventhough state enterprises are incurring losses, they continue to get investment from State Government and other financial institutions. As on 31 March, 2012, the total investment in the six PSEs was to the tune of Rs 92.57 crores.

49 The High Power Committee (2008) recommended policy framework for restructuring of Public Sector Undertakings (PSUs) under the Government of

Mizoram. The Committee examined the whole issues surrounding the functioning of the PSEs and the common problems and the reasons for their sickness. Several issues had been identified as the debilitating factos of the operational efficiency of the PSEs:

(a) Political appointment of the members of management board without considering technical or mangerial capabilities;
(b) irregular fund flow to the PSEs;
(c) Overstaff with persons not having technical or managerial expertise, causing huge salary expenditure on administrative staff; share capital hardly covered the administrative expenses ;
(d) no policy back up towards better performance; (v) non-existence of proper monitoring mechanisms at any level;
(e) general infrastructure backwardness and absence of entrepreneurship. The restructuring framework recommended by the High Power Committee includes, among others, adoption of Chairman-cum-Managing Director (CMD) and induction of experts as board of directors, VRS for employees, capacity building to enhance efficiency of employees, no further disbursement of loans etc.

7 DECENTRALISATION INITIATIVES IN THE STATE

50 Administratively, the state is divided into 8 districts, with 26 development blocks and more than 740 village councils. There are three autonomous district councils for the three ethnic groups in the South, namely, Lai, Mara and Chakma.

51. The process of transfer of powers to urban has been kicked off with formation of Aizawl Municipal Council under 74th Amendment of the Constitution; rural local bodies, however, continued to remain an ineffective administrative units with no real functional autonomy. Aizawl Municipal Council (AMC) has been consituted recently. So far, the State has 22 notified

towns. However, only Aizawl city has a Municipal Council and the rests were governed by Village Councils. The Mizoram Municipalities Act was passed by the Mizoram Legislative Assembly in 2007. The Aizawl Municipal Council started functioning from July 1, 2008.

52 Lunglei High Powered Committee- a non-statutory body has been constituted by the State government to initiate a faster developmental process for Lunglei District. The High Powered Committee was empowered to formulate district plan and schemes and implement district level plan out of the outlay earmarked as discretionary funds and also review and monitor all district level plan and projects.

53 Sinlung Hill Development Council (SHDC) was constituted on July 1997. The SHDC was functioning as an autonomous body with a small amount of fund.

Reforms undertaken under JNNURM conditionalities

54 Aizawl city, the State capital of Mizoram is an eligible city for funding under the JNNURM after Municipal Council was made functional in line with 74th Amendment of the Constitution. The reforms programmes under JNNURM is divided into 3 (three) levels viz. State, ULB and Optional Level. At the State level, there are 7 reforms, out of which 5 have been completed and 2 are in progress. At the ULB level, out of the 6 major reforms only 1has been completed and the other 5 reforms are in progress. At the Optional Level, we have 10 reforms, out of which only 3 are completed.

CONCLUSION

The present study clearly revealed that the State finances have been tremendously improved and consolidated over the years due to various fiscal reform measures introduced by the State Government at the instance of Central Government. However, the State continues to depend heavily on central fiscal transfers, broadly consisting of tax devolution and grants-in–aid which are given through Finance Commission, Planning Commission and Central Ministries. State's own revenue contributed less than one –tenth of the aggregate revenue of the State. Meanwhile, the expenditure obligation of the State has increased enormously in recent years not only in social and economic services but also in general services. There are two key issues to meet these challenges. First, the State must make real and determinate efforts to augment its own revenue collection through State's own tax and own non-tax sources. For this purpose, political will must be mobilised by State leadership. Another issue concerned with rationalisation of expenditure, i.e., reduction of revenue expenditure and improvement in the allocation for capital outlay. The State government has failed miserably in containing revenue expenditure over the years while marginally, capital outlay has increased. Expenditure reforms that address salary bills, implicit subsidies, foodgrain cost etc have become the issues for the State to build up a sustainable fiscal system. We are convinced that State has not done enough to arrest revenue expenditure and that even the on-going fiscal reform processes initiated by the State government failed to achieve its objectives to build up a sustainable fiscal condition due to lack of political commitment at the State level.

Appendix 1: TERMS OF REFERENCE

1 Estimates of revenue capacities of State and measures to improve the tax-GSDP ratio during last five yeasr. Suggestions for enhancing the revenue productivity of the tax system in the State

2. Analyisis of the state's own non-tax revenues and suggestions to enhance revenue from user charges and profit from non-departmental enterprises and dividends from non-departmental commercial enterprises

3: Expenditure pattern and trends separately for Non-Plan and Plan, Revenue and Capital, and major components of expenditure there under . Measure to enhance allocative and technical efficiency in expendtures during the last 5 years. Suggestions for improving efficiency in public spending

4 Analysis of Deficits-Fiscal and Revenue along with Balance of Current Revenue for Plan Financing

5. The level of Debt-GSDP ratio and the use of debt (i.e., whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, Central government debt Iincluding those from bilateral/multilateral lending agencies routed through the Central Government), liabilities in public account (small savings, provident funds etc) and borrowings from agencies such as NABARD, LIC, etc

6 Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various department and aggregates

7 Analysis of State's transfers to urban and rural local bodies in the state. Major decentralisation initiatives. Reforms undertaken under JNNURM conditionalities

8. Impact of State Public Enterprises finances on the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.

9. Public Expenditure and Financial Management (PEFM) Reforms implemented in the State

10 Impact of Power Sector Reform on State's fiscal health.In case reforms have not been implemented, theoutcome on the state's fiscal health.

11 Analysis of contingent liabilities of the State

12 Subsidies given by the States (Other than Central subsidies), its targetting and evaluation

Annexure 2: Outcome Indicators of the State's Own Fiscal Correction Path

Sl.No	Items	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	REVENUE ACCOUNT								
1	*Own Tax Revenue*	39.56	55.06	67.62	77.52	94.62	107.6	130.1	178.67
2	*Own Non-Tax Revenue*	75.6	120.1	133.4	130.3	158.7	126.5	146.7	168.1
3	Own Tax+Non Tax Revenue (1+2)	115.16	175.16	201.02	207.82	253.32	234.1	276.8	346.77
4	*Share in central taxes & duties*	155.8	225.8	288.1	363.4	383.4	394.5	590.8	827.8
5	*Plan Grants*	762.7	649.1	837.1	790.0	1281.8	1609.6	1688.1	1980.8
6	*Non-Plan Grants*	468.3	603.6	642.8	678.6	734.6	725.3	819.1	856.5
7	Total Central Transfers (4 to 6)	1386.7	1478.5	1768.0	1831.9	2399.8	2729.4	3097.9	3665.1
8	Total Revenue Receipts (3+7)	1501.9	1653.7	1969.0	2039.8	2653.2	2963.5	3374.7	4011.8
9	Plan Expenditure	413.0	540.0	603.0	649.0	741.0	897.0	1197.0	1373
10	Non-Plan Expenditure *of which*	981.0	1048.0	1115.0	1259.0	1573.0	1805.0	2058.0	2351
11	Salary Expenditure	427.71	435.52	462.51	588.26	739.06	881.8	1171.72	1150.09
12	Pension	88.8	89.2	77.3	97.1	126.1	164.3	248.8	298.4
13	Interest Payments	181.5	184.7	239.8	208.0	225.6	254.4	105.5	273.8
14	Total Revenue Expenditure(9+10)	1395.51	1588.02	1717.29	1908.39	2313.8	2702.7	3255.03	3723.85
15	Sal+Interest+Pensions	698.0	709.3	779.6	893.4	1090.7	1300.4	1525.9	1722.2
16	As % of Revenue Receipts (17/8)	46.48	42.89	39.59	43.80	41.11	43.88	45.22	42.93
17	Revenue Surplus/Deficit (8-16)	106.4	65.7	251.7	131.4	339.4	260.8	119.7	287.96
	CONSOLIDATED DEBT								
18	Outstanding Debt and liability	2288.35	2542.55	2810.45	3062.46	3259.82	3163.95	3704.55	3999.77
19	Total Outstanding Quarantee	146.14	163.25	130.38	131.97	114.25	102.99	102.75	126.3
	CAPITAL ACCOUNT								
20	Capital Outlay	329.5	451.37	466.44	544.22	441.04	572.8	615.38	494.84
21	Disbursersement of Loans & Advances	34.41	34.09	0.25	6.12	17.41	24.94	29.87	33.52
22	Recovery of Loans and Advances	22.3	22.98	24.01	27.52	24.86	25.32	25.97	27.8

Annexure 2: Outcome Indicators of the State's Own Fiscal Correction Path (Contd)

Sl.No	Items	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
23	Other Capital Receipts								
24	Transfer to Contingency Fund								
25	GROSS FISCAL DEFICIT	-235.28	-396.84	-191.02	-391.49	-94.26	-311.62	-499.6	-212.6
	((A8+C3+C4)- (A16+C1+C2+C5))								
26	GROSS STATE DOMESTIC PRODUCT (GSDP) Rs cores at market prices	2682	2971	3296	3816	4577	5260	6058	6991
27	Actual Growth Rate (%)	15.4	10.8	10.9	15.8	19.9	14.9	15.2	15.4
28	INDICATORS AS A % OF GSDP								
29	Own Tax Revenue	1.48	1.85	2.05	2.03	2.07	2.05	2.15	2.56
30	Own Non-Tax Revenue	2.82	4.04	4.05	3.41	3.47	2.40	2.42	2.40
31	Total Central Transfers	55.13	59.51	55.58	62.89	59.63	58.90	60.50	52.43
32	Total Revenue Expenditure	52.03	53.45	52.10	50.01	50.55	51.38	53.73	53.27
33	Revenue Surplus/Deficit	3.97	2.21	7.64	3.44	7.41	4.96	1.98	4.12
34	Gross Fiscal Deficit	-8.77	-13.36	-5.80	-10.26	-2.06	-5.92	-8.25	-3.04
35	Outstanding Debt and liability	85.32	85.58	85.27	80.25	71.22	60.15	61.15	57.21

Annexure 3: Basic Data on Mizoram Government Finances (2002-03 – 2011-12)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
PART A: RECEIPTS	1,933	2,316	2,068	2,268	2,378	2,549	3,004	3,620	4,822	5,100
1. Revenue Receipts	1,022	1,371	1,502	1,654	1,969	2,040	2,653	2,963	3,375	4,012
I Own Tax Revenue	27.97	33.6	39.56	55.05	67.62	77.52	183.31	207.23	251.76	178.67
Taxes on Professions, Trade, Callings, and Employment	3.97	4.08	4.38	4.53	5	5.32	5.93	7.93	8.39	11.86
Land Revenue	0.97	0.72	0.86	1.59	0.73	1.48	1.63	2.76	4.33	2.52
Stamps & Registration Fees	0.08	0.13	0.1	0.17	0.21	0.23	0.46	0.39	0.34	0.69
State Excise	1.29	1.36	1.4	1.46	1.65	1.69	1.87	2.1	2.39	2.31
Taxes on Sale, Trade etc	18.2	23.32	28.08	41.59	53.72	62.04	77.51	85.94	104.7	142.2
Taxes on Vehicles	2.56	3.38	3.8	4.35	5.01	5.37	5.5	6.71	7.72	16.71
Taxes on Goods & Passengers	0.57	0.61	0.69	0.99	0.98	1.07	1.43	1.39	1.72	2.05
Other Taxes & Duties	0.34	0.24	0.25	0.37	0.32	0.32	0.28	0.36	0.47	0.37
II Own Non-Tax Revenue (a to d)	52.6	58.1	75.6	120.1	133.4	130.3	158.7	126.5	146.7	168.1
Interest Receipts	2.4	3.3	3.7	6.9	8.8	15.6	32.9	17.9	12.7	15.6
General Services	17.7	14.4	15.6	12.1	52.5	6.5	12.1	18.1	23.2	9.2
Social Services	4.8	5.7	5.5	6.7	7.8	8.8	8.3	9.6	10.7	12.4
Economic Services	27.8	34.7	50.8	94.3	64.4	99.4	105.4	81	100.2	130.9
III Shared Taxes	95.0	130.3	155.8	225.8	288.1	363.4	383.4	394.5	590.8	827.8
IV Non-Plan Grants	307.8	315.3	468.3	603.6	642.8	678.6	734.6	725.3	819.1	856.5
Statutory Grants	284.6	298.4	340.0	542.2	576.2	605.2	634.0	686.4	736.4	778.9
Contrbution to CRF	4.7	2.5	14.7	2.5	5.0	14.0	49.6	10.9	9.4	8.9
Other Grants	18.5	14.4	113.6	58.9	61.6	59.5	51.0	28.0	73.2	68.7

Annexure 3: Basic Data on Mizoram Government Finances (2002-03 – 2011-12) (Contd)

Items	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
V Plan Grants	538.6	833.5	762.7	649.1	837.1	790.0	1281.8	1609.6	1688.1	1980.8
State Plan Schemes	438.9	713.3	562.9	509.2	625.9	660.2	919.6	1338.6	1166.1	1572.1
Central Plan Schemes	2.8	6.3	2.2	4.2	4.5	8.6	19.5	10.9		13.5
Centrally Sponsored Schemes	85.9	100.4	136.1	90.9	169.0	85.0	284.9	222.8	474.6	326.9
Special Plan Schemes	11.0	13.5	61.5	44.8	37.7	36.2	57.8	37.3	47.4	68.3
Total Grants	846.4	1148.8	1230.9	1252.7	1479.9	1468.6	2016.5	2334.9	2507.2	2837.3
Total transfers	941.4	1279.1	1386.7	1478.5	1768.0	1831.9	2399.8	2729.4	3097.9	3665.1
2. Total capital receipts (with net public account receipts)	911.5	945.4	565.9	614.1	409.5	509.1	350.8	656.5	1446.9	1087.7
Capital Receipts	802.6	562.5	494.0	339.4	260.6	251.2	130.6	251.2	539.5	493.5
I Internal Debts	733.6	462.4	403.9	306.6	231.2	214.0	99.6	193.7	510.3	443.5
Market Loans (Gross)	145.5	100.7	89.1	114.7	124.7	146.9	59.6		266.7	300.0
Loans from LIC	47.1	46.1		44.0	49.2	19.9	20.0	20.0	10.0	
Loans from NABARD	10.4	22.0	2.1	8.3	14.0	14.0	13.2	10.9	40.0	57.3
Loans from NCDC	0.1	0.0		2.5			0.1			1.0
Loans from REC	9.9	6.6	17.6	47.5	14.2	8.9	4.9	14.1	3.8	
Special Securities issued to NSSF		45.6		26.5	9.6	0.3		11.9	26.5	13.8
Compensation & other bonds							1.8			
WMA from RBI	520.5	241.5	295.1	63.2	19.6	24.0		136.7	163.4	71.4
II. Loans and advances from the Centre	52.4	80.0	67.8	9.8	5.3	9.7	6.2	32.2	3.3	22.3
Non-Plan	3.7	12.8			0.1					
State Plan Schemes	46.5	65.3	59.7	6.0	2.3	7.3	5.0	33.3	3.3	22.3
Central Plan Schemes		-2.4								
Centrally Sponsored Schemes	1.0	0.8	1.4	3.6	2.9	2.4				
Loans for Special Schemes	1.2	3.6	6.7	0.2			1.2	-1.2		
III. Recovery of Loans and advances	16.7	20.1	22.3	23.0	24.0	27.5	24.9	25.3	26.0	27.8

Annexure 3: Basic Data on Mizoram Government Finances (2002-03 – 2011-12) (Contd)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
PART : PUBLIC ACCOUNTS(NET)	108.9	382.9	71.9	274.7	148.9	257.9	220.1	405.3	907.4	594.2
State Providents Funds	93.3	124.7	126.8	98.5	143.3	172.3	187.9	43.6	291.1	115.7
Reserve Funds	-0.2	97.3	9.2	-8.6	1.7	7.9	1.0	4.0	-4.4	0.1
Deposits and Advances	23.7	87.1	67.9	-2.4	-127.9	36.6	37.7	105.5	329.7	-32.4
Suspense	22.0	16.3	-151.1	116.5	158.3	14.5	-78.4	292.2	326.6	453.7
Remittances	-29.9	57.5	19.2	70.7	-26.5	26.6	71.9	-40.0	-35.8	57.0
Plan Expenditure	346.0	375.0	413.0	540.0	603.0	649.0	741.0	897.0	1197.0	1373
Non-Plan Expenditure	785.0	913.0	981.0	1048.0	1115.0	1259.0	1573.0	1805.0	2058.0	2351
Non-development/General services	405.6	462.5	514.7	541.6	616.9	645.7	803.8	947.8	1011.0	1220.0
Development Expenditure	725.3	825.2	879.8	1046.4	1100.4	1262.7	1510.0	1755.0	2245.0	2503.8
Social Services	406.5	435.5	476.5	547.6	592.9	696.8	898.2	1105.7	1237.4	1345.9
Economic Services	318.8	389.7	403.3	498.8	507.5	566.0	611.9	649.3	1007.7	1157.9
PART C: DEFICITS										
Revenue Deficit (-)Surplus (+) (1-3)	-109.4	83.2	106.4	65.7	251.7	131.4	339.3	260.8	119.7	288.0
Fiscal Deficits (-)	-315	-306	-235.28	-396.84	-191.02	-391.49	-94.26	-311.62	-499.6	-212.6
Primary Deficits	-182.3	-139.1	-53.8	-212.2	37.7	-165.9	113.8	-57.3	-394.1	61.2
PART D: OTHER DATA										
Interest Payment	133.06	166.62	181.5	184.65	228.75	225.61	208.01	254.35	105.5	273.79
Gross State Domestic Product	2166	2325	2682	2971	3290	3816	4577	5260	6058	6991
Outstanding Fiscal Liabilities (year-end)			2288.35	2542.55	2810.45	3062.46	3259.82	3163.95	3704.55	3999.77
Outstanding guarantees (year end) (including interest)			146.14	163.25	130.38	131.97	114.25	102.99	102.75	126.3

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