EVALUATION OF STATE FINANCE

MIZORAM

SUBMITTED TO

FIFTEENTH FINANCE COMMISSION

DR. JAMES L.T. THANGA

DEPARTMENT OF ECONOMICS
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EXECUTIVE SUMMARY

1. Introduction

Mizoram, situated in the North Eastern corner of the country, has a geographical area of 21,087 sq. kms and shares a 722 km long international border with Myanmar (404 kms in East and South) and Bangladesh (318 kms in the West). It was one of the districts of Assam till 1972 when it was elevated to UT, and became the 23rd State of India in 1987. There are 719 census villages spread in 8 administrative districts with a total population of 10.97 lakh in 2011. The state is the third most literate state of India with 91.58% literacy, and is dominated by tribal population (more than 95% are ST) and Christianity is the main religion. With unfavourable natural endowments, the state does not have sufficient resource base and is one of the Special Category States (SCS) of India. Agriculture and allied sector remains the mainstay of the population while the service sector accounted for more than half of the state's income. Being resource deficient, the state heavily depends on revenue transfer from the central government.

2. Revenue Capacities

The revenue transfer from the central government which accounted for around 90% of the revenue receipts of the state government increased consistently from ₹1768 crores in 2006-07 to ₹6020 crores in 2015-16. The implementation of FC XIV recommendation, which raised vertical devolution from 32% to 42% of divisible central taxes (shared tax), is implicated in the changing composition of central transfer to the state in which shared taxes gained more significance, from 16.5% in 2014-15 to 35.2% in 2015-16 with substantial decline in the share of grants from 74.2% to 55% of total state revenue receipt during this period. There was quantum increase in the revenue from shared taxes in the FY 2015-16 by 157.8%, while grants from the centre decreased by 10.3%. Further, there was substantial reduction in plan grants and its share in the total fund transfer sharply decreased from 59.9% in 2014-15 to 24.6% in 2015-16 due to the discontinuation of several CSS as recommended by FC XIV. The total revenue receipt as percentage of GSDP declined continuously with apparent reason of the robust economic growth relative to revenue receipt.

The own tax revenue (OTR) which accounted for around 10% of the total revenue receipt of the state government increased by more than 3 times in a span of 10 years, from ₹201 crores in 2006-07 to ₹656 crores in 2015-16 with annual growth rate of 14%, and its share in the total own revenue receipt increased from 33.6% to 54.6% during this period. At the same time, the own non-tax revenue (ONTR) had lower growth, from ₹133 crores to ₹298 crores at annual growth rate of 9%.

VAT/Sales tax constituted 68.9% of the OTR in 2015-16 followed by state excise (16.9%). Among the sources of OTR, land revenue, stamp & registration, and state excise showed growth of more than 20% during the last 10 years, and these taxes have significant buoyancies. Taxes on vehicles, taxes on goods & passengers, and profession taxes were not found to be buoyant with respect to the levels of economic growth, while the state had low tax effort index in these taxes. At the same time, ONTR on various services rendered by the government did not show significant buoyancy in most of the cases, implicating lesser effort of the state government for their rationalisation in view of the economic development and changing consumption pattern of the people.

3. Public Expenditure

The aggregate expenditure of the government increased at an annual rate of 14.7% from ₹2294 crores in 2006-07 to ₹7770 crores in 2014-15 but decreased to ₹6840 crores in 2015-16. Revenue expenditure expanded tremendously from ₹1717 crores in 2006-07 to ₹5571 crores in 2015-16 at annual growth rate of 15.4%, and its share in the total expenditure increased from 74.8% to 81.5%. At the same time, capital outlay grew by 5.2% per year from ₹466 crores to ₹711 crores. The ever increasing revenue expenditure surpassing the growth rate of capital outlay invite serious attention, while the increasing resource allocation for government administration at the cost of expenditure for creation of additional assets do not bear sound economic rationality. However, taken as percentage of GSDP, the revenue expenditure decreased gradually from 57.5% in 2006-07 to 56% in 2012-13 and further to 41.7% in 2015-16, and thus, there had been an improvement over time.

Plan expenditure showed continuous increase from ₹1055 crores in 2006-07, reaching a peak of ₹2945 crores in 2014-15, but decreased sharply to ₹2589 crores in 2015-16. Non-plan expenditure also showed the same pattern as it increased from ₹1240 crores to ₹4827 crores to ₹4251 crores during the same years. The non-plan expenditure gained more significance year after year and its share in the total expenditure increased substantially to 62.1% by 2015-16.

The committed expenditure which comprise of salary, pension, and interest increased from ₹776 crores in 2006-07 to ₹2769 crores in 2015-16, driven by a fast increase in expenditure on salary and pension which constituted more than 80% of the committed expenditure especially after 2010-11. This was mostly due to the implementation of New Pay Rules to the employees in line with the recommendation of the 6th Central Pay Commission. Salary and Pension together constituted 31.35% of the total revenue expenditure in 2006-07 and increased further to 43.08% in 2015-16. Thus, any expenditure reform measure to contain expanding revenue expenditure has to be directed towards control of expenditure liabilities on salary and pension.

The functional composition of expenditure showed higher allocation of resources for development expenditure under social and economic services which constituted more than 60% of the total expenditure throughout the years. While the share of social services increased from 31.2% in 2006-07 to 35.6% in 2015-16, economic services decreased from 36% to 27.8%. The declining share of economic services was found to be accounted for by the abolition of Planning Commission and discontinuation of several CSS for agriculture and rural development. The state being agrarian where majority of the population depends on agriculture and allied sector as their main livelihood source, it is necessary that the government allocate more resources to agriculture and rural development to achieve inclusive growth.

The state government embarked on public expenditure reform through Mizoram Public Resource Management Programme (MPRMP) by availing structural adjustment loan from ADB. Of the several initiatives undertaken under MPRMP, computerisation of treasuries, introduction of contributory based New Pension Scheme (NPS), introduction of voluntary retirement scheme (VRS) to the employees, restructuring of Public Sector Undertakings (PSUs) were eminent and these initiatives are expected to have far reaching impacts in containing revenue expenditure in the long run. Further, end-to-end computerisation of TPDS side by side with reform in procurement system had saved huge public expenditure on food subsidy.

4. Deficits, Liabilities, and FRBM Act

Mizoram is a revenue surplus state as there was revenue surplus in most of the years. It increased from ₹252 crores in 2006-07 to ₹339 crores in 2008-09, but there was deficit in two years to the tune of ₹152 crores in 2013-14 and ₹141 crores in 2014-15. After the slippage in the two successive years, it bounced back to a historic amount of ₹1106 crores of revenue surplus in 2015-16 and continued to be in surplus till date. The state is struggling to contain fiscal deficit within the roadmap laid down by the FRBM Act, 2006 and it Amendments from time to time. It was hard for the state government to contain fiscal deficit below 3% of GSDP during the study period except in two years, 2008-09 and 2011-12. However, the state could successfully contain its fiscal deficit below 3% of the GSDP from the year 2015-16 till date.

The outstanding debt liabilities increased continuously from ₹2811 crores in 2006-07 to ₹6550 crores in 2014-15, and decreased by 2.18% to ₹6407 crores in 2015-16 when the state achieved substantial revenue surplus. The Debt-GSDP ratio gradually declined from 94.1% in 2006-07 to 61% in 2010-11, 63.5% in 2012-13 and 47.9% in 2015-16, and the state was able to achieve the targets set by the FC XIII at 87.3% in 2010-11, 85.7% in 2011-12, and 82.9% in 2012-13.

There was changes in the composition of public debt in which borrowing from the central government showed a declining trend from ₹566 crores in 2006-07 to ₹305 crores in 2015-16 while there was significant increase in the borrowing from public provident fund, etc. (public account) at annual rate of 13.5%, from ₹863 crores in 2006-07 to ₹2859 crores in 2015-16. Borrowing from financial institutions decreased by 3.1% per annum, and the state had eliminated liability on ways and means advances, and other borrowings from RBI. In addition, there was substantial increase in other liabilities mainly from public account (deposit and advances, etc.), from ₹994 crores in 2012-13 to ₹1617 crores in 2014-15 and ₹1078 crores in 2015-16. Provident funds alone constituted 44.62% of the total outstanding liabilities while other liabilities contributed 16.83%, and thus, more than 60% of the debt outstanding was derived from public account.

Given the successive reduction of revenue and fiscal deficits as percentage of GSDP in meeting the roadmap recommended by FC XIII and FRBM Act, especially in the recent years, it may be said that Mizoram has continuously improved the condition of its financial position. It may be noted that as the GST has been implemented only for one year, it is rather difficult to forecast the conditions of OTR and central devolution under this new tax regime. In spite of this data insufficiency for accurate forecasting, the study emphasised on the necessity of containing fiscal deficit below 3% of GSDP with zero revenue deficit, and interest payment below 10% of revenue receipt as sustainability benchmark of the fiscal management during the period 2020-25.

5. Subsidy, Power Sector, and PSUs

The government spend huge amount of expenditure in the provision of material and services for which the recovery are well below the economic cost. This study divided the subsidies availed by the people into ‘explicit’ and ‘implicit.’ If the government clarifies the actual amount that would go to the beneficiaries, it is called explicit; but when the government spends high amount of expenditure in the provision of public services but receive lesser amount in return, it may be called implicit subsidies. Relatively lower amounts of subsidies (explicit) were given by the government to the agriculture and allied sector and cooperation (in cash or kind) over the years mostly through CSS and other plan schemes. The total amount of subsidies was highest in 2007-08 when it was ₹7.53 crores, and it was less than ₹6 crores in all the other years.

Food subsidy through TPDS, considered as explicit subsidy in this report, was found to be the most important subsidy given by the government to the people in Mizoram and had great significance on public expenditure. Public expenditure on food subsidy, although showing high fluctuation, showed increasing trend from ₹14.26 crores in 2006-07 to a peak of ₹45.25 crores in 2009-10 followed by sharp decline to ₹20.65 crores the next year and increased to ₹33.87 crores in 2015-16. The state’s purchase of rice for TPDS is booked under capital disbursement, and receipt from the sale proceeds is well below the procurement price. It was rather difficult to estimate it from such a complicated accounting system. Given this situation, the capital disbursement on food storage & warehousing may be considered a good proxy for public expenditure on food subsidy. It increased from ₹55 crores in 2007-08 to ₹246 crores in 2012-13 and decreased to ₹107 crores in 2015-16. As per the official record, more than 2.5 lakhs families are given food subsidy under different schemes (AAY, FSA, NFSA, etc.) indicating the coverage of most of the bona fide resident of the state. Consequently, it is necessary to take reform measures to bring about efficiency in its coverage, distribution channels, and accounting system.

The total budgetary expenditure on power & electricity for generation, purchase, etc. increased consistently from ₹128.8 crores in 2007-08 to ₹292.2 crores in 2015-16, while revenue generation increased from ₹82.9 crores to ₹166 crores during this period. As the revenue collection was 56.8% of the total expenditure in 2015-16, it is clear that the government spent huge amount of money on power subsidy over the years. The most significant power sector reform initiative of the state government is the signing of MOA in 2002 which stipulated the need to constitute State Electricity Regulatory Commission (SERC), corporatisation of P&ED; and 100% metering, coverage of all villages and households. The constitution of Joint Electricity Regulatory Commission (JERC) for Manipur and Mizoram in 2008, under Electricity Act 2003, was considered the most important reform measure taken so far. Since several outcome indicators of power sector reform like T&D losses, AT&C losses, etc. showed unsatisfactory level and the P&ED is yet to be corporatised, the state has a long way to go with regards to power sector reforms.

In recognition of their poor performance and the need to minimise expenditure incurred by the loss making PSUs, the state government announced the closure of three PSUs, namely ZENICS, ZOHANDCO, and MAMCO in 2015. It also approved the proposal for downsizing ZIDCO and the privatisation of MIFCO in 2016. The reform measures were found to be successful, and are expected to have far reaching impact on improving the state finance in the long run. It is also expected that the state government would pursue further reforms for ZIDCO and MIFCO until they are brought on the right track in terms of finance and management.

6. Transfers to Local Bodies

The exemption of the state from the operation of 73rd and 74th Constitutional Amendment and the subsequent non-existence of PRIs resulted in limited fund transfer to the rural local bodies, especially after the implementation of the recommendation of FC XIV. Despite the commendable initiatives of the state government for transfer to rural local bodies by adopting proper mechanism of fund transfer through SFCs, there cannot be transfer of substantial amount given the limited amount of state's OTR.

The total transfer to the three Autonomous District Councils (ADCs) in the form of non-plan and plan grants increased from ₹140.03 crores in 2009-10 to ₹225.91 crores in 2014-15, while the own revenue receipts (ORR) of these ADCs increased from ₹1.33 crores to ₹3.46

crores during this period. The total revenue transfer to the Village Councils (VCs) increased from ₹21.31 crores in 2010-11 to ₹33.06 crores in 2013-14, and decreased to ₹16.10 crores in 2014-15. While the VCs collected limited amount of own revenue as the total own revenue of all VCs taken together was less than ₹10 lakhs, there had been consistent increase in grant-in-aid from the state government, from ₹1.52 crores in 2010-11 to ₹2.50 crores in 2014-15 to meet their revenue expenditure, mostly salary and allowances. Notably, there was substantial revenue transfer from the central government to the VCs through FC XIII recommendations amounting to ₹87.98 crores in a 5 year period which was used for capital expenditure, mostly for construction of internal roads, water & sanitation, etc. However, the central transfer was discontinued from 2015-16 as the FC XIV discontinued transfer to non-PRI rural local bodies.

The Aizawl Municipal Corporation (AMC), the only municipality in the state, has been receiving transfer from the central government through the recommendations of FC XIII and FC XIV as well as grants from the state government. The total transfer increased from ₹10.94 crores in 2010 to ₹41.58 crores in 2014-15, and decreased to ₹17.24 crores due to the lower transfer with the onset of FC XIV award period, but increased further to ₹35.68 crores in 2017-18. Meanwhile, the own revenue of AMC also increased substantially from ₹0.20 crore in 2010-11 to ₹4.31 crores in 2017-18.

The study recognised the significance of central fund transfer to various local bodies on their capacities to undertake several development works. At the same time, the discontinuation of central transfer to VCs by FC XIV, for being non-PRIs, had practically taken away the capacity of the rural local bodies to undertake developmental effort on their own which they are supposed to perform according to the local needs and requirements. Moreover, the VCs are continuously deprived of financial and administrative powers it used to have during the period prior to UT, and consequently, the very principle of local self-government has practically lost its ground in rural areas of Mizoram. Therefore, it is necessary to delegate more functions to the democratically elected Village Councils to sustain grassroot democracy in rural areas. Given their roles and functional composition, which have affinity to the PRIs in other parts of the country in many respects, they should not be deprived of fund transfer from the Central Government through the Finance Commission.

Acknowledgement

It is a genuine pleasure to have experience with the Fifteenth Finance Commission, Government of India in the Evaluation of Mizoram State Finance, and it is a matter of great joy for me to see its completion after a great deal of effort and energy were put into it. At the outset, I would like to express my gratitude to the staff of the Finance Department, Government of Mizoram for their constant support during the process of data collection.

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Despite our best effort, we do recognise that this report may not be without errors and discrepancies. We are ready to rectify and make necessary correction for any error in the report.

Dr. James L.T. Thanga

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Abbreviations

AAY	-	Antyodaya Anna Yojana
ABT	-	Availability Based Tariff
ACS	-	Average Cost of Supply
ADB	-	Asian Development Bank
ADCs	-	Autonomous District Councils
AE	-	Aggregate Expenditure
AMC	-	Aizawl Municipal Council /Corporation
APDRP	-	Accelerated Power Development and Reform Programme
APL	-	Above Poverty Line
ARR	-	Average Realisation Rate
BE	-	Budget Estimate
CADC	-	Chakma Autonomous District Council
CAG	-	Comptroller and Auditor General
CAGR	-	Compound Annual Growth Rate
CSO	-	Central Statistics Office
CSS	-	Centrally Sponsored Scheme
DBT	-	Direct Benefit Transfer
DLRS	-	Department of Land Revenue and Settlement
ERR	-	Early Retirement Rules
FC	-	Finance Commission
FCI	-	Food Corporation of India
FMU	-	Fiscal Management Unit
FRBM Act	-	Fiscal Responsibility and Budget Management Act
FY	-	Financial Year
GPF	-	General Provident Fund
GSDP	-	Gross State Domestic Product
GST	-	Goods and Service Tax
GVA	-	Gross Value Added
IAY	-	Indira Awas Yojana
IFMIS	-	Integrated Financial Management Information System
ILP	-	Inner Line Permit
IMFL	-	Indian-Made Foreign Liquor
ISOPOM	-	Integrated Scheme on Oilseeds, Pulses, Oil palm & Maize
LAD	-	Local Administration Department
LADC	-	Lai Autonomous District Council
LC	-	Local Council
LIC	-	Life Insurance Corporation
JERC	-	Joint Electricity Regulatory Commission
MADC	-	Mara Autonomous District Council
MAMCO	-	Mizoram Agricultural Marketing Corporation Limited
MFC	-	Mizoram Finance Commission
MHIP	-	Mizo Hmeichhe Insuihkhawm Pawl
MIFCO	-	Mizoram Food & Allied Industries Corporation
MLPC Act	-	Mizoram Liquor (Prohibition & Control) Act
MLTP Act	-	Mizoram Liquor Total Prohibition Act
MOA	-	Memorandum of Agreement
MPRMP	-	Mizoram Public Resource Management and Development Programme

MTFP	-	Medium Term Fiscal Policy
MUP	-	Mizoram Upa Pawl
MW	-	Megawatt
MZP	-	Mizo Zirlai Pawl
NABARD	-	National Bank For Agriculture & Rural Development
NCDC	-	National Cooperative Development Corporation
NEDP	-	New Economic Development Policy
NEEPCO	-	North Eastern Electric Power Corporation Limited
NFSA	-	National Food Security Act
NFSH	-	Non-Food Security Household
NHPC	-	National Hydroelectric Power Corporation
NLRMP	-	National Land Record Modernisation Programme
NPRE	-	Non-Plan Revenue Expenditure
NPS	-	New Pension Scheme
NREGS	-	National Rural Employment Guarantee Scheme
NSS	-	National Sample Survey
NSSF	-	National Small Saving Fund
NTR	-	Non-Tax Revenue
ONTR	-	Own Non-Tax Revenue
OR	-	Own Revenue
ORR	-	Own Revenue Receipt
OTR	-	Own Tax Revenue
PDMS	-	Pensioner’s Database Management System
PDRDG	-	Post Devolution Revenue Deficit Grant
PDS	-	Public Distribution Scheme
PHH	-	Priority Households
POL	-	Petroleum, Oils, and Lubricants
PRI	-	Panchayati Raj Institutions
PSE	-	Public Sector Enterprises
PSU	-	Public Sector Undertaking
P&ED	-	Power & Electricity Department
RE	-	Revised Estimate
RBI	-	Reserve Bank of India
RKVY	-	Rashtriya Krishi Vikas Yojana
RMSA	-	Rashtriya Madhyamik Shiksha Abhiyan
RTS	-	Representative Tax System
SC	-	Scheduled Caste
SDCRF	-	State’s Debt Consolidation and Relief Facility
SERC	-	State Electricity Regulatory Commission
SFC	-	State Finance Commission
SSA	-	Sarva Shiksha Abhiyan
ST	-	Scheduled Tribe
ToR	-	Terms of Reference
TPDS	-	Targeted Public Distribution System
TRR	-	Total Revenue Receipt
TSECL	-	Tripura State Electricity Corporation Limited
T&D Loss	-	Transmission and Distribution Loss
VAT	-	Value Added Tax
VC	-	Village Council
WMA/OD	-	Ways & Means Advances or Other Deposit

YMA	-	Young Mizo Association
ZENICS	-	Zoram Electronics Development Corporation Limited
ZIDCO	-	Zoram Industrial Development Corporation Limited
ZOHANDCO	-	Zoram Handloom and Handicrafts Development Corporation Limited

Chapter 1

INTRODUCTION

1.1. Introductory Profile of the State

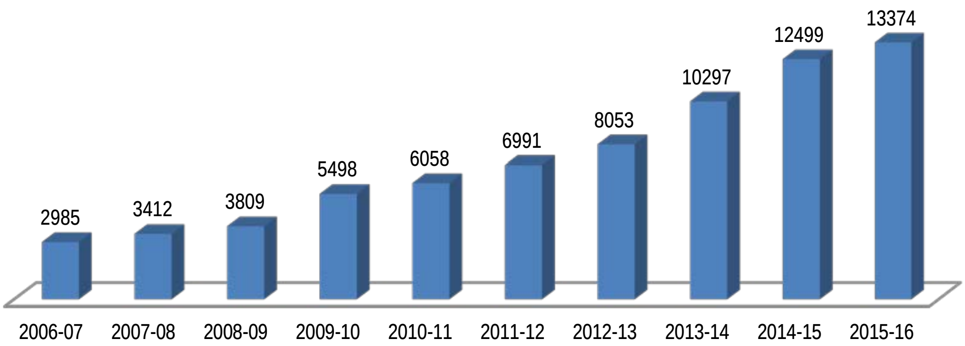
Mizoram, situated in the North Eastern corner of the country, shares a 722 km long international border with Myanmar in the East and South (404 km) and Bangladesh in the West (318 km). This small hilly state, having a geographical area of only 21,087 sq. km (less than 1% of the total area of the country), has recorded substantial population increase over the years, from 1.96 lakh in 1951 to 3.32 lakh in 1971 and 10.97 lakh in 2011 with a compound annual growth rate of 3.45%. Mizoram was one of the districts of Assam till it was elevated to UT status in 1972, and it became the 23rd State of India in 1987 following the Peace Accord signed between the Government of India and the underground Mizo National Front (MNF) on the 30th of June, 1986. There is an unicameral state legislature and the total strength of the State Legislative Assembly stands at 40 members. The state is divided into eight administrative districts, and there are three Autonomous District Councils, namely Lai, Mara, and Chakma autonomous district councils in the southern part of the state. There are 719 census villages in the state as per the Population Census 2011.

The state is the third most literate state of India with literacy rate of 91.58%, after Kerala and Lakshadweep (2011 Census). Scheduled Tribe (ST) constitutes more than 94% of the total population and the absolute majority of the population are Mizo who belong to Mongoloid stock. Mizo, classified under Tibeto-Burman language group, is the main language spoken in the state. Christianity is the largest religion (around 87% of the total population) which deeply influence the social and cultural practices, and value system of the people. The state is blessed with a plethora of state- and village-level community organisations and NGOs working in harmony for the development of the state and the people. The major state level NGOs are Young Mizo Association (YMA), elders association - Mizoram Upa Pawl (MUP), women association – Mizo Hmeichhe Insuihkhawm Pawl (MHIP), and students organisation – Mizo Zirlai Pawl (MZP). These organisations have played commendable roles in the implementation and monitoring of several government schemes and programmes.

1.2. Overview of the Economy

The state of Mizoram has unfavourable topography and location. It does not have sufficient resource base and is one of the 11 Special Category States of India. In spite of these unfavourable natural endowments, the state experienced tremendous growth in recent years and is among the fastest growing states of India. As presented in Figure 1.1, the GSDP at current prices grew by more than more than 4 times during the last ten years (i.e. 2006-07 to 2015-16) showing a compound annual growth rate (CAGR) of more than 17%. Further, although the per capita income is below the national average, it has grown substantially over the years. The per capita income at current price increased from ₹28764 in 2006-07 to ₹106519 in 2015-16, showing more than 15% annual growth rate during this period.

Figure 1.1: Growth of GSDP at Current Prices (Rs. Crore)



The fast increase in per capita income has been accompanied by substantial improvement in various indicators of human development. The state is one of the most literate states of India; the gross enrolment ratio of the state is well above the national average; female labour force participation rate is 54%; malnutrition rate at 11.9%; and a commendable achievement in IMR at 12.66 in 2016. In addition to this, the state was declared open defecation free by the Government of India in 2018.

Despite commendable achievement in human resource development, the problem of poverty persists in the state even today. The estimated poverty head-count ratio for the year 2011-12 was still very high at 20.40% and 27.4% according to the Tendulkar Methodology and Rangarajan Committee Methodology respectively. In the face of slow industrial development that generate employment opportunities, the problem of unemployment becomes the main challenge faced by the state. According to the NSS, there is an increasing trend in the rate of unemployment in Mizoram, from 1.1% in 2004-05 to 2% in 2009-10 and 3.4% in 2011-12.

Table 1.1: Sectoral Share of GSDP at Factor Cost (Current Prices)

Percent

Sector	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Agriculture & Allied	20.8	21.0	20.6	20.5	20.1	20.0	19.1	22.0
Industry	19.5	20.0	20.8	19.5	17.3	18.7	17.2	20.4
Services	59.6	59.0	58.6	60.0	62.6	61.3	63.8	57.6

Source: Central Statistics Office, Ministry of Statistics & Programme Implementation

As shown in Table 1.1, services sector driven by the government spending is the main driver of the state economy, contributing more than half of the GSDP. Although Table 1.1 does not include later years (after 2014-15) due to comparability issues between New Series and Old Series of GSDP, it can clearly be seen that the contribution of agriculture & allied sector revolved around 20% without a clear trend, so also is the industry sector. It should be noted that more than half of the population derive their income from agriculture and allied sector (Economic Survey 2017-18). The stagnant agriculture sector can be assumed to have implication on poverty incidence and unemployment in the state. So, laggard agriculture sector vis-à-vis slow industrial progress contributes to increasing unemployment, and hence is the future challenge of development.

1.3. Fiscal Position of the State

In the face of lower contribution of agriculture and slow growth of industrial sector, public expenditure is the main driver of economic growth of the state. So, fiscal management of the state government has clear significance to the health of the state economy. The overall financial position of Mizoram from 2006-07 to 2015-16 is summarised in Table 1.2. The fiscal imbalances have been corrected through revenue surpluses over the years. Except for two years, 2013-14 and 2014-15, the state government recorded revenue surplus throughout the years under study. There were fiscal surplus in two years, 2008-09 and 2015-16, and notably the state could achieve fiscal surplus of 3.09% of GSDP in Financial Year (FY) 2015-16.

Table 1.2: Financial Position of Mizoram State Government (Rs. Crore)

SN	Item of Receipt/ Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Revenue receipts	1969	2040	2653	2964	3375	4012	4537	4765	5511	6676
	(a) Tax-revenue	68	78	95	108	130	179	223	230	267	358
	(b) Non-tax-revenue	133	130	159	127	147	168	213	194	242	298
	(c) State's share of Central Taxes	288	363	383	395	591	828	786	858	911	2348
	(d) Grants from Central Government	1480	1469	2016	2335	2507	2837	3315	3483	4092	3672
	(i) Non-Plan Grants	643	679	735	725	819	857	1057	1142	1095	2190
	(ii) Plan Grants	837	790	1282	1610	1688	1981	2258	2341	2996	1482
2	Capital receipts –	469	424	319	295	831	609	646	1466	2171	865
	(a) Borrowings o/a of Internal Debt of the State Govt.	231	214	100	194	510	443	420	1123	1378	559
	(Of which W& MA)	*20*	*24*	-	-	163	71	167	735	1067	263
	(b) Loans and advances from the Centre	5	10	6	32	3	22	0	0	5	4
	(c) Recovery of loans and advances	24	28	25	25	26	28	29	33	32	26
	(d) Borrowings from Public Account (Net)	208	172	188	44	291	116	196	310	756	276
3	Total expenditure	2295	2603	2700	3666	4157	4538	5433	6504	7772	6839
	(a) Revenue account	1717	1908	2144	2703	3255	3724	4509	4917	5652	5571
	(i) Interest payments	240	208	226	254	106	274	288	285	306	369
	(ii) Salaries	463	588	739	882	1396	1150	1728	1942	2082	2202
	(iii) Pensions	77	97	126	164	250	298	371	525	545	616
	(iv) Others	938	1015	1055	1402	1504	2002	2122	2166	2719	2383
	(b) Capital Account	578	694	555	963	902	815	924	1587	2119	1268
	(i) Public Debt- Repayment of borrowings	111	144	96	365	257	286	286	957	1189	550
	(Of which W&MA)	*20*	*44*	-	*137*	163	52	97	868	1067	263
	(ii) Loans and advances	0	6	17	25	30	34	30	31	2	7
	(iii) Capital Outlay	466	544	441	573	615	495	608	599	928	711
4.	GSDP	2985	3412	3809	5498	6058	6991	8053	10297	12499	13374
5.	Revenue Deficit/Surpluses	252	131	509	261	120	288	28	-152	-141	1106
6	Fiscal Deficit	-191	-391	75	-312	-500	-213	-580	-749	-1040	413
7	Revenue Deficit (% of GSDP)	8.43	3.85	13.36	4.74	1.98	4.12	0.35	-1.48	-1.13	8.27
8	Fiscal Deficit (% of GSDP)	-6.40	-11.47	1.98	-5.67	-8.25	-3.04	-7.21	-7.28	-8.32	3.09

Source: Budget Documents, Government of Mizoram & Central Statistics Office

As the state do not have adequate revenue sources, around 90% of the revenue is accounted for by fund transfer from the Central Government. The state's Own Tax Revenue (OTR) increased consistently from ₹68 crores in 2006-07 to ₹358 crores in 2015-16, by more than 5 times over the years, while the Own Non-Tax Revenue (ONTR) also recorded gradual increase from ₹133 crores to ₹298 crores during the same period. Meanwhile, fund devolution from the centre for plan and non-plan expenditure increased by more than 3 times, from ₹1768 crores in 2006-07 to ₹6020 crores in 2015-16. Accordingly, the contribution of state's own revenue (OR), comprising of OTR and ONTR, hovered around 10% of the total revenue receipt of the state government.

A notable trend in the state finance is the increase in committed expenditure of the state government in the form of salaries, interest payments, and pensions. The total expenditure on these items increased by more than 4 times - from ₹780 crores in 2006-07 to ₹3188 crores in 2015-16. Taken as a percentage of total revenue receipt, it increased from 39.6% to 47.7% during this period. There was a quantum jump of expenditure in salaries by ₹514 crores in the FY 2010-11 following the implementation of new pay to the employees according to the recommendation of 6th Pay Commission in that year. However, the committed expenditure as a percentage of GSDP slightly declined to 24% in 2015-16 as the state experienced robust economic growth over the years. At the same time, the increase in capital outlay for creation of additional assets was quite minimal in these years, i.e. ₹466 crores in 2006-07 to ₹711 crores in 2015-16. The highly increasing revenue expenditure in the form of salaries and pension limited the capacity of the state government to expand budgetary allocation for capital expenditures.

1.4. Methodology

1.4.1. Data Sources

The study used secondary data from different sources, such as Finance Accounts, Budget Documents, various issues of Economic Survey, CAG Reports, RBI Reports on State Finances, Central Statistics Office (CSO), Report of the State Finance Commission, various publications of Directorate of Economics and Statistics, and unpublished official records of Mizoram Government. Budget documents of the state government for various years were the main data sources of this study. It consists of six booklets:

(a) Annual Financial Statement,
(b) Budget Speech,
(c) Macroeconomic Framework Statement,
(d) Demand for Grant,
(e) Medium Term Fiscal Policy Statement, and
(f) Fiscal Policy Strategy Statement.

To supplement the information collected from these sources, the views of experts who possess experience in public finance were taken by conducting interviews. The exercise was found to have enriched the findings and observations of this study.

1.4.2. Coverage and Data Limitations

As given in the Terms of Reference (ToR), this study covers a period of 10 years starting from 1st April 2006 (i.e. 2006-07) to 2015-16. It may be noted that there were years when regular budgets could not be passed on time due to factors like general election, late allocation of plan budget, etc. The government had to seek vote-on-account budget to meet essential expenditure till a regular budget could be passed for those years. There can be multiple budgetary figures (budget estimates, revised estimate, pre-actual, actual) in such situations. Consequently, data collected from different sources did not tally in some cases, while there were also deviations due to rounding off of the decimal figures. The movement of Base Year for GSDP estimation from 2004-05 to 2011-12 created problems in the comparability between the two series as GVA method was introduced in the latter for the estimation of state income. Given this problem, it was decided that the study would use the published GSDP at current prices of Central Statistics Office, Ministry of Statistics and Programme Implementation, for various estimations as presented in the budget documents for various years. Despite all these limitations, utmost care was given to obtain the most accurate budgetary and other estimated figures during the study period.

1.4.3. Analytical Tools

Simple statistical tools like ratios, percentages, graphs, etc. were used to show changes in the fiscal parameters of the state over the period. Compound Annual Growth Rate (CAGR) was estimated using semi-log growth model. Double log regression model (log-

log regression) was also adopted to estimate buoyancy, elasticity, and revenue capacity of the state government. In addition, the Box-Jenkins (BJ) methodology (i.e. ARIMA) models are also used for making projections. Normally, the GSDP and its disaggregated values on different sectors of the economy were adopted as the explanatory variables in these regression models.

1.4.4. Terms of Reference (ToR)

The study is basically anchored in the following ToR given by the Fifteenth Finance Commission:

i. Estimation of revenue capacities of state and measures to improve the tax-GDP ratio during the last five years. Suggestions for enhancing the revenue productivity of the tax system of the state.
ii. Analysis of the state's own non-tax revenue and suggestions to enhance revenue from user charges and profit from departmental enterprises and dividends from non-departmental commercial enterprises.
iii. Examine expenditure pattern and trends separately for revenue and capital, and major components of expenditure thereunder. Measures to enhance allocative and technical efficiency in expenditure during the last 5 years. Suggestions for improving efficiency in public spending.
iv. Analysis of Deficits – Fiscal and Revenue.
v. 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 (including those from bilateral/multilateral lending agencies routed through the Central Government), liabilities in public account (small savings, provident funds, etc.) and borrowing from agencies such as NABARD, LIC, etc.
vi. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.
vii. Analysis of the state's transfers to urban and rural local bodies in the state. Major decentralisation initiatives.

viii. 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.

ix. Impact of Power Sector Reforms on State’s fiscal health. In case reforms have not been implemented, the likely outcome on the state’s fiscal health.

x. Analysis of contingent liabilities of the state.

xi. Subsidies given by the state (other than the central subsidies), its targeting and evaluation.

xii. Outcome evaluation of State Finance in the context of recommendation of the 14^{th} Finance Commission.

xiii. Determination of a sustainable debt roadmap for 2020-25, taking into account impact of introduction of GST and other tax/non-tax trend forecasts.

Chapter 2

REVENUE CAPACITIES

2.1. Introduction

Revenue receipts of the State Government comprise of revenue raised through various tax and non-tax sources, and transfers from the Central Government in the form of shared taxes and grants-in-aid as per the recommendation of the Finance Commission. The first two sources are called Own Tax Revenue (OTR) and Own Non-Tax Revenue (ONTR) and the state has the constitutional mandate to mobilise revenue through these sources to finance its expenditure obligations for administration, and social and economic development. Due to geographical factors and lack of natural resources, Mizoram do not have enough resource base to generate large OTR. As such, the state heavily depends on fund transfers from the Centre to finance its ever increasing revenue expenditure. So, it is of utmost importance to raise more revenue from its own sources so as to raise the fiscal capacity of the state. This chapter attempts to examine the trends and composition of revenue receipts, revenue capacities of the state, and suggest measures for improvement.

2.2. Trends and Composition of Revenue Receipts

Figure 2.1 and Table 2.1 present the composition and trends of revenue receipts of Government of Mizoram. The total revenue receipt increased from ₹1969 crores in 2006-07 to ₹6676 crores in 2015-16, with compound annual growth rate (CAGR) of 14.5% during this period. Annual growth was found to be highest in 2008-09 (30%) due to significant increase in grant-in-aid from the centre (37.3%). Although showing consistent growth, state own revenue showed the lowest growth with CAGR of 14% - from ₹201 crores in 2006-07 to ₹656 crores in 2015-16. Meanwhile, the state's share in central taxes experienced the highest growth (21.2%) over the years. It increased by more than 157% in 2015-16 with the apparent reason of the implementation of the recommendations of FC XIV which increased divisible pool of central taxes from 32% to 42%. As against this, grants-in-aid received from the Centre declined by more than 10% in this FY.

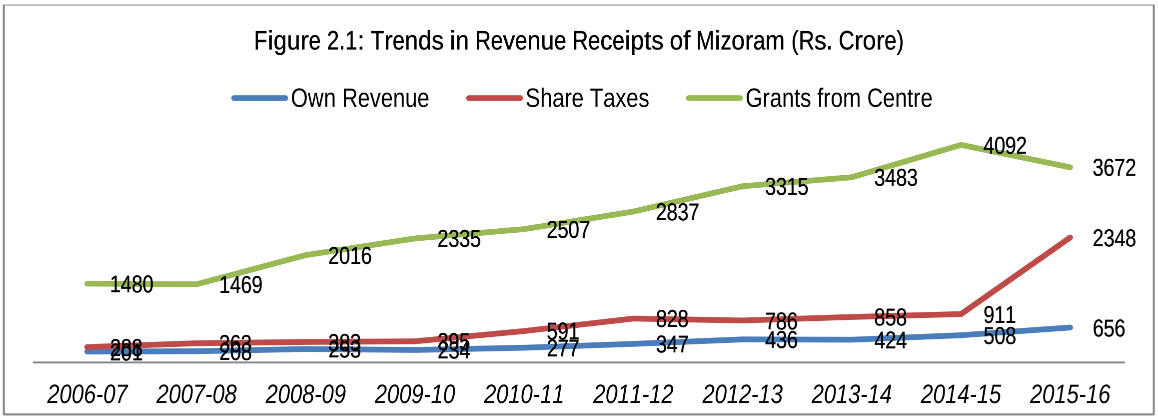


Table 2.1: Trends of Revenue Receipts of the State Government

Year	Amount (₹ in Crore)				Annual Growth (%)			
	Total Revenue Receipts	Own Revenue	Shared Tax	Grants from Centre	Total Revenue Receipts	Own Revenue	Shared Tax	Grants from Centre
2006-07	1969	201	288	1480	--	--	--	--
2007-08	2040	208	363	1469	3.6	3.4	26.1	-0.8
2008-09	2653	253	383	2016	30.1	21.9	5.5	37.3
2009-10	2964	234	395	2335	11.7	-7.6	2.9	15.8
2010-11	3375	277	591	2507	13.9	18.2	49.7	7.4
2011-12	4012	347	828	2837	18.9	25.3	40.1	13.2
2012-13	4537	436	786	3315	13.1	25.7	-5.1	16.8
2013-14	4765	424	858	3483	5.0	-2.7	9.2	5.1
2014-15	5511	508	911	4092	15.7	19.9	6.1	17.5
2015-16	6676	656	2348	3672	21.1	29.0	157.8	-10.3
CAGR for the whole period 2006-07 to 2015-06 (%)					14.5	14.0	21.2	12.4

Source: Budget Documents

It can be observed from Table 2.2 that around 90% of the revenue receipts of the state were from the Central Government in the form of state's share of taxes and grants, while the contribution of own revenue hovered around 10%. In the face of limited capacity of the state government to generate more revenue from its own sources, the state's finance has been sustained by the fund devolution from the Centre according to the recommendations of different Finance Commissions. Table 2.2 also shows the percentage of revenue receipts relative to GSDP at current prices as a rough measure of revenue capacities of the state government. The total revenue receipt relative to GSDP gradually declined from 66% in 2006-07 to 49.9% in 2015-16, while the state's share in central taxes increased substantially from 9.6% to 17.6% during this period. The failure of own revenue to cope with an increasing tax base as indicated by economic growth was depicted by the decline of own revenue from 6.7% in 2006-07 to 4.9% of GSDP in 2015-16.

Table 2.2: Composition of Revenue Receipts of the State Government (Percent)

	Share in the Total Revenue Receipt (%)				Revenue Receipt as Percentage of GSDP			
Year	Total Revenue Receipts	Own Revenue	Shared Tax	Grants from Centre	Total Revenue Receipts	Own Revenue	Shared Tax	Grants from Centre
2006-07	100	10.2	14.6	75.2	66.0	6.7	9.6	49.6
2007-08	100	10.2	17.8	72.0	59.8	6.1	10.6	43.0
2008-09	100	9.5	14.5	76.0	69.7	6.6	10.1	52.9
2009-10	100	7.9	13.3	78.8	53.9	4.3	7.2	42.5
2010-11	100	8.2	17.5	74.3	55.7	4.6	9.8	41.4
2011-12	100	8.6	20.6	70.7	57.4	5.0	11.8	40.6
2012-13	100	9.6	17.3	73.1	56.3	5.4	9.8	41.2
2013-14	100	8.9	18.0	73.1	46.3	4.1	8.3	33.8
2014-15	100	9.2	16.5	74.2	44.1	4.1	7.3	32.7
2015-16	100	9.8	35.2	55.0	49.9	4.9	17.6	27.5

Source: Budget Documents

Figure 2.2 and Table 2.3 present the trends of the state's own tax and non-tax revenue (OTR & ONTR) during the study period. OTR recorded an annual compound growth of 20.3% during this period, increasing from ₹68 crores in 2006-07 to ₹358 crores i.e., more than 5 times. The significant jump in OTR in the later years is accounted for by the increase in revenue from state excise following the implementation of Mizoram Liquor (Prohibition & Control) Act 2014, in short MLPC Act, in 2015 which allows the sale of liquor in the state. Collection of revenue from state excise, which used to be less than ₹5 crores, was more than ₹ 60 crores in 2015-16.

Meanwhile, the ONTR did not show commendable growth during the 10 years under study. Its average CAGR for the whole period was only 9%, and revenue collection from this source increased by a little more than 2 times, from ₹133 crores in 2006-07 to ₹298 crores in 2015-16. The total contribution of OTR on the total own revenue of the state was only 33.4% in 2006-07, showing consistent increase year by year to more than 54% in 2015-16, while that of ONTR showed continuous decline from 66.4% to 45.4% during this period.

Figure 2.2: Growth of Own Tax Revnue and Own Non-Tax Revenue (₹ Crore)

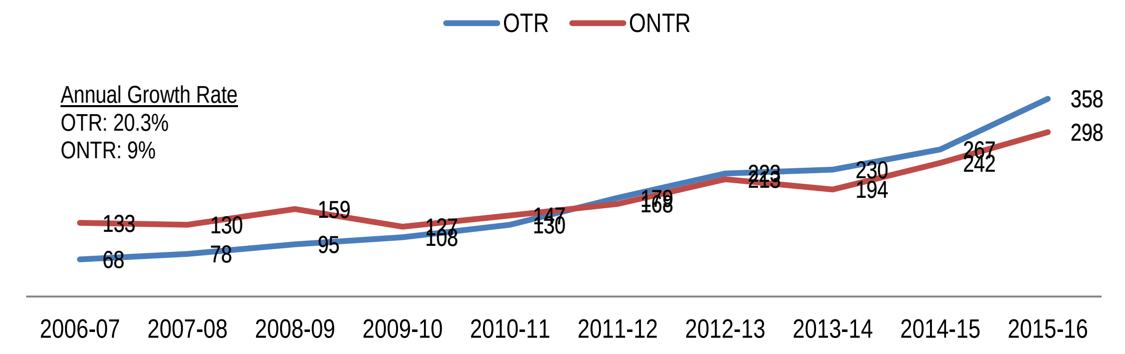


Table 2.3: Trend & Composition of Own Tax and Non-Tax Revenue of the State Government

	Amount (₹ Crore)			% of Total Own Revenue		as % of GSDP	
Year	Tax Revenue	Non Tax Revenue	Total Own Revenue	Tax Revenue	Non Tax Revenue	Tax Revenue	Non Tax Revenue
2006-07	68	133	201	33.6	66.4	2.27	4.47
2007-08	78	130	208	37.3	62.7	2.27	3.82
2008-09	95	159	253	37.4	62.6	2.48	4.17
2009-10	108	127	234	46.0	54.0	1.96	2.30
2010-11	130	147	277	47.0	53.0	2.15	2.42
2011-12	179	168	347	51.5	48.5	2.56	2.40
2012-13	223	213	436	51.2	48.8	2.77	2.64
2013-14	230	194	424	54.2	45.8	2.23	1.89
2014-15	267	242	508	52.4	47.6	2.13	1.94
2015-16	358	298	656	54.6	45.4	2.68	2.23
CAGR (%)	20.3	9.0	14.0	CAGR = Compound Annual Growth Rate			

Source: Budget Documents

Table 2.3 also presents the composition of state's own revenue relative to GSDP. The OTR as a percentage of GSDP hovered around 2-3% over the years with a slight increase, while ONTR showed continuous decline over time from 4.47% in 2006-07 to 2.23% in 2015-16. Taking into consideration the growth rate of GSDP of more than 17% during this period, it is clear that tax revenue is more buoyant than non-tax revenue during this period. It is understood that tax revenue is supposed to be an increasing function of economic growth, while non-tax revenue is a function of continued effort of the state government through revision of users' charges, fees, etc., meaning that there exist more space for increasing non-tax revenues in the state.

2.3. Trends and Composition of Own Tax Revenue

The sources of Own Tax Revenue (OTR) of the state government are classified into three broad categories as follows:

i) Taxes on Income & Expenditure – Profession tax,

ii) Taxes on Property & Capital Transaction – Land revenue, and Stamp & Registration, and

iii) Taxes on Commodities & Services – State Excise, Sales Tax, Taxes on Vehicles, Other taxes on Goods & Passengers, other taxes & duties (taxes on petroleum products, etc.)

Table 2.4 presents the trends of revenue receipts of Mizoram Government from these major sources. The main chunk (more than 90%) of the OTR was generated from taxes on commodities & services and showed an annual compound growth of around 20% during the ten years under study. Meanwhile, taxes on property & capital transaction, although contributing less than 5% throughout the years, showed a significant jump in recent years with CAGR of 30.7%. At the same time, taxes on income & expenditure, though having slightly higher contribution in the total tax revenue, had the lowest growth rate (15.2%) during this period.

Table 2.4: Revenue Receipt from Major Own Tax Revenue

	Amount (₹ Crore)				Percentage Breakup (%)		
Year	Taxes on Income & Expenditure	Taxes on Property & Capital Transaction	Taxes on Commodities & Services	Total Own Tax Revenue	Taxes on Income & Expenditure	Taxes on Property & Capital Transaction	Taxes on Commodities & Services
2006-07	5.0	0.9	61.7	67.6	7.4	1.4	91.2
2007-08	5.3	1.7	70.5	77.5	6.9	2.2	90.9
2008-09	5.9	2.1	86.6	94.6	6.2	2.2	91.5
2009-10	7.9	3.1	96.5	107.5	7.3	2.9	89.7
2010-11	8.4	4.7	117.0	130.1	6.5	3.6	90.0
2011-12	11.9	3.2	163.6	178.7	6.6	1.8	91.6
2012-13	13.0	3.7	205.8	222.5	5.9	1.7	92.5
2013-14	14.7	6.1	208.9	229.7	6.4	2.6	90.9
2014-15	14.0	14.8	237.7	266.5	5.3	5.5	89.2
2015-16	15.4	12.4	330.6	358.4	4.3	3.5	92.2
CAGR (%)	15.2	30.7	20.4	20.4			

Source: Budget Documents

Brief details of the nature and institutional provisions for the collection of different components of the own taxes revenue may be presented as follow:

1) **Professional Tax**

   This tax is levied under *The Mizoram Professions, Trades, Callings and Employment Taxation Act 1995.* The Act clearly defined the rates of profession tax for various categories of professions and income slab, and the rate cannot be above ₹2500 per annum. In 2011, the government by Notification revised the rates for various categories of professions without changing the ceiling rate.

2) **Land Revenue**

   Under *The Mizoram (Taxes on Land, Building and Assessment of Revenue) Act 2005,* the following taxes and fees are collected by Department of Land Revenue and Settlement (DLRS): land tax, building and house taxes; taxes on farms, shops, stalls, mutation fees, fees on transfer of ownership of property.

3) **Stamp and Registration**

   The Mizoram Government collects stamp duties and registration fees on various instruments under the rates stipulated under *The Indian Stamp (Mizoram Amendment) Act, 2005.* The Act was last amended in 2016.

4) **Value Added Tax (VAT) and Sales Taxes**

   The State Government introduced VAT in the state from 1st April 2005 under *The Mizoram Value Added Taxes (VAT) Act, 2005.* The rate structure was determined by the government as per the recommendation of Empowered Committee of State Finances. As per the amendment of the Act in December 2012, the standard rates were 13.5%, 5%, and 1% for various categories of goods as notified by the government. The state's Taxation Department is the enforcing agency of this tax. In addition, the government also levy taxes on sale of petroleum and petroleum products under *The Mizoram (Sale of Petroleum and Petroleum Products, including Motor and Lubricants) Act, 1973.*

5) **State Excise**

   It should be noted that produce, sale, import, and consumption of liquor was banned in the state under the *Mizoram Liquor Total Prohibition Act, 1995.* Import and consumption was permitted to army and paramilitary forces working in Mizoram. Excise duties were levied on the import of Indian-made foreign liquor (IMFL) for these personnel under this Act by the Excise and Narcotics Department. The prohibition was lifted in 2015 and the Act was replaced by *The Mizoram Liquor (Prohibition & Control) Act, 2014,* in short MLPC Act. The MLPC Act allows the sale of IMFL in the state, and collection of state excise became a major revenue source for the state afterwards.

6) **Taxes on Motor Vehicles**

There is a dual taxation system in force in Mizoram, namely *The Mizoram Vehicle (Taxation) Act, 1996,* and *The Mizoram Passengers and Goods Taxation Act, 1988*. While road tax is levied and collected under the former, passenger and goods tax are collected under the latter. The state Transport Department is the nodal agency for collection of these taxes as per the Rules under the two Acts, which are amended from time to time.

7) **Entertainment Tax**

The State Government adopted *The Assam Amusement and Betting Act, 1939* for levy and collection of taxes and duties on entertainment and other amusement including exhibitions, dramatic/music performance, cable TV, cinematographic or video shows, etc. This Act was replaced by *The Mizoram Entertainment Tax Act, 2013*. However, revenue collection from this tax is quite minimal till date.

Table 2.5 and Table 2.6 present the trends and breakup of own tax revenues during the 10 years under study. It shows that the main contributor of the state's OTR was VAT, which on average accounted for 70-80% of the total revenue, i.e. 79.5% in 2006-07, 81.9% in 2008-09 and 68.9% in 2015-16. The revenue from this source grew by CAGR of 19.3%, from ₹53.7 crores in 2006-07 to ₹247 crores in 2015-16. It is notable that all the taxes had substantial growth rate during this period. The annual growth rate of stamp & registration was highest at 38.7% as the revenue increased consistently from ₹0.2 crore in 2006-07 to ₹3.6 crores in 2015-16, followed by state excise which increased from ₹1.7 to ₹60.6 crores in 2015-16 with CAGR of 29.6%. Other items such as profession tax, goods & passengers, and other taxes & duties had comparatively lower growth during this period. While the quantum of revenue from goods & passenger and other taxes & duties were quite minimal and sticky within a small range, profession tax has gained importance as it showed an increase from a mere ₹5 crores to ₹15.4 crores during this period.

Table 2.5: Own Tax Revenue of the State Government (₹ in Crore)

Year	Land Revenue	Stamp & Registration	State Excise	Sales Tax/VAT	Taxes on Vehicles	Taxes on Goods & Passengers	Profession Taxes	Other Taxes & Duties	Total Own Tax Revenue
2006-07	0.7	0.2	1.7	53.7	5.0	1.0	5.0	0.3	67.6
2007-08	1.5	0.2	1.7	62.0	5.4	1.1	5.3	0.3	77.5
2008-09	1.6	0.5	1.9	77.5	5.5	1.4	5.9	0.3	94.6
2009-10	2.8	0.4	2.1	85.9	6.7	1.4	7.9	0.4	107.6
2010-11	4.3	0.3	2.4	104.7	7.7	1.7	8.4	0.5	130.1
2011-12	2.5	0.7	2.3	142.2	16.7	2.1	11.9	0.4	178.7
2012-13	3.0	0.6	2.8	175.9	22.8	3.8	13.0	0.5	223.1
2013-14	4.5	1.5	3.1	183.3	19.4	2.6	14.7	0.5	229.7
2014-15	11.1	3.7	4.9	211.9	17.0	2.6	14.0	1.3	266.5
2015-16	8.9	3.6	60.6	247.0	19.4	2.7	15.4	0.8	358.4
CAGR (%)	28.8	38.7	29.6	19.3	20.7	13.8	15.2	14.3	20.4

Source: Budget Documents

Table 2.6: Composition of Own Tax Revenue of the State Government (Percent)

Year	Land Revenue	Stamp & Registration	State Excise	Sales Tax/VAT	Taxes on Vehicles	Taxes on Goods & Passengers	Profession Taxes	Other Taxes & Duties	Total Own Tax Revenue
2006-07	1.1	0.3	2.4	79.5	7.4	1.4	7.4	0.5	100
2007-08	1.9	0.3	2.2	80.0	6.9	1.4	6.9	0.4	100
2008-09	1.7	0.5	2.0	81.9	5.8	1.5	6.2	0.3	100
2009-10	2.6	0.4	2.0	79.9	6.2	1.3	7.3	0.3	100
2010-11	3.3	0.3	1.8	80.5	5.9	1.3	6.5	0.4	100
2011-12	1.4	0.4	1.3	79.6	9.4	1.1	6.6	0.2	100
2012-13	1.4	0.3	1.3	78.8	10.2	1.7	5.8	0.2	100
2013-14	2.0	0.7	1.4	79.8	8.5	1.1	6.4	0.2	100
2014-15	4.2	1.4	1.8	79.5	6.4	1.0	5.3	0.5	100
2015-16	2.5	1.0	16.9	68.9	5.4	0.8	4.3	0.2	100

Source: Budget Documents

Table 2.7 presents the year wise growth rate of the individual taxes in Mizoram. It is observed that the effort shown by the government to increase the tax base and to rationalise the existing tax system resulted in positive outcomes in revenue collection, at least to some extent. Some of them may be enumerated here. Following the upward revision of taxes on sale of petroleum, lubricants, high speed diesel and motor spirit by the government, the revenue from VAT recorded 116.5% increase in 2011-12. The revenue receipt from Stamp & Registration also recorded a quantum jump in the year 2013-14 and 2014-15 by 136.4% and 144.9% respectively. It may be noted that the state Government established the Directorate of

Stamps & Registration on 27th September 2013 under the Revenue Department. Side by side with this, new Land Revenue Laws were enacted in 2013. Under this new land revenue rules, every transaction on land/immovable properties has to be registered with the Directorate of Stamp & Registration.

Table 2.7: Annual Growth of Own Tax Revenue of the State Government (*Percent*)

Year	Land Revenue	Stamp & Registration	State Excise	Sales Tax/VAT	Taxes on Vehicles	Taxes on Goods & Passengers	Profession Taxes	Other Taxes & Duties	Total Own Tax Revenue
2006-07	--	--	--	--	--	--	--	--	--
2007-08	102.9	9.3	2.2	15.5	7.1	9.3	6.6	-0.9	14.7
2008-09	10.0	101.1	11.1	24.9	2.5	33.9	11.1	-11.4	22.1
2009-10	69.5	-16.3	12.1	10.9	22.0	-2.8	33.7	28.1	13.7
2010-11	56.9	-11.2	14.0	21.8	15.1	23.5	6.2	31.0	20.9
2011-12	-41.9	101.3	-3.6	35.8	116.5	19.1	41.4	-21.8	37.4
2012-13	20.8	-6.9	22.7	23.7	36.6	84.1	9.8	26.4	24.9
2013-14	49.2	136.4	9.8	4.2	-14.9	-30.6	13.1	2.9	2.9
2014-15	143.6	144.9	57.9	15.6	-12.3	-2.5	-4.7	163.0	16.0
2015-16	-19.7	-4.2	1134.5	16.6	14.2	5.9	9.3	-38.9	34.5
CAGR (%)	28.8	38.7	29.6	19.3	20.7	13.8	15.2	14.3	20.4

Source: Budget Documents

As noted above, *The Mizoram Land Revenue Act, 2013* came into force in 2014. Its effect on land revenue collection was instantly observed as it increased by 143.6% this year. However, it decreased afterwards. The state excise became one of the major contributors of the state's own revenue and recorded excessively high growth of 1134.5% in 2015-16 following the lifting of MLTP Act and the implementation of MLPC Act, an act that allows the sale of IMFL within the state. As the new law came into force on 15th January 2015, the impact on revenue was seen in the FY 2014-15 itself when it increased by 57.9%. The restructuring and revision of profession tax rates undertaken in 2011 was also positively responded to by the significant increase (by 41.4%) in revenue collection. Similarly, the Mizoram Entertainment Tax Act 2013 came into force in 2014 under which entertainment tax was reassessed for cable TV operators. Consequently, revenue collection under the head of *other taxes & duties* increased by 163% in 2014-15.

A clear conclusion that can be drawn from the growth of the various components of OTR is that any effort shown by the government for rationalisation and enhancement of tax base is positively responded to by the revenue collection. However, the growth of the revenue resulting from the initiatives could not be sustained effectively in the next FY. So, continued effort of the government on tax reforms is necessary to achieve robust growth of OTR in the state.

It is to be noted that Goods & Service Taxes (GST) was implemented throughout the country from 1st July 2017. As the VAT which used to contribute around 70% of the OTR was subsumed under GST, substantial change in the revenue collection was anticipated. Due to limited time period post GST, actual budgetary figures on it could not be obtained from the Finance Department. Only the budget estimates for the year 2017-18 and 2018-19 could be obtained from the official documents. Given its importance to our study, the record of the Taxation Department was examined. However, GST data were available only for 8 months (August-March) in the FY 2017-18 and 11 months (April-March) for FY 2018-19. Consequently, projection on GST revenue for the year 2018-19 was made using the average monthly GST revenue. Finally, the projected OTR for FY 2018-19 was made by combining projected GST revenue and budget estimates from other sources. Table 2.8 presents the analysis of revenue from GST and Figure 2.8 shows the impact of GST on the state's OTR.

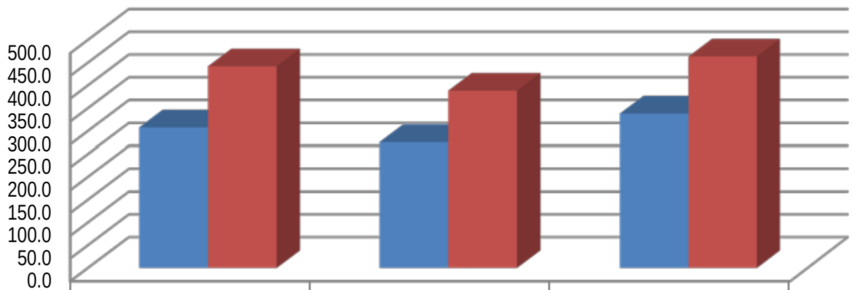
Table 2.8: Analysis of Revenue from GST

Period	SGST	IGST	Total GST
Actual Collection (₹. Crore)			
August 17 - March 18	107.75	23.75	131.51
April 18-Feb 19	250.77	59.13	309.90
Composition (%)			
August 17 - March 18	81.94	18.06	100
April 18-Feb 19	80.92	19.08	100
Average GST Revenue per Month (₹ Crore)			
August 17 - March 18	13.47	2.97	16.44
April 18-Feb 19	22.80	5.38	28.17
Growth %	69.25	81.04	71.38
Projected GST Revenue (₹ Crore)			
2018-19	273.56	64.51	338.07

Note: GST Data are collected from Taxation Department, Govt. of Mizoram

The revenue collection from GST during the first 8 months of its implementation was ₹131.51 crores showing an average of ₹16.44 crores per month. It has increased to ₹309.9 crores in the next 11 years during the FY 2018-19 showing an average of ₹28.17 crores per month. The average monthly revenue of the state government from GST has increased by 71.38% in the second years of its implementation. A closer look at the composition of GST may be helpful to examine if the GST increase or reduce the OTR of the state. It is observed that SGST accounted for more than 80%, while IGST contributes around 20% of the total revenue. Considering its nature and collection procedure, revenue from SGST is a good proxy to VAT collection as all items under it were subsumed to it, while IGST may be considered as additional benefit accrued to the state because it is basically a revenue transfer for consumption outside the state. A clear conclusion that can be drawn from this observation is that Mizoram is likely to gain more revenue from GST in the long run. Thus, one can say that there is no revenue loss after GST, and thereby, no compensation was received from the centre.

Figure 2.3: Impact of GST on the State's OTR (Rs. Crore)



	2016-17	2017-18	2018-19
VAT/GST	307.8	275.7	338.07
Total OTR	441.92	388.4	463.57

It is observed from Figure 2.3 that there was significant decrease in total revenue from VAT (till the end of first quarter) and GST (since August) in the FY 2017-18, while OTR also decreased by as much as ₹53.5 crores. There were two major factors that contribute to the reduction in tax collection, viz. demonetisation which heavily reduced consumption in the last quarter of 2016-17 and the first quarter of 2017-18; and problems that are arising on the implementation of GST, especially in the process of registration, transfer, filing of returns, etc. However, tax collection has significantly increased to ₹338.07 crores in the FY 2018-19 and OTR also increased by around 20%. Despite substantial bounce back in tax revenue, the estimated buoyancy for OTR had declined from 1.12 in pre-GST to 1.01 in the post-GST period (inclusion of GST era), mainly on account of inadequate data for the latter period. Meanwhile, it was reported that at least 40% of business entities in rural areas are yet to file GST Returns due to poor internet services. Thus, the new tax regime is likely to bring more revenue to the state government than the earlier VAT regime.

2.4. Trends and Composition of Own Non-Tax Revenue

Own Non-Tax Revenue (ONTR) of the state covers revenue receipt from fiscal services, interest receipts on the loans given by the state government, dividend and profits, revenue from general services such as state lotteries, user charges, fees and penalties, and economic services. Table 2.9 presents the trends of the major sources of ONTR and its percentage distribution during the 10 years under study.

Table 2.9: Trends & Patterns of Own Non-Tax Revenue of the State Government

Year	Amount (₹ Crore)					Share in the Total ONTR (%)			
	Interest Receipt	General Services	Social Services	Economic Services	Total	Interest Receipt	General Services	Social Services	Economic Services
2006-07	8.8	52.5	7.8	64.4	133.5	6.56	39.34	5.84	48.25
2007-08	15.6	6.5	8.8	99.4	130.3	11.97	4.98	6.75	76.30
2008-09	32.9	12.1	8.3	105.4	158.7	20.74	7.64	5.20	66.41
2009-10	17.8	18.0	9.6	81.0	126.5	14.11	14.27	7.59	64.03
2010-11	12.7	23.2	10.7	100.1	146.7	8.66	15.81	7.27	68.26
2011-12	15.6	9.1	12.4	130.9	168.0	9.28	5.44	7.39	77.89
2012-13	16.9	11.5	19.5	165.0	212.8	7.93	5.39	9.15	77.53
2013-14	15.6	9.1	12.4	130.9	168.1	9.28	5.44	7.39	77.89
2014-15	19.9	22.1	27.6	172.3	242.0	8.22	9.15	11.41	71.23
2015-16	30.7	26.0	42.5	198.4	297.6	10.33	8.74	14.29	66.64
CAGR (%)	5.8	-0.9	18.2	11.2	8.5	CAGR: Compound Annual Growth Rate			

Source: Budget Documents

It can be seen in Table 2.9 that economic services dominated the state's ONTR followed by general services. Revenue receipt from economic services, which contributed 48.25% in 2006-07, 77.89% in 2013-14, and 66.64% in 2015-16, increased from ₹64.4 crores in 2006-07 to ₹190 crores in 2015-16, showing a CAGR of 11.2%. At the same time, the receipt from social services had the highest growth (18.2%), and its share in the total ONTR also experienced an increasing trend from 5.84% in 2006-07 to 14.29% in 2015-16. The receipt from interest, dividend, and profit also recorded a 5.8% increase over the years, from ₹8.8 crores to ₹30.7 crores during this period, although its share in the total did not improve. Meanwhile, revenue receipt from general services showed a declining trend in amount as well as percentage contribution. It declined from ₹52.5 crores in 2006-07 to ₹26 crores in 2015-16 with a negative growth of -0.9%, and its share in the total also decreased drastically from 39.34% to 8.74% during the same period. This trend may be construed as the declining quality of expenditure recovery in administration of general services.

Table 2.10 presents the detailed contribution of various activities in the total ONTR under Social Services. The receipt from these services include fees from educational institutions, user charges of medical services, water tariff, rental receipts from government buildings and quarters, etc. It can be seen from this table that the main contributor of the ONTR under social services is Water Supply & Sanitation which showed an increasing share from 67.9% in 2006-07 to 80.3% in 2015-16. Other significant contributors are Social Security & Welfare (7.7% in 2015-16) and Education, Sports & Culture (4.7% in 2015-16).

Table 2.10: Composition of Non-Tax Revenue -- Social Services

Percent

SN	Head	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Education, Sports, Art & Culture	6.6	5.7	6.3	9.6	13.1	13.0	7.7	5.3	6.0	4.7
2	Medical & Public Health	7.1	7.5	6.6	2.9	1.7	2.5	2.0	0.9	1.1	2.5
4	Water Supply & Sanitation	67.9	72.6	79.6	76.9	71.6	71.0	74.5	76.8	85.0	80.3
5	Housing	6.5	9.3	5.4	4.9	4.9	5.8	4.2	3.7	3.6	3.9
6	Urban Development	0.0	0.8	0.4	0.5	1.2	1.8	0.4	0.3	0.4	0.2
7	Information & Publicity	0.8	0.0	1.6	0.0	2.0	1.3	0.9	7.7	0.5	0.5
8	Labour & Employment	0.8	0.0	0.0	0.0	0.0	1.8	0.3	0.2	0.0	0.2
9	Social Security & Welfare	10.2	4.1	0.0	5.3	5.3	2.9	10.1	5.0	3.4	7.7
	Total	100	100	100	100	100	100	100	100	100	100

Source: Budget Documents

The Economic Services which contributed major part of the ONTR of the state government includes services ranging from agriculture, infrastructure, power tariff, user charge, etc. The amount and trends of revenue from these services are presented in Table 2.8, and the detailed breakup of the revenue from various activities under Economic Services (in percentage) is presented in Table 2.11.

Table 2.11: Composition of Non-Tax Revenue -- <u>Economic Services</u>

Percent

SN	Head	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Crop Husbandry	0.3	0.2	0.2	0.4	0.9	0.6	0.4	0.6	0.5	0.6
2	Animal Husbandry	0.9	0.6	0.5	0.9	0.5	0.5	0.3	0.3	0.4	0.3
3	Dairy Development	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.1
4	Fisheries	0.7	0.1	0.1	0.2	0.3	0.3	0.1	0.2	0.2	0.2
5	Forestry & Wildlife	6.3	3.0	2.1	3.1	2.4	2.4	1.4	2.2	3.0	1.6
6	Food Storage & Warehousing	0.0	0.1	0.0	0.1	0.1	0.1	0.0	0.4	0.0	0.0
7	Co-operation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	2.2	1.4
8	Other Agri. Prog.	0.9	0.6	0.9	1.0	1.0	0.8	1.0	1.2	1.1	0.9
9	Land Reforms	1.3	0.9	0.8	1.3	1.0	0.9	0.8	1.0	0.8	0.8
10	Other RD Prog.	0.0	3.5	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0
11	Minor Irrigation	0.1	0.0	0.0	0.0	0.0	0.1	0.0	1.3	0.0	0.0
12	Power	79.8	84.1	88.6	83.8	72.5	83.7	67.4	80.2	83.8	83.9
13	Village & Small Industries	0.3	0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.2	0.2
14	Non-Ferrous Mining	0.7	1.0	1.5	1.7	5.0	5.3	3.2	3.3	2.2	2.4
15	Civil Aviation	3.8	3.0	1.9	2.3	1.3	0.6	1.4	1.5	1.2	1.6
16	Road & Bridges	0.4	0.2	0.1	0.5	9.9	1.4	21.1	3.8	1.7	3.7
17	Road Transport	2.7	1.7	2.0	2.5	2.7	1.7	1.2	1.4	1.4	0.9
18	Tourism	1.3	0.9	1.1	1.5	1.5	1.2	1.0	1.8	1.3	1.1
19	Others	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
	Total	100	100	100	100	100	100	100	100	100	100

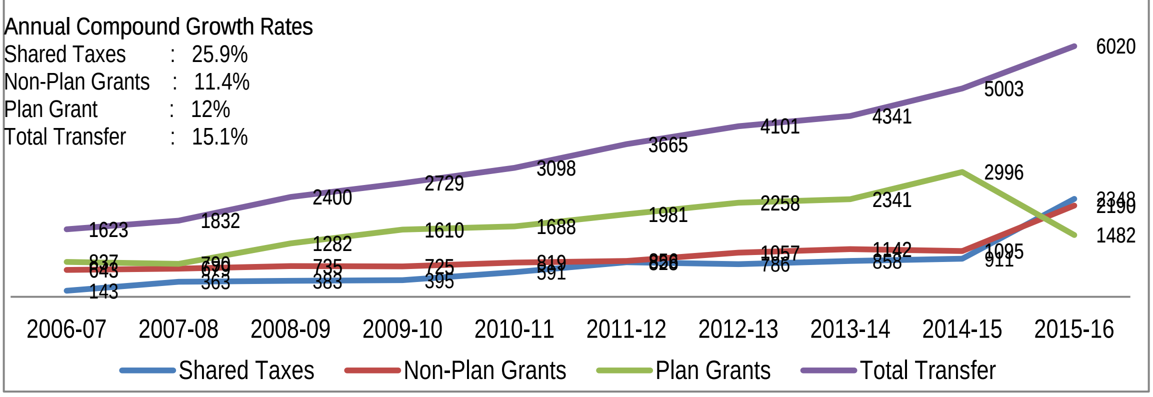
Source: Budget Documents

Revenue collected from power tariff was the main contributor of revenue under economic services throughout the years under study. Revenue from power tariff increased from ₹51.79 crores in 2006-07 to more than ₹166 crores in 2015-16, and its contribution decreased from 79.8% in 2006-07 to 67.4% in 2012-13, but increased significantly to 83.9% in 2015-16. At the same time, the contribution of other activities (or sub-sectors) were mostly quite minimal (below 5%) throughout the 10 years. It is thus clear that the main sources of NTR in the Social and Economic sectors are both user charges (water tariff and power tariff). The overall trend of the total ONTR was in pace with the receipts from these two sources, and thus, efficiency in tariff collection would be one of the key requisites for efficient fiscal system in the state.

2.5. Devolution and Revenue Transfer

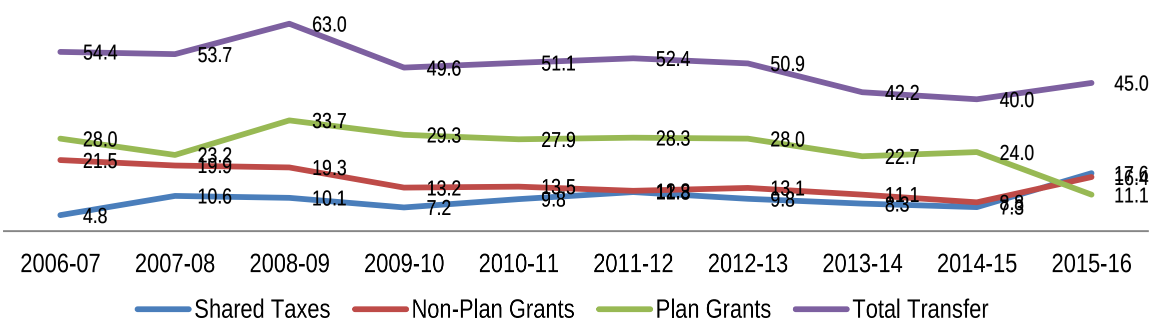
It was already stated in Section 2.2 that more than 90% of the revenue receipts of the Government of Mizoram came from the Central Government in the form of devolution of central taxes and grants-in-aid. It is also understood that Mizoram is one of the Special Category States which lack resource to raise revenue sufficient to meet its expenditure obligation in the delivery of public services and developmental efforts. The fund transfers from the central government remain to be the lifeline of the state finance. Accordingly, the quantum increase or decrease in revenue receipt from the centre is of crucial importance as it is the key factor of economic development for the state. Figure 2.4 presents the trends of tax devolutions and revenue transfer from the central government to Mizoram government during the period of 2006-07 to 2015-16.

Figure 2.4: Trends in Tax Devolution and Revenue Transfer from the Central Government (₹ Crore)



It is clear from Figure 2.4 that there was a consistent increase in the total transfer from the centre, from ₹1623 crores to ₹6020 crores, during the period. The annual compound growth rate is estimated at 15.1%. At the same time, there was structural changes in the revenue receipts from the three main sources, namely shared taxes, non-plan grants, plan grants post 2014-15 due to the discontinuation of Planning Commission in 2014 and implementation of the recommendations of the XIV Finance Commission since 2015. The receipts under plan grants which showed consistent increase of 12% CAGR over the years suddenly came down from ₹2996 crores in 2014-15 to ₹1482 crores in 2015-16. Meanwhile, the shared taxes and non-plan grants which were growing in a range bound areas accelerated and showed a breakout in the upward direction post 2014-15. So, these two sources became the main components of central transfer to the state government.

Figure 2.5: Trends of Tax Devolution and Revenue Transfer as Percentage of GSDP (%)



To have better understanding of the significance of the fund transfers from the central government to the state, Figure 2.5 presents the trends relative to the growth of GSDP over the years. This may also be interpreted as the concordance of fund transfers to the economic growth of the state. It can be seen that the transfers showed declining trends when considered relative to GSDP, and a more intense situation was observed in case of plan grants. Meanwhile, the total transfer reverted to its declining trend after 2014-15 due to substantial growth in the shared taxes and non-plan grants.

Table 2.12 presents the major head wise fund devolution from the Central Government to the State Government, while Table 2.13 presents its percentage breakup. As noted earlier, the revenue transfer in the form of state's share in the central taxes gained importance over the years. The revenue receipt from this source as a percentage of total transfers from the central government increased from only 8.8% in 2006-07 to 18.2% in 2014-5 and jumped to 39% in 2015-16. It is likely that shared taxes will be the main sources of fund transfer for the state in the post FC XIV era. Under the head of non-plan grants, statutory grants had gained importance year after year and its contribution increased substantially from ₹3.4 crores in 2006-07 to ₹35.5 crores in 2015-16, while its share in the total revenue transfer increased from 3.4% to 35.5% during this period.

Table 2.12 & 2.13 show the structural changes in the revenue transfer post FC XIV with non-plan grants and shared taxes gaining importance, while the share of non-plan grants decreased drastically. Under the plan grants, the receipt for state plan schemes increased from ₹626 crores in 2006-07 and gained momentum up to ₹2264 crores in 2014-15 but decreased drastically to ₹1003 crores in 2015-16. Its share in the total transfer increased from 38.6% to 45.3% and reduced to only 16.7% during the same period. The income receipt for CSS also increased significantly from ₹169 crores in 2006-07 to ₹663 crores in 2014-15, but decreased by almost 50% in 2015-16, following the discontinuation of several CSS. Only 66 schemes were to be continued as per the recommendations of FC XIV. At the same time, receipt under special plan schemes showed continuous increase from ₹38 crores in 2006-07 to ₹97 crores in 2015-16, while its contribution to the total transfer decreased from 2.3% to only 1.6% during this period.

Table 2.12: Devolution and Revenue Transfer from the Centre to the State Government (₹ in Crore)

Head	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
A. Shared Taxes	143	363	383	395	591	828	786	858	911	2348
B. Non-Plan Grant	643	**679**	**735**	**725**	**819**	**856**	**1057**	1142	**1095**	**2190**
i. Statutory Grants	56	605	634	686	736	779	988	1016	990	2139
ii. Contribution to CRF	5	14	50	11	9	9	9	14	10	15
iii. Other Grants	79	59	51	28	73	69	60	111	95	36
C. Plan Grants	837	**790**	**1282**	**1610**	**1688**	**1981**	**2258**	2341	**2996**	**1482**
i. State Plan Schemes	626	660	920	1339	1166	1572	1866	1905	2264	1003
ii. Central Plan Schemes	5	9	20	11		13	15	12	25	40
iii. Centrally Sponsored Schemes	169	85	285	223	475	327	294	369	663	342
iv. Special Plan Schemes	38	36	58	37	47	68	83	55	45	97
D. Total Grants (B+C)	1480	1469	2016	2335	2507	2837	3315	3483	**4092**	**3672**
E. Total Transfer (A+D)	1623	1832	2400	2729	3098	3665	4101	4341	5003	6020

Source: Budget Documents, Government of Mizoram

Table 2.13: Detailed Breakup of Devolution and Revenue Transfer

Percent

Head	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
A. Shared Taxes	8.8	19.8	16.0	14.5	19.1	22.6	19.2	19.8	18.2	39.0
B. Non-Plan Grant	39.6	37.0	30.6	26.6	26.4	23.4	25.8	26.3	21.9	36.4
i. Statutory Grants	3.4	33.0	26.4	25.1	23.8	21.3	24.1	23.4	19.8	35.5
ii. Contribution to CRF	0.3	0.8	2.1	0.4	0.3	0.2	0.2	0.3	0.2	0.3
iii. Other Grants	4.9	3.2	2.1	1.0	2.4	1.9	1.5	2.6	1.9	0.6
C. Plan Grants	51.6	43.1	53.4	59.0	54.5	54.0	55.1	53.9	59.9	24.6
i. State Plan Schemes	38.6	36.0	38.3	49.0	37.6	42.9	45.5	43.9	45.3	16.7
ii. Central Plan Schemes	0.3	0.5	0.8	0.4	0.0	0.4	0.4	0.3	0.5	0.7
iii. Centrally Sponsored Schemes	10.4	4.6	11.9	8.2	15.3	8.9	7.2	8.5	13.2	5.7
iv. Special Plan Schemes	2.3	2.0	2.4	1.4	1.5	1.9	2.0	1.3	0.9	1.6
E. Total Transfer (A+B+C)	100	100	100	100	100	100	100	100	100	100

Source: Budget Documents, Government of Mizoram

The above analysis of the trends in the devolution and revenue transfer from the central government to the state government clearly revealed that plan grants had gained lesser importance after 2015-16. To sustain the gaps caused by the decrease in plan grants, there was significant increase in non-plan grants and shared taxes. Thus, the post FC XIV is likely to see increasing receipt under shared taxes and non-plan grants with declining receipt under plan grants. At the same time, it may be worthwhile to analyse the FC-IV recommended fund transfer vis-a-vis actual transfer to have better understanding. Table 2.14 presents the recommended amount and actual transfer till FY 2018-19.

Table 2.14: FC-IV Recommendation & Achievement in Fund Devolution from the Centre

₹ Crore

Revenue Head	2015-16	2016-17	2017-18 (RE)	2018-19 (BE)
I. FC-XIV Recommendation				
A. Shared Taxes	2670	3081	3559	4118
B. Non-Plan Grant	2166	2331	2487	2633
i. Statutory Grants	2139	2294	2446	2588
ii. Contribution to CRF	15	16	17	18
iii. Other Grants	12	21	24	27
Total	4836	5412	6046	6751
II. Actual Devolution				
A. Shared Taxes	2348.11	2801	3107.3	3625.3
B. Non-Plan Grant	2190.37	2356.4	2496.4	2643.5
i. Statutory Grants	2139	2294	2446	2588
ii. Contribution to CRF	15	16	17	18
iii. Other Grants	36	46	34	38
Total	4538	5157	5604	6269
III. Achievement Ratio (%)				
A. Shared Taxes	87.9	90.9	87.3	88.0
B. Non-Plan Grant	101.1	101.1	100.4	100.4
i. Statutory Grants	100	100	100	100
ii. Contribution to CRF	102.0	101.3	100	100
iii. Other Grants	300.6	220.0	140.8	138.9
Total	93.8	95.3	92.7	92.9

Source: Budget Documents, Government of Mizoram & Economic Survey of Mizoram, Department of Planning & Programme Implementation
BE: Budget Estimates & RE: Revised Estimates

Table 2.14 shows that there were 100% achievements on non-plan grants (statutory grants, contribution to CRF & others) throughout the years under consideration. At the same time, the revenue transfers from shared taxes were well below the FC-IV recommended (projected) transfer in all the years. This may be due to the slowing down of economic growth thanks to the short term disruptions caused to the economy by demonetisation and GST. As a result, the projected revenue transfer to the state by the FC-IV may not be achieved during the award period. However, looking at the existing trend, the actual fund transfer is likely to be more than 90% of the recommended amount.

2.6. Funds Directly Transferred to State Implementing Agencies

There are central plan grants given to the state through CSS that are transferred directly to the societies and implementing agencies normally bypassing the state's budgetary routes. These funds play a significant role for the social and economic development of the state. As they are not routed through the state budgets, the Annual Financial Accounts do not capture the volume and nature of these transfers. As a result, the total plan fund availability and its impacts on the fiscal parameters are normally underestimated. Although the FRBM Act requires that there should be transparency in respect of estimates of receipts and expenditure, they are not properly monitored by any single agency at the state level. Consequently, it is difficult to estimate the actual quantum of all the fund flows at any point of time.

Table 2.15 presents the total amount of fund released by the end of FY since 2008-09, obtained from the CAG Reports of State Finance. As can be observed from this table, these funds alone constituted around 20% of GSDP and 45.75% of total transfer from the centre. However, the actual transfer, although audited reports are not yet available, is assumed to be drastically reduced after 2014 due to the discontinuation of Planning Commission in 2014 and the discontinuation of several CSS after FC XIV. Table 2.16 presents some of the major schemes and programmes which are implemented through state level agencies by direct fund transfer. The most important scheme in terms of fund transfer is National Rural Employment Guarantee Scheme (NREGS). The amount received increased from ₹152.3 crores in 2008-09 to ₹244 crores in 2013-14.

There are also substantial amount of funds transferred for Sarva Shiksha Abhiyan (SSA) during the same period, and the fund received increased from ₹85.1 crores in 2009-10 to ₹106.6 crores in 2013-14. In addition to SSA, the state has also received substantial amount of fund under Rashtriya Madhyamik Shiksha Abhiyan (RMSA) since 2012-13.

Table 2.15: Fund directly transferred to the State Implementing Agencies

Year	No. of Schemes	Amount (₹ Crore)	as % of GSDP	as % of Total Transfer
2008-09	13	704.8	20.66	29.37
2009-10	13	683.2	17.94	25.03
2010-11	53	984.1	17.90	31.77
2011-12	18	668.4	11.03	18.24
2012-13	37	934.3	13.36	22.78
2013-14	65	1985.9	24.66	45.75

Source: Report of the Comptroller and Auditor General of India on State Finances, Government of Mizoram, end March 2009, 2010, 2011, 2012, 2013 & 2014

Table 2.16: Major Schemes/Programme to which Funds are directly transferred to State Implementing Agencies (₹ Crore)

Schemes	Implementing Agencies	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
1. Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	Rural Development Department	152.3	277.0	216.2	312.0	251.6	244.7
2. Pradhan Mantri Gram Sadak Yojana (PMGSY)	Public Work Department	315.2	44.6	95.6		71.8	
3. Sarva Shiksha Abhiyan (SSA)	Education Department		85.1	112.9	108.1	153.2	106.6
4. National Rural Healh Mission (NRHM)	Health & Family Welfare	79.9	32.1	54.2	34.0	91.6	51.1
5. National Rural Drinking Water Programme	Public Health Engineering Department	54.5	53.4	80.5	37.1	47.9	44.9
7. Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	Urban Development & Poverty Alleviation		47.2	58.2		50.3	
8. Indira Awas Yojana (IAY)	Rural Development	12.5	18.5	13.4	3.1	10.8	25.7
9. Rajiv Gandhi Grameen Viyutikaran Yojana (RGGVY)	Power & Electricity Department		81.0	78.3			
10. Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	Education Department					63.9	39.5
11. Integrated Watershed Management Programme (IWMP)	Rural Development Department				5.8	25.2	70.0
12. Others		90.5	44.3	274.9	168.4	168.0	1403.4
Total		704.8	683.2	984.1	668.4	934.3	1985.9

Source: Report of the Comptroller and Auditor General of India on State Finances, Government of Mizoram, end March 2009, 2010, 2011, 2012, 2013 & 2014

Table 2.16 also shows that there were continuous flow of funds for National Drinking Water Programme and Indira Awas Yojana (IAY) throughout the years under study.

2.7. Revenue Buoyancies

A good tax system is one which has strong linkage with the growth of the economy. Tax buoyancy is one of the most effective indicators of the responsiveness of tax revenue to the changes in the tax base. In the absence of a single comprehensive data representing changes in the economic conditions, the Gross State Domestic Product (GSDP) would be the most acceptable macroeconomic variable which best represent the tax base of the state. Attempt is made in this section to estimate the buoyancy of the various sources of own revenue receipts, including the fund transfer from the central government and non-tax revenue. To measure the buoyancy of the revenue receipts during the entire period under study (2006-07 to 2015-16), this study adopted the following log-linear regression model (double log model)

$$\log(R_t) = a + b\ log\ (GSDP_t) + \ u_t \qquad \text{Equation (1)}$$

where R_t is the revenue receipt in year t, $GSDP_t$ is the Gross State Domestic Product in year t, a is the intercept, b is the buoyancy estimate or constant elasticity, and u_t is the error term. The main advantage of this model is that b is constant elasticity and is independent of measurement unit.

It is understood that a state's domestic product on agriculture sector would be one of the most appropriate determinant for the estimation of the buoyancy of land revenue. Similarly, the base of profession tax is basically non-agriculture and as such the determinant for its buoyancy may be the state's income from this sector. However, due to the issues of comparability of income series following the change of methodology for estimating income from agriculture sector in the later years (i.e. 2011-12 series), the study decided to use GSDP as a base for all taxes under consideration. The buoyancy estimated here would signify the responsiveness of the tax revenue to the economic growth as indicated by GSDP. A buoyant tax indicates increasing tax revenue with increase in GSDP. Thus, an individual tax is said to be buoyant with respect to growth if its estimated coefficient is greater than unity, and not buoyant or less buoyant if it less than one.

Table 2.17 presents the result of estimated double-log regression in which the slope coefficients are tax buoyancy estimates. This table also presents the estimates not only for own tax revenues, but also for major sources of own non-tax revenue. The estimates for tax revenues are highly significant (i.e. significant at 1% level) with acceptable value of R-square which ranged from 0.58 in case of state excise to 0.96 for VAT. This may be construed as the volatility of own tax revenue to the level of economic development. At the same time, there are different results for ONTR as the estimate is not significant in case of revenue from interest receipt and general services.

Table 2.17: Buoyancy of State's Own Tax and Non-Tax Revenues (2006-07 to 2015-16)

Revenue Heads	Buoyancy	t-value	R^2	F-statistic
A. Total Own Tax Revenue	1.12***	14.86	0.96	220.7***
1. Land Revenue	1.57***	7.97	0.89	63.56***
2. Stamp & Registration	2.03***	7.9	0.89	63***
3. State Excise	1.63***	3.31	0.58	10.9***
4. VAT/Sales Tax	1.06***	13.8	0.96	191.8***
5. Taxes on Vehicles	1.1***	5.04	0.76	25.4***
6. Taxes on Goods & Passenger	0.75***	4.7	0.73	22.13***
7. Profession Tax	0.84***	8.37	0.90	70.1***
8. Other Taxes & Duties	0.84***	5.68	0.80	32.3***
B. Total Own Non-Tax Revenue	0.51***	4.2	0.76	27.71***
1. Interest, dividend, etc.	0.36	1.45	0.21	2.12
2. General Services	0.01	-0.02	0.000	0.00
3. Social Services	1.03***	6.11	0.82	37.4***
of which, Water supply & sanitation	1.24***	10.18	0.93	103.7***
4. Economic Services	0.64***	5.7	0.80	32.5***
of which, Power	0.63***	5.28	0.78	27.9***

Note : ***, ** & * indicates significant at 1%, 5% & 10% level of significance respectively

The estimate of buoyancy of total OTR is marginally above 1 (i.e. 1.12) showing that the existing own tax revenue of the state is not progressive enough with respect to economic development. It is also notable that the estimated coefficient for VAT, which contributed around 70% of the total tax revenue, is just buoyant (i.e. it is around unity). As noted earlier, the revenue collected from stamp & registration had significant increase in the recent years following the establishment of Directorate of Stamp & Registration in 2013. Similarly, there was a quantum jump in the receipt from excise after 2014 due to the implementation of MLPC Act. Consequently, these two taxes showed high buoyancies.

It is interesting to see a high buoyancy of 1.57 in case of land revenue and thus, this tax is one of the most progressive relative to economic growth. Thus, there is a good scope for enhancing revenue receipt from land revenue in the state. At the same time, the buoyancies were less than unity for goods & passenger tax, profession tax, and other taxes & duties. The revenue from these taxes grew less than proportionately with GSDP. So, these taxes have low productivity, and hence, there is a need to increase productivity of these taxes.

The insignificant buoyancies for two items of ONTR, i.e. interest and general services may be taken to indicate that these two are not significantly depending on economic growth. The receipts from social services, water tariff, fees, etc., were just buoyant as its estimate is around unity. The main contributor of this sector was water tariff (water supply & sanitation) and had significant buoyancy with respect to GSDP. Thus, the non-tax revenue from these sources increased proportionately with the increase in GSDP. At the same time, the buoyancy of receipt from economic sector was significant and only 0.64. The main driver of the revenue receipt from this service was power tariff which is not buoyant (only 0.63). Consequently, the revenue was growing less than proportionately with GSDP necessitating effective mechanism to review tariff rate in consonant with the economic condition to make it a progressive one.

2.8. Tax Capacity and Effort to raise Tax Revenue

The tax performance of the state government is often assessed in terms of tax effort, which can be expressed as a relationship or ratio between the actual amount of collection and taxable capacity. The level of tax effort of the state is normally judged by comparing it with the levels of other states. The simplest and commonly used measure of relative tax effort is the ratio of tax revenue collection to the total income of the state (GSDP). However, this method assumes that the total income of a state is an appropriate indicator of taxable capacity. This assumption ignores various capacities factors such as size of population, administrative capability, degree of monetisation, etc. (Purohit, 2006).

Two different approaches are normally used for estimating tax efforts: representative tax system (RTS) and regression approach. The former involves computing average effective rates of tax of the entire sample after defining an appropriate proxy tax base for each of the taxes being considered, and using these average rates to estimate tax potential on the basis of each state’s tax base. In the latter case, tax revenue collections are explained by a set of variables which are considered to be representing the taxable capacity. This study adopted regression approach of estimating the taxable capacities of various sources of OTR. Meanwhile, the relative tax effort of the state was also examined by presenting the individual tax revenues as percentage of GSDP.

Eight sister states of North Eastern India, namely Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura, were selected for the analysis and basis of comparison for evaluation of tax effort. All these states were given Special Category status by different Finance Commissions in the determination of the basis of revenue transfer and fund devolution. Further, most of them are tribal dominated and hilly states without sufficient revenue sources. These states have similarities in many respects. So, selection of these 8 states for the analysis was considered appropriate.

For the sake of simplicity in the analysis and interpretation, the double-log regression given in Equation (1) was adopted for estimation of taxable capacities for taxes in all states. The respective GSDP is simply the adopted determinant of the individual tax revenue in each state. Interestingly, as given in Annexure, the coefficients of these estimates are significant with good R-square in majority of the cases. The data used in the estimation were taken from RBI 'Handbook of Statistics on Indian States'. The projected (or estimated) tax potential/capacity was estimated by using the estimated double-log regression equation of individual tax on respective GSDP, and the ratio of the actual tax revenue and the revenue potential (projected) was calculated. To avoid the effect of annual fluctuation in the estimation, the data used for making projection of tax revenue and actual revenues are the averages of a respective three year period, 2013-14 to 2015-16. After this, the average for all states was taken as the base by equating to 100 in order to assess the yield in the relative tax effort index.

Table 2.18 presents the various sources of own tax revenues as percentage of GSDP among the North Eastern States of India. The tax-GSDP ratio is known to be the simplest measure of tax effort. Assam had the highest OTR-GSDP ratio (5%) and Mizoram had the second lowest ratio (2.3%) above Nagaland (1.88%).

Table 2.18: Own Tax Revenue as Percentage of GSDP among the North Eastern States (calculated from the average of the last 3 years)

States	Land Revenue	Stamp & Registration	State Excise	VAT/Sales Tax	Tax on Vehicles	Taxes on Goods & Passenger	Profession Tax	Other Taxes & Duties	Total Own Tax Revenue
Arunachal Pradesh	0.06	0.03	0.45	1.36	0.12	1.18	0.00	0.00	3.19
Assam	0.10	0.13	0.40	3.73	0.22	0.27	0.11	0.06	5.00
Manipur	0.01	0.06	0.06	2.91	0.14	0.01	0.16	0.11	3.47
Meghalaya	0.01	0.05	0.80	2.42	0.20	0.03	0.02	0.03	3.56
Mizoram	*0.07*	*0.02*	*0.19*	*1.78*	*0.15*	*0.02*	*0.12*	*0.01*	*2.36*
Nagaland	0.00	0.01	0.02	1.43	0.22	0.04	0.14	0.01	1.88
Sikkim	0.03	0.06	1.08	1.79	0.16	0.00	0.07	0.58	3.77
Tripura	0.03	0.14	0.48	3.37	0.13	0.00	0.14	0.01	4.30
All State Ave.	0.04	0.06	0.43	2.34	0.17	0.19	0.09	0.10	3.43

Source: (i) RBI Handbook of Statistics on Indian States, & (2) Computed

Table 2.19 presents the estimated taxable capacity calculated from double-log regression function, and relative tax effort index of the NE states. While the actual OTR of Mizoram was only ₹284.9 crores, the estimated tax capacity is ₹306.5 crores. VAT, the main contributor of OTR had actual revenue of ₹214.1 crores against the projected capacity of ₹225.9 crores. These gaps reveal the existence of tax opportunities that can be leveraged by the government to increase its own tax revenue.

Table 2.19: Estimated Tax Potential and Efforts of North Eastern States

States	Land Revenue	Stamp & Registration	State Excise	VAT/Sales Tax	Tax on Vehicles	Taxes on Goods & Passenger	Profession Tax	Other Taxes & Duties	Total Own Tax Revenue
A. Actual Revenue (average for 3 years 2013-14 to 2015-16) (₹ Crore)									
Arunachal Pradesh	8.8	4.5	67.2	203.0	18.1	175.6	NA	NA	477.2
Assam	175.8	221.6	694.4	6541.4	386.1	464.7	186.9	98.9	8769.8
Manipur	1.7	8.9	9.1	431.9	20.9	1.2	23.8	16.6	514.0
Meghalaya	2.2	10.8	161.3	486.7	39.4	5.0	3.8	5.4	714.6
Mizoram	8.2	2.9	22.9	214.1	18.6	2.6	14.7	0.8	284.9
Nagaland	0.7	1.9	4.9	291.0	45.2	8.8	28.6	1.8	383.0
Sikkim	3.8	7.2	131.4	217.8	20.1	NA	8.2	71.0	459.5
Tripura	8.3	39.8	132.6	934.0	36.8	NA	37.9	2.6	1191.9
B. Estimated Taxable Capacity (₹ Crore)									
Arunachal Pradesh	7.8	4.5	68.6	215.8	18.5	155.7	NA	NA	475.8
Assam	183.8	233.5	725.8	6852.9	377.5	618.9	176.8	113.1	8957.2
Manipur	1.5	8.9	10.6	444.1	21.4	1.3	24.9	21.9	504.1
Meghalaya	1.7	10.9	161.5	488.1	39.9	5.1	3.5	4.6	755.9
Mizoram	8.1	2.3	8.7	225.9	20.7	2.9	15.6	0.8	306.5
Nagaland	0.7	2.0	4.9	309.4	46.9	9.1	30.6	1.8	416.8
Sikkim	4.3	7.1	137.1	228.5	21.4	NA	6.3	70.3	459.9
Tripura	11.7	41.0	139.3	957.7	35.0	NA	37.8	2.0	1247.2
C. Relative Tax Effort Index									
Arunachal Pradesh	111	98	84	98	100	120	NA	NA	104
Assam	94	93	82	99	105	80	102	84	101
Manipur	112	97	73	101	100	97	92	73	105
Meghalaya	127	97	86	104	101	105	104	113	98
Mizoram	99	124	226	99	92	97	91	107	96
Nagaland	101	96	86	98	99	103	90	98	95
Sikkim	86	100	82	99	96	NA	125	97	103
Tripura	70	95	82	102	108	NA	96	126	99
All NE States	100	100	100	100	100	100	100	100	100

Source: (i) RBI Handbook of Statistics on Indian States, & (2) Computed. NA = Not Available

In clear support of the earlier observations, Mizoram is among the states which have lowest tax effort, and the only state which has lower effort than Mizoram is Nagaland. The effort for OTR of the state was estimated at 96% which is the second lowest in the North East. There are three taxes for which the state has efforts above the average of the 7 states, namely stamp & registration, state excise, and other taxes & duties. The first two have high buoyancy coefficient and the last (other taxes & duties) is not buoyant to the level of economic development. The government has low effort for collection of VAT, which is the main contributor of the state's OTR. Similarly, relatively lower efforts were also observed in case of land revenue, vehicles tax, and profession tax.

Recalling the initiatives of the government for increasing taxes in the recent years given earlier, any crucial tax related policy reform undertaken by the government is strongly correlated by an increase in the level of tax efforts. The establishment of Directorate of Stamp & Registration in 2013 and amendment of rules for stamp and registration fees were positive initiatives of the government to increase collection from stamp & registration. The abolition of MLTP Act 1995 and introduction of MLPC Act 2014 had strong ramifications on the increase of revenue collection from the state excise. Similarly, *The Assam Amusement and Betting Act, 1939* for levy of entertainment tax was replaced by *The Mizoram Entertainment Tax Act, 2013.* This resulted in significant increase in revenue collection from other taxes & duties, of which entertainment tax is the main contributor. Thus, *any reform action is expected to have positive impact on the tax revenue collection and level of tax efforts*. A responsible government that tries to increase tax-GSDP ratio has to take this fact into consideration and take necessary reforms on the existing tax structure and the rationalisation of tax parameters.

2.9. Measures Taken by the Government to Improve Tax-GSDP Ratio

Table 2.20 presents an outline of the various efforts taken up by the government to improve revenue collection during the study period. Table 2.20 shows that the state government had undertaken several initiatives to increase tax collection over the years. The tax items which is most touched upon by this policy action is VAT. This was undertaken through improvement in efficiency and revision of rates. The government initiated public sector reform programme using the loan received from Asian Development Bank (ADB) in 2007. The programme was named 'Mizoram Public Resource Management and Development Programme' (MPRMP) and was completed in 2017. The focus areas of the programme were tax and non-tax reforms, debt management, public expenditure management, sectoral improvement, pension reforms, and PSE reforms. The state had taken initiatives for the improvement in the efficiency of tax collection by restructuring and strengthening of the Taxation Department under MPRMP. It was observed that the initiative was ratified by the collection of VAT during the study period.

However, VAT was subsumed under GST which was implemented across the country on July 1st 2017.

Table 2.20: Measures to Improve the Revenue Capacities of the States

Tax	Major Initiatives
VAT/Sales Tax	• Taxation Department was structured and strengthened under MPRMP in 2011-12. • Rates were revised upward to a new structure of 0%, 1%, 4% and 12.5% in 2011-12. • Again, rates on goods taxable at 4% was raised to 5%, and 12.5% was to 13.5% in January 2012. In addition, The 50 items originally listed in the Schedule was raised to 55 items. • Rates on tobacco products including Cigarettes, Cigars, Cigarillos and Vaihlo was revised upward from 20% to 30% in 2015-16. • Sales tax on LPG increased from 2% to 4%, from 18% to 20% for Motor Spirit (Petrol), from 10% to 10% in High Speed Diesel during the FY 2011-12.
Land Revenue and Stamp & Registration	• Amendment to the Mizoram (Land Revenue) Act, 2013 and the Mizoram (Land Revenue) Rules, 2013 was implemented in 2015 to streamline and improve procedures, record management, assessment and collection of revenue. • National Land Record Modernisation Programme (NLRMP) was launched in 2011 to strengthen revenue administration, updating of land record, and computerisation of land records. • The Indian Stamp (Mizoram Amendment) Act, 1996 was amended in 2007. By notification in February 2011, the levy of stamp duty is required on monthly payment of salaries to regular government officials including council of Ministers, on all bills in respect of payment made by various department and offices of private parties. • Directorate of Registration and Stamp established in 2013 to deal with administration, levy and collection of fee and stamp duty.
State Excise	• The Mizoram Liquor (Prohibition and Control) Act, 2014 was passed and came into force from 15th January 2015.
Vehicles Tax	• The government rationalised road tax collection by introducing one-time lump sum payment in the FY 2011-12
Profession Tax	• The tax rate under The Mizoram Professions, Trades, Callings and Employment Taxation Act 1995 was revised upward for all categories within the stipulated ceilings.
Other taxes and user charges	• The Mizoram Entertainment Tax Act 2013 was passed. Reassessment was undertaken for Cable TV Operators. • User charges, water tariff and power tariff were hiked in 2012-13. • Mizoram Entry Tax Bill 2015 was passed by the State Legislative Assembly.

Source: Budget Documents, Government of Mizoram

Another crucial event in the efforts of the government to raise revenue capacities is the implementation of MLPC Act in 2015, which repealed the earlier prohibition law. There was substantial increase in the receipt of state excise after the implementation of MLPC Act.

Several initiatives of the government to improve tax revenue collection can be seen in the Table. However, the non-tax revenue, which is less buoyant with respect to GSDP, was hardly touched by policy actions of the government during the 10 years under study. There was a revision of tariff only once in 2012. To make it more buoyant and more responsive to the changing dynamic of economic development vis-à-vis change in consumption patterns, there should be continued efforts of the government to rationalise structures and revision of rates.

2.10. Concluding Notes & Suggestions to improve Tax-GSDP Ratio

The foregoing analysis revealed that the state performed moderately well in raising own tax revenue (which grew at CAGR of 20.3%), while the revenue receipt from shared tax and grants-in-aid recorded an increase of 21.2% and 12.4% respectively, and there was quantum jump in shared tax in 2015-16 following the implementation of FC XIV. Likewise, the OTR of the state also recorded significant increase during this year due to the surge in income from state excise following the implementation of MLPC Act that allowed sale of liquor. However, poor mobilisation of revenue from user charges resulted in sticky growth of ONTR which grew by around 9% per annum during this period, and this limited the fiscal capacities of the state.

VAT was the main source of the state's OTR. Revenue mobilisation from it increased consistently at around 19%. Continued effort was also undertaken by the government to rationalise this tax and to bring about efficiency in its collection and administration. Despite all these, the buoyancy was estimated at around unity, meaning that it grew more or less proportionately with GSDP. Moreover, the estimated tax effort was very low compared to other NE states. *So, this study finds the existence of wide room for its improvement to leverage opportunities arising out of the changes in the living standard and consumption patterns of the population.* In fact, this tax was subsumed under the GST regime, and the transfer of registration is underway. It is expected that the new tax regime will transform the system, thus enhancing the tax revenue of the state government.

Although land revenue is buoyant with respect to the GSDP, there is wide a gap between its tax effort and tax capacity. It may be noted that the chieftainship was abolished in the state in 1954, and all the lands of chiefs were acquired by the government. As shifting cultivation is still in practice in the state, land allotment is exercised by the elected village councils (VCs) following the traditional system of the chiefs. At the same time, the existing land laws do not authorise the VCs to allot land for permanent cultivation. However, due to limitations of the state Revenue Department to cover all the households seeking land pass in different villages, the VCs became the de facto authority for land allotment, even for permanent cultivation. Consequently, large number of landholdings in the rural areas is not yet assessed by the government. Although computerisation of holdings is in process under the National Land Record Modernisation Programme (NLRMP), there is a long way to go for the complete assessment of all the lands in different villages. Once this is done, it is expected that receipt from land revenue would increase significantly. The inability of the state to leverage the land revenue capacity seems to be more on capacity, rather than institutional, constraints. *It is thus suggested that necessary efforts be made by the government to assess all the landholdings and institute a more efficient mechanism for its revenue collection.*

The most buoyant tax observed in this study is Stamp & Registration which recorded an annual growth of more than 38%, mostly fuelled by the amendment of related rules and the establishment of a separate directorate to look after it. The observed trend revealed the existence of wide areas for its further increase. Its scope is normally restricted to transfer of land pass and its securitisation, while the depth of coverage on other assets is low. Interview of some officials and middlemen of land transfer business revealed that there is rampart under-quoting of land price during sale deeds, undertaken in mutual agreement between the participating parties to avoid high registration fee. The same also prevails in registrations including those under Societies Registration Act 2005. To increase revenue collection from stamp and registration, *the state government needs to clearly define the tax parameters and make the people aware of its significance, while also taking steps to make dealings on transfer of assets more transparent, thus enhancing efficient assessment of taxes/fees.*

Quantum jump in the buoyant revenue receipt from state excise post MLPC Act deserves recognition. State excise has become the second most important source of OTR in the state, and it is necessary to make it more progressive relative to the growth of the economy. Alcohol is by nature a *demerit good* and its consumption is not desirable for the society and unhealthy for the consumer themselves. As such, there is strong objection from the Church bodies against its free sale in the state. At the same time, the prices of different IMFL sold in the state are low compared to the neighbouring states. *Given all these, there is a scope to mobilise more revenue by introducing an additional levy which may be in the form of cess or sin tax.* In fact, there was an upward revision of VAT on tobacco products on these grounds in the recent years.

Tax revenue from vehicles showed buoyancy of around unity relative to GSDP, while tax on goods & passengers was not buoyant as it grew less than proportionately with GSDP. Further, Mizoram had the lowest tax efforts in these two taxes among the NE states during the study period. As per the record of Directorate of Economics & Statistics, the number of vehicles registered by the government grew at a CAGR of more than 14%, from around 46 thousands to 1.5 lakhs, during 10 years. It was also found that different types of luxury vehicles are increasingly plying on roads every year in the state. So, *it is necessary to rationalise the structure of vehicles tax and goods & passenger taxes in a progressive manner keeping in view the (i) growing number of luxury vehicles, (ii) changes in the travel mode choices among the people, and (iii) emergence and growth of logistic sector and changes in the means of commodity transportation.*

The tribal population living and working in Mizoram are exempted from paying income tax, but they are liable if income is earned in any other part of India. Given the need for augmenting resources for the state, it is a sound economic sense if professional tax is used as some kind of proxy for taxing earnings in Mizoram and keeping it under the state subject. In fact, there is no strong logic for fixing the ceiling of profession tax at ₹2500. *Instead, it has to be made progressive, according to the level of earnings of the income earners. However, any action on this matter would invite the amendment of Article 276 (2) of the Indian Constitution.*

Although the foregoing analysis showed that there was significant growth in non-tax revenues in Mizoram, it is not buoyant to the growth of GSDP. Both the estimates for revenues from interest, dividends, etc., and general services were insignificant, which led to the low buoyancy of the total ONTR. In the absence of dividends & profits received from the investments of the government in public sector enterprises (PSE) and cooperatives institutions, there is no possibility of earning income that is positively related to GSDP. Instead of contributing revenue to the state's coffers in the form of dividend and profits, the PSEs are basically the liability of the state which drains the financial resources. *The recent initiative of the state government to close down some loss making PSEs is commendable, and it is necessary to extend the initiatives in other loss making units as well.*

A major contributor of ONTR under social services is water supply & sanitation which is buoyant with respect to GSDP. At the same time, non-tax revenue from power supply is not buoyant, which indicates inefficiency in its collection and administration. Looking at the poor performance in cost recovery, collection of user charges from these two services is well below satisfactory level. So, *appropriate action is needed for the emergence of continuous review mechanism to keep the collection of user charges in pace with economic growth. User charges may be determined on the basis of economic status of different groups, rather than that of a flat rate. There may also be an increment of the charges, in regular intervals, at least at a marginal rate.*

Chapter 3

STATE’S EXPENDITURE

3.1. Introduction

Public expenditure is a significant driver of economic growth for states like Mizoram which lack sufficient resource. In fact, the relationship between public expenditure and national income is an enduring issue in economics and public finance literatures both at the theoretical and empirical levels (Srinivasan, 2013). Keynes (1936) stated that public expenditure is a fundamental determinant of economic growth. At the same time, Wagner (1883) suggested that growth in public expenditure was inevitable for progressive economy, because it is directly linked to the economic growth. Public expenditure plays an important role in achieving the goals of growth, development, equity, and stability. In the context of developing economies like India, public expenditure assumes importance in order to ensure an equitable distribution of resources (RBI, 2009-10).

However, increasing public expenditure driven by the growth of revenue expenditure set alarm to the fiscal health of the state and central government. The doctrine of curtailing government expenditure to bring down deficit financing has become the core objective of the fiscal management of the governments so as to bring deficit financing under control, especially in the post economic reform era. At the same time, it is the responsibility of the state government to make the provision of social and economic services for sustained and inclusive development through public expenditure. Thus, a study on the trend, patterns, and composition of government expenditures is of special significance for the health of the state finance. Attempt is made in this chapter to study the trends and dimensions of the expenditure of Government of Mizoram.

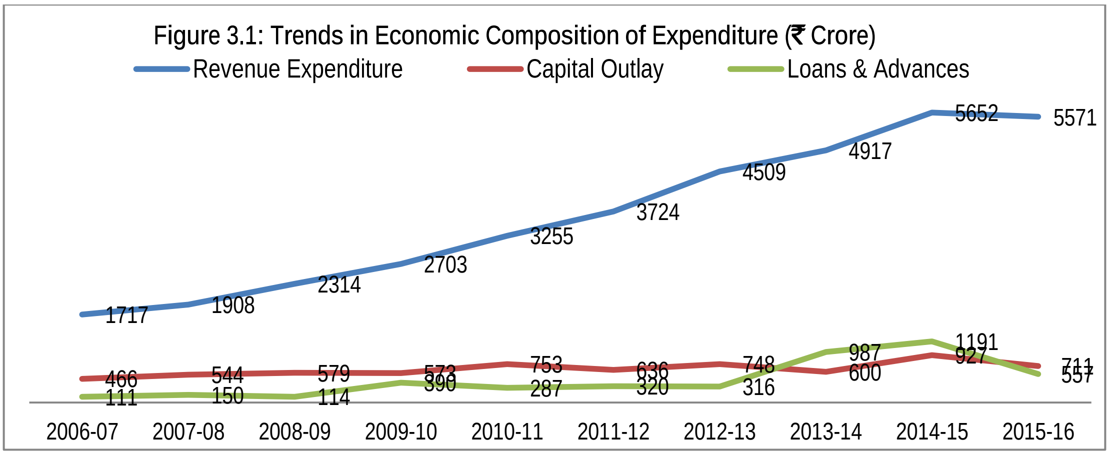
3.2. Economic Classification of Expenditure

The total expenditure of the state in terms of economic classification includes revenue expenditure and capital expenditure. The expenditure on capital account (or capital expenditure) includes outlays for creation of assets, and loans and advances made to various parties and the repayment of loans obtained from them. The two accounts of disbursement are further classified into plan and non-plan expenditures. Table 3.1 and Figure 3.1 present the trends and composition of government expenditure from 2006-07 to 2015-16. Table 3.1 presents capital expenditures under the following two heads: (i) *capital outlay* which indicates expenditure for creation of assets, and (ii) *loans & advances* which includes repayment of government debt, and loans and advances issued by the government.

Table 3.1: Economic Classification of Total Expenditure in Mizoram

	Amount (₹ Crores)				Composition (%)			
Year	Revenue Expenditure	Capital Outlay	Loans & Advances	Total Exp.	Revenue Expenditure	Capital Outlay	Loans & Advances	Total Exp.
2006-07	1717	466	111	2294	74.8	20.3	4.8	100
2007-08	1908	544	150	2602	73.3	20.9	5.8	100
2008-09	2314	579	114	3007	77.0	19.3	3.8	100
2009-10	2703	573	390	3666	73.7	15.6	10.6	100
2010-11	3255	753	287	4295	75.8	17.5	6.7	100
2011-12	3724	636	320	4680	79.6	13.6	6.8	100
2012-13	4509	748	316	5573	80.9	13.4	5.7	100
2013-14	4917	600	987	6504	75.6	9.2	15.2	100
2014-15	5652	927	1191	7770	72.7	11.9	15.3	100
2015-16	5571	711	557	6840	81.5	10.4	8.1	100
CARG (%)	15.4	5.2	26.9	14.7	CAGR: Compound Annual Growth Rate			

Source: Budget Documents, Government of Mizoram



The increasing expenditure of the state government was basically due to the continued and consistent increase in revenue expenditure, while capital expenditure recorded relatively lower increase. The total expenditure increased from ₹2295 crores in 2006-07 to ₹6839 crores in 2015-16 with an annual growth of 14.7%, and revenue expenditure also recorded annual increase of 15.4%, from ₹1717 crores to ₹5571 crores during the same period. The capital expenditure on asset creation (capital outlay) increased from ₹466 crores in 2006-07 to ₹711 crores with annual growth of 5.2%, while expenditure on loans and advances also increased, of which repayment of loans which accounted a major share increased tremendously from ₹111 crores to ₹557 crores with annual growth of 26.9% during this period.

Study of the change in the composition of expenditure as given in Table 3.1 is in clear support of the above observations. While the percentage share of revenue expenditure increased by around 10% from 74.8% in 2006-07 to 83% in 2012-13 and 81.5% in 2015-16, the share of capital outlay declined from 20.3% to 10.4% during this period. At the same time, the share of loans and advances in the total expenditure increased from 4.8% to 8.1% during the study period. Thus, the fiscal space of the state was reduced gradually with the expansion of revenue expenditure side by side with the increasing expenditure obligation for repayment of loans and advances. This resulted in lesser fraction of the revenue available for asset creation. In other words, the expanding revenue expenditure gradually limited the capacity of the government to exercise more fiscal effort to create necessary infrastructure for socio-economic development.

Table 3.2: Expenditures as Percentage of GSDP

Percent

Year	Revenue Expenditure	Capital Exp. (Outlay)	Loans & Advances	Capital Expenditure Total	Total Expenditure
2006-07	57.5	15.6	3.7	19.3	76.9
2007-08	55.9	15.9	4.4	20.3	76.3
2008-09	60.8	15.2	3.0	18.2	78.9
2009-10	49.2	10.4	7.1	17.5	66.7
2010-11	53.7	12.4	4.7	17.2	70.9
2011-12	53.3	9.1	4.6	13.7	66.9
2012-13	56.0	9.3	3.9	13.2	69.2
2013-14	47.8	5.8	9.6	15.4	63.2
2014-15	45.2	7.4	9.5	16.9	62.2
2015-16	41.7	5.3	4.2	9.5	51.1

Source: Budget Documents, Government of Mizoram

The total expenditure as a percentage of GSDP consistently decreased from 76.9% in 2006-07 to 51.1% in 2015-16 (Table 3.2). Although the revenue expenditure, which is the main driver of increasing public expenditure, grew at a fast pace of more than 15% at compound rate, it showed a declining trend relative to the GSDP over the years. The revenue expenditure as a percentage of GSDP decreased from 57.2% in 2006-07 to 41.7% in 2015-16. At the same time, there was an improvement in the revenue expenditure in the state if it is taken relative to the resource base, or economic growth.

The capital expenditure as a percentage of GSDP moved around 13-20% till 2014-15, revealing that it had a more or less proportional increase with the GSDP. However, the capital expenditure sharply decreased to 9.5% in 2015-16 from 16.6% in the previous FY, mainly due to the substantial decline in the expenditure for repayment of public debt during this FY. It is surprising that capital outlay as percentage of GSDP declined continuously from 15.6% in 2006-07 to 12.4% in 2010-11 and 5.3% in 2015-16, while continued expenditure on capital formation is required to sustain the robust growth of GSDP.

Table 3.3: Trends in Plan and Non-Plan Expenditure and Changes in Composition

Year	Non-Plan Expenditure (₹ Crore)	Plan Expenditure (₹ Crore)	Total Expenditure (₹ Crore)	Non-Plan as % of Total Expenditure	Non- Plan Expenditure % of GSDP	Plan Expenditure % of GSDP
2006-07	1240	1055	2295	54.0	41.5	35.3
2007-08	1460	1143	2603	56.1	42.8	33.5
2008-09	1749	1119	2868	61.0	45.9	29.4
2009-10	2212	1453	3665	60.4	40.2	26.4
2010-11	3454	1703	5157	67.0	57.0	28.1
2011-12	2600	1938	4538	57.3	37.2	27.7
2012-13	3161	2272	5433	58.2	39.3	28.2
2013-14	4218	2286	6504	64.9	41.0	22.2
2014-15	4827	2945	7772	62.1	38.6	23.6
2015-16	4251	2589	6840	62.1	31.8	19.4
CAGR(%)	16.1	12.7	14.7	CAGR: Compound Annual Growth Rate		

Source: Budget Documents, Government of Mizoram

Table 3.3 presents the breakup of total expenditure on plan and non-plan expenditures. It is clear that the small state of Mizoram which is without sufficient revenue sources cannot afford to have a larger portion of revenue devoted to plan expenditure due to the increasing requirement of non-plan expenditure. The latter accounted for more than half (62% in 2015-16) of the total expenditure and showed annual compound growth of 16% during the 10 years under study. At the same time, plan expenditure recorded an annual increase of 12.7%. The convention of adding committed and maintenance expenditure of plan schemes to non-plan expenditure at the end of every plan expanded non-plan expenditure in bulk every five years (Sarma, 2000). The expanding non-plan expenditure limited the capacity of the government to put more fiscal effort on plan schemes that are essential for economic development.

Except for the FY 2015-16, non-plan expenditure revolved around 37-50% of the GSDP, while it decreased to 31.8% in 2015-16. Thus, the growth of non-plan expenditure is more or less in pace with the GSDP. At the same time, the plan expenditure showed declining trends, from 35.3% in 2006-07 to 23.6% in 2014-15 and 19.4% in 2015-16. The declining plan expenditure relative to GSDP may be construed as the reduced ability of the government to carry on with developmental activities.

Table 3.4: Further Economic Classification of Revenue and Capital Expenditure

Expenditure Heads	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Amount (₹ In Crores)										
Revenue Expenditure	1717	1908	2314	2703	3255	3724	4509	4917	5652	5571
(out of which)										
Interest Payment	228	208	226	254	106	274	288	284	306	369
Debt Servicing	7	14	15	17	17	23	19	23	19	30
Capital Expenditure	578	694	692	963	1040	956	1064	1588	2118	1269
(out of which)										
out of which	466	544	579	573	753	636	748	600	927	711
Internal Debt	79	127	78	346	234	268	267	938	1170	530
Loan Repayment to Centre	32	17	18	19	23	18	19	19	19	21
Loans & Advances	0.25	6	17	25	30	34	30	31	2	7
Total Expenditure	2295	2602	3006	3666	4295	4680	5573	6505	7770	6840
Percentage to Respective Totals (%)										
Revenue Expenditure	100	100	100	100	100	100	100	100	100	100
(out of which)										
Interest Payment	13.3	10.9	9.8	9.4	3.3	7.4	6.4	5.8	5.4	6.6
Debt Servicing	0.4	0.7	0.6	0.6	0.5	0.6	0.4	0.5	0.3	0.5
Capital Expenditure	100	100	100	100	100	100	100	100	100	100
(out of which)										
Capital Outlay	80.7	78.4	83.7	59.5	72.4	66.5	70.3	37.8	43.8	56.0
Internal Debt	13.7	18.3	11.3	35.9	22.5	28.0	25.1	59.1	55.2	41.8
Loan Repayment to Centre	5.5	2.5	2.6	2.0	2.2	1.9	1.8	1.2	0.9	1.7
Loans & Advances	0.0	0.9	2.5	2.6	2.9	3.6	2.8	2.0	0.1	0.6

Source: Budget Documents, Government of Mizoram

To have better understanding of the trends of revenue and capital expenditure, Table 3.4 presents their further classifications. The increase in interest payment under revenue expenditure was a result of accumulated public debt and it posed challenge to the financial stability of the state government. It can be deduced that the interest payments showed increasing trend with temporary fluctuation during the 10 years. It increased from ₹228 crores in 2006-07 to ₹369 crores in 2015-16. However, it showed a declining trend when taken as a percentage of total revenue expenditure, as it decreased from 13.3% to 6.6% during this period. Thus, interest payments grew less than proportionately with an increase in revenue expenditure on other items. It is also clear from Table 3.4 that more than half of the disbursement under capital account (56% in 2015-16) went to capital outlay, which is basically the expenditure incurred for creation of assets in the economy. Although capital outlay formed major expenditure of the capital account, it declined from 80.7% in 2006-07 to

56% in 2015-16. Side by side with the declining share of capital outlay, repayment of internal debt showed substantial increase from a mere 13.7% to a high of 41.8%. The expanding volume of repayment of internal debt from ₹19 crores to ₹530 crores may also be interpreted as the declining quality of capital expenditure as the outgo for capital outlay was declining relative to repayment of internal debt.

3.3. Functional Composition of Expenditure

Functional composition of total expenditure consists of expenditure on general services including interest payment, social services (education, health, housing, urban development, welfare of SC/ST, etc.), economic services (agriculture, animal husbandry, forestry, rural development, energy, etc.), repayment of public debt, loans and advances. Table 3.5 presents the trends of these expenditures, while Table 3.6 and Table 3.7 present their relative share in the total expenditure and values as percentage of GSDP respectively. The compound annual growth rate was also calculated for the entire study period to show the trend of expenditure in each component.

Expenditure on the general services (non-developmental expenditure) which accounted for around 28% of the total expenditure recorded 14.5% annual increase, from ₹641 crores in 2006-07 to ₹1951 crores in 2015-16. The development expenditure consisting of social services and economic services recorded 13.3% annual growth. The social services, which individually showed a rate of growth of 15.5%, were the main driver of development expenditure. Meanwhile, the growth rates of repayment of public debt and loans and advances also showed higher growth compared to other functional composition of expenditure.

Table 3.5: Functional Composition of Total Expenditure (₹ Crore)

Year	General Services	Social Services	Economic Services	*Developmental Expenditure (Soc+Eco)*	Public Debt Repayment	Loans & Advances	Total Expenditure
2006-07	641	715	827	1542	111	0.25	2295
2007-08	659	803	991	1794	144	6	2603
2008-09	824	991	1078	2069	96	17	3007
2009-10	974	1256	1046	2302	365	25	3666
2010-11	1034	1363	1612	2975	257	30	4296
2011-12	1237	1460	1663	3123	286	34	4680
2012-13	1474	1874	1919	3793	286	30	5583
2013-14	1745	2032	1741	3773	957	31	6506
2014-15	1824	2475	2281	4756	1189	2	7771
2015-16	1951	2432	1899	4331	550	7	6839
CAGR (%)	14.5	15.5	11.2	13.3	27.5	17.1	14.7

Source: Budget Documents, Government of Mizoram

Note: Figures in some years may not tally with other tables due to rounding off

Table 3.6: Percentage Breakup of Total Expenditure on Various Functional Classifications (%)

Year	General Services	Social Services	Economic Services	*Developmental Expenditure (Soc+Eco)*	Public Debt Repayment	Loans & Advances	Total Expenditure
2006-07	28.0	31.2	36.0	67.2	4.8	0.0	100
2007-08	25.3	30.8	38.1	68.9	5.5	0.2	100
2008-09	27.4	33.0	35.9	68.8	3.2	0.6	100
2009-10	26.6	34.3	28.5	62.8	10.0	0.7	100
2010-11	24.1	31.7	37.5	69.3	6.0	0.7	100
2011-12	26.4	31.2	35.5	66.7	6.1	0.7	100
2012-13	26.4	33.6	34.4	67.9	5.1	0.5	100
2013-14	26.8	31.2	26.8	58.0	14.7	0.5	100
2014-15	23.5	31.8	29.4	61.2	15.3	0.0	100
2015-16	28.5	35.6	27.8	63.3	8.0	0.1	100

Source: Budget Documents, Government of Mizoram

Total development expenditure accounted for the larger portion of the total expenditure throughout the 10 years, but its share in the total expenditure gradually decreased from 67.2% in 2006-07 to 58% in 2013-14 and to 63.3% in 2015-16. Of the developmental expenditure, the share of economic services decreased substantially from 36% to 27.8%, and as against this, that of social services was around 31% throughout the period except in the year 2015-16 when its share increased to 35.6%. As observed in Table 3.7, the expenditure on different functional heads showed declining trend while taken as a percentage of GSDP due to the fast expanding magnitude of GSDP over the years. The development expenditure relative to GSDP decreased from 51.7% in 2006-07 to 32.4% in 2015-16, while the non-developmental expenditure also decreased from 21.5% to 14.6% during this period. Less than proportionate increase in public expenditure on various heads to the growth of GSDP may be construed as an improvement of the state fiscal capacity relative to the growth of the economy.

Table 3.7: Functional Composition of Expenditure as Percentage of GSDP (%)

Year	General Services	Social Services	Economic Services	Developmental Expenditure (Soc+Eco)	Public Debt Repayment	Loans & Advances	Total Expenditure
2006-07	21.5	24.0	27.7	51.7	3.7	0.0	76.9
2007-08	19.3	23.5	29.0	52.6	4.2	0.2	76.3
2008-09	21.6	26.0	28.3	54.3	2.5	0.5	78.9
2009-10	17.7	22.8	19.0	41.9	6.6	0.5	66.7
2010-11	17.1	22.5	26.6	49.1	4.2	0.5	70.9
2011-12	17.7	20.9	23.8	44.7	4.1	0.5	66.9
2012-13	18.3	23.3	23.8	47.1	3.6	0.4	69.3
2013-14	16.9	19.7	16.9	36.6	9.3	0.3	63.2
2014-15	14.6	19.8	18.2	38.1	9.5	0.0	62.2
2015-16	14.6	18.2	14.2	32.4	4.1	0.1	51.1

Source: Budget Documents, Government of Mizoram

To further examine the functional classification of expenditure, Table 3.8 presents the classification within each of the revenue and capital expenditure. The expenditure on general services accounted for around more than one-third of the total revenue expenditures and showed an annual growth of 14.5%. At the same time, social services which showed the highest growth rate at 16.1% p.a. contributed the largest share in the total revenue expenditure, while the share of economic services, showing annual growth of 15.6%, slightly decreased from 29.5% in 2006-07 to 25.7% in 2015-16. Thus, while the percentage share of general services under revenue account revolved around 34% throughout the years, the share of social services in the total revenue expenditure expanded substantially, mostly at the cost of the declining share of economic services.

At the same time, expenditure on capital account was dominated by economic services in most of the years. It accounted for 55.4% in 2006-07 and increased to 67.3% in 2008-09, but sharply declined in the later years till 36.6% in 2015-16. Thus, expenditure outgo for economic services under capital account recorded minimal annual growth of 2.3% during this period. The sharp decline in share of economic services is accounted for by a surge in public debt whose share rose from 19.2% in 2006-07 to 60.3% in 2012-13 and 43.4% in 2015-16. As noted earlier, public debt expanded significantly with a high annual growth of 27.5% during this period. This structural change in the capital expenditure was also negatively responded to by the outlay for social services which recorded declining share in the total capital expenditure.

Table 3.8: Functional Composition of Revenue and Capital Expenditures

Expenditure Head	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	GACR (%)
A. Revenue Expenditure	1717 (100)	1909 (100)	2314 (100)	2703 (100)	3256 (100)	3724 (100)	4519 (100)	4918 (100)	5653 (100)	5571 (100)	15.0
General Services	617 (35.9)	646 (33.8)	804 (34.7)	948 (35.1)	1011 (31.1)	1220 32.8)	1431 (31.7)	1687 (34.3)	1750 (31)	1917 (34.4)	14.5
Social Services	593 (34.5)	697 (36.5)	898 (38.8)	1106 (40.9)	1237 (38)	1346 (36.1)	1652 (36.6)	1824 (37.1)	2161 (38.2)	2220 (39.8)	16.1
Economic Services	507 (29.5)	566 (29.6)	612 (26.4)	649 (24)	1008 (31)	1158 (31.1)	1436 (31.8)	1407 (28.6)	1742 (30.8)	1434 (25.7)	15.6
B. Capital Expenditure	578 (100)	694 (100)	693 (100)	963 (100)	1040 (100)	956 (100)	1064 (100)	1588 (100)	2118 (100)	1268 (100)	12.4
General	24 (4.2)	13 (1.9)	20 (2.9)	26 (2.7)	23 (2.2)	17 (1.8)	43 (4)	58 (3.7)	74 (3.5)	34 (2.7)	14.1
Social	122 (21.1)	106 (15.3)	93 (13.4)	150 (15.6)	126 (12.1)	114 (11.9)	222 (20.9)	208 (13.1)	314 (14.8)	212 (16.7)	11.3
Economic Services	320 (55.4)	425 (61.2)	466 (67.3)	397 (41.2)	604 (58.1)	505 (52.8)	483 (45.4)	334 (21)	539 (25.4)	465 (36.6)	2.3
Public Debt	111 (19.2)	144 (20.7)	96 (13.9)	365 (37.9)	257 (24.7)	286 (29.9)	286 (26.9)	957 (60.3)	1189 (56.1)	550 (43.4)	27.5
Loans & Adv.	0.25 (0.0)	6 (0.9)	17 (2.5)	25 (2.6)	30 (2.9)	34 (3.6)	30 (2.8)	31 (2)	2 (0.1)	7 (0.6)	17.0

Source: Budget Documents, Government of Mizoram

Figures in parentheses are percentage to the respective total expenditure head

3.4. Committed Expenditure

Committed expenditure of the state government on revenue account mainly consists of salary, pension, subsidies, and interest payment. The trend of committed expenditures is presented in Table 3.9, and Figure 3.2 presents these expenditures relative to GSDP. In fact, the state government incurs substantial expenditure on food, power, and water subsidies. However, with the exception of few subsidies given under different CSS and central and state plan schemes (like RKVY, ISOPOM, etc.), most of the subsidies given through revenue account are implicit in nature and are difficult to estimate the actual values. To maintain uniformity in trend analysis and comparison with respect to total expenditure, and due to unavailability of sufficient data, the expenditures on subsidies are not presented in this table.

On an average, the committed expenditure increased at an annual compound rate of 15.6% - from ₹779 crores in 2006-07 to ₹2769 crores in 2015-16. The increasing burden of committed expenditure on total revenue expenditure could be seen from its increasing share in the total revenue expenditure. The share of committed expenditure increased from 45.5% to around half (49.7%) of the total revenue expenditure in 2015-16. The increasing committed expenditure should be considered a cause for alarm for the sustainability of the fiscal position as it severely suppressed the capacity of the state government to meet its expenditure obligations in its delivery of various services for socio-economic development of the people.

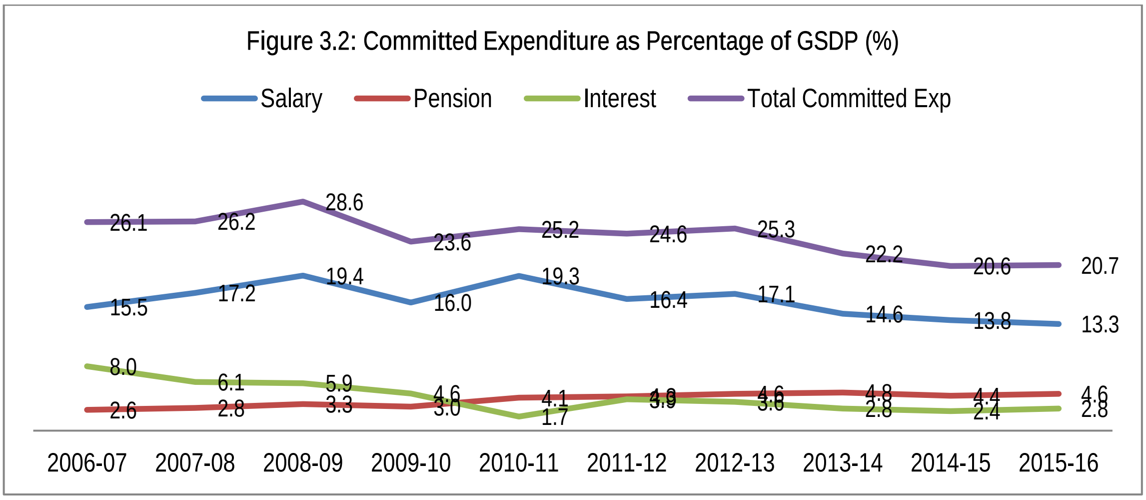
Table 3.9: Components of Committed Expenditure of the State Government

	Amount (₹ Crores)				as % of Total Revenue Expenditure			
Year	Salary	Pension	Interest	Total	Salary	Pension	Interest	Total
2006-07	462	77	240	779	26.9	4.5	14.0	45.4
2007-08	588	97	208	893	30.8	5.1	10.9	46.8
2008-09	739	126	226	1091	31.9	5.4	9.8	47.1
2009-10	882	164	254	1300	32.6	6.1	9.4	48.1
2010-11	1172	249	106	1527	36.0	7.6	3.3	46.9
2011-12	1150	298	274	1722	30.9	8.0	7.4	46.2
2012-13	1377	371	288	2036	30.5	8.2	6.4	45.2
2013-14	1507	490	284	2281	30.6	10.0	5.8	46.4
2014-15	1725	545	305	2575	30.5	9.6	5.4	45.6
2015-16	1784	616	369	2769	32.0	11.1	6.6	49.7
CAGR (%)	16.1	27.6	5.6	15.6				

Source: Budget Documents (Fiscal Policy Strategy Statements), Government of Mizoram

It is notable that expenditure on salaries of the government employees, which accounted for around one-third of the total revenue expenditure, increased at a fast rate of more than 16.1% compounded annually. Salary expenditure increased from ₹462 crores in 2006-07 to more than double at ₹1172 crores in 2010-11 and further to ₹1784 cores in 2015-16. The increase in expenditure on salaries after 2010 is due to the implementation of 'The Mizoram (Revision of Pay) Rules, 2010' which was made in line with the recommendation of Sixth Central Pay Commission. The year to year increase in salary from 2009-10 to 2010-11 was 32.88% which showed the clear impact of the Pay Revision in increasing the burden of the revenue account of the state government. Also, the pension payment liability of the state government increased manifold during the last 10 years, especially after the Pay Revision in 2010-11. It increased from ₹77 crores in 2006-07 to a high of ₹616 crores in 2015-16 at annual compound growth of 27.6%, while its share in the total revenue expenditure also expanded significantly from 4.5% to 11.1%. This expanding committed expenditure on salary and pension should be a great concern for the state government in its effort to enhance the fiscal space.

At the same time, the expenditure on interest payment showed lower annual growth (5.6%) compared to other committed expenditures. Given the lower rate of growth relative to the ever increasing revenue expenditure, its share in the total revenue expenditure declined from 14% in 2006-07 to 6.6% in 2015-16. This may be considered as a commendable trend in view of the necessity of bringing down the revenue expenditure.



As observed in Figure 3.2, the committed expenditures showed declining trends when taken as a percentage of GSDP, except for pension payment. The percentages were more or less stable till 2012-13, but declined consistently afterwards, probably due to the pickup of GSDP rather than reduction in the absolute values of these expenditures. At the same time, the pension expenditure liability of the state increased at a faster rate than the growth of GSDP. It increased from 2.6% in 2006-07 to 4.6% in 2015-16. The increasing burden of pension expenditure on the revenue account is a serious concern, and it is necessary that the state government take appropriate initiatives to chalk out better policies. It may be noted that the state government introduced to its employees the New Pension Scheme (NPS), a contribution-based pension scheme, in 2010. All the newly recruited employees who joined after 1st September 2010 will be registered under the NPS. It is expected that the new system will be a catalyst in containing the mounting pension liability of the state government.

3.5. Efficiency of Public Expenditure

Analysis on the distribution of government expenditure on various activities may be considered an indicator or measure of efficiency of resource allocation. Table 3.10 presents the expenditure of various activities under social, economic, and general services as percentages of total revenue expenditure during the study period. The major activities under social services in terms of their share in the total revenue expenditure are education (education, sports and art & culture), health (medical and public health, and family welfare), welfare of SC/ST, etc. and water supply (water supply and sanitation). Education services occupied major share of revenue expenditure under social services throughout these years. Agriculture and allied activities occupied the largest share under economic services, although it sharply declined in 2015-16. Energy (power) was the second largest expenditure component in this service. Thus, education, health, water supply, welfare of the SC/ST etc. were the main expenditure components under social services, while agriculture and allied, power, and transport were the main components of expenditure under economic services.

Table 3.10: Functional Composition of Major Head of Revenue Expenditures (% of Total Rev. Expenditure)

Major Heads	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
A. Social Services	34.5	36.5	38.8	40.9	38.0	36.2	36.6	37.1	38.2	39.8
Education, etc.	17.5	17.5	17.2	18.1	18.1	18.7	18.4	19.0	20.2	20.2
Health	4.8	5.2	7.4	9.3	5.3	5.0	4.9	5.0	5.8	6.6
Water Supply	2.7	4.0	3.7	3.9	3.3	2.8	4.2	4.4	2.8	2.8
Urban Development	1.0	1.3	1.0	1.0	1.2	1.0	1.0	0.0	1.6	1.5
Welfare of SC/ST etc.	4.1	4.5	3.9	5.2	5.4	5.4	5.9	5.0	5.0	5.2
Social Security	1.3	1.4	1.3	1.5	2.6	1.7	1.7	3.2	1.8	2.6
Others	3.0	2.8	4.3	2.0	2.1	1.6	0.5	0.4	1.0	1.0
B. Economic Services	29.5	29.7	26.4	24.0	31.0	31.1	31.8	28.6	30.8	25.7
Agri. & Allied	10.2	10.8	9.7	9.1	15.4	14.2	16.0	13.5	12.8	6.9
Rural Dev.	2.8	2.7	1.8	1.3	2.0	1.2	1.4	1.2	4.0	5.3
Special Area Dev.	1.5	1.5	1.5	1.2	1.2	1.0	0.7	0.8	0.6	0.4
Energy	8.0	7.6	7.2	6.3	6.1	7.8	6.7	6.4	6.0	6.5
Industry & Minerals	1.8	1.6	1.3	1.3	1.9	1.4	2.8	2.5	2.6	1.6
Transport	3.4	3.6	3.0	2.8	2.4	2.7	2.6	2.8	3.4	3.5
Others	1.8	1.9	1.9	2.0	2.0	2.9	1.6	1.4	1.4	1.6
C. General Services	35.9	33.9	34.7	35.1	31.1	32.8	31.7	34.3	31.0	34.4
Organs of the State	1.1	1.6	2.0	1.7	1.3	1.2	1.2	1.9	1.1	1.2
Interest Payment	13.7	11.6	10.4	10.0	3.7	8.0	6.8	6.2	5.8	7.2
Administrative Services	15.0	14.3	15.6	16.0	17.0	14.4	14.3	14.2	13.2	13.7
Pension	4.5	5.1	5.4	6.1	7.7	8.0	8.2	10.7	9.6	11.1
Other	1.6	1.3	1.3	1.3	1.4	1.3	1.2	1.3	1.3	1.3

Source: Budget Documents, Government of Mizoram

Administrative service was the main component of expenditure under general services. However, the total expenditure for this service showed declining trend from 15% in 2006-07 to 13.7% in 2015-16. Another major expenditure component under general services was interest payments, which showed declining trend when taken as a percentage of total revenue expenditure, although the absolute amount increased over time. At the same time, it is notable that there was a sharp increase in the expenditure on pensions. Its share in the total revenue expenditure increased from only 4.5% in 2006-07 to 11.1% in 2015-16. Thus, pension payment became a major expenditure component under the general services.

It may be noted that politico-economic considerations are at play with respect to every decision on collection of non-tax revenue through the changes in user charges, fees. The government provides a variety of services, and all of them are not amenable to cost recovery (NCDS, 2013). It is difficult to apply a purely economic rational policy for taking decision on user charges. It is more appropriate for the government to focus on cost recovery, particularly operational costs, for its services. Thus, user charges will be such that the cost is met and the price of the commodity does not lead to over-consumption of such services and hence, to wasteful use of scarce resources (Purohit and Purohit, 2009). Consequently, non-tax revenue (NTR) for various services as a percentage of non-plan revenue expenditure (NPRE) may be considered a good indicator of efficiency in public expenditure, and this is presented in Table 3.10.

Table 3.11: Cost Recovery (NTR/NPRE) for Selected Social and Economic Services (Percent)

Services	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
A. Social Services	0.77	0.70	0.52	0.53	0.52	0.53	0.71	0.82	0.79	1.17
Education, Sports, etc.	0.05	0.04	0.03	0.05	0.07	0.07	0.05	0.04	0.05	0.06
Water Supply & Sanitation	0.53	0.51	0.42	0.41	0.37	0.38	0.53	0.63	0.67	0.94
B. Economic Services	6.42	7.89	6.70	4.49	4.87	5.56	6.00	4.36	4.92	5.47
Power	5.12	6.64	5.94	3.76	3.53	4.66	4.05	3.50	4.12	4.59
Civil Aviation	0.25	0.24	0.13	0.10	0.07	0.03	0.08	0.07	0.06	0.09
Road & Bridges	0.02	0.02	0.01	0.02	0.48	0.08	1.27	0.17	0.08	0.20
Road Transport	0.17	0.13	0.13	0.11	0.13	0.09	0.07	0.06	0.07	0.05
Tourism	0.08	0.07	0.07	0.07	0.07	0.07	0.06	0.08	0.06	0.06

Source: Computed

NTR: Non-Tax Revenue, & NPRE: Non-Plan Revenue Expenditure

Using the data collected from state budget documents, the extent of cost recoveries in social and economic sector was examined. The ratio of Non-Tax Revenue (NTR) to Non-Plan Revenue Expenditure (NPRE) was used as an indicator of cost recovery for the selected services. The result is presented in Table 3.10. There was a substantial increase in the NTR/NPRE ratio under social services in recent years due to improvement in the revenue from water supply & sanitation. At the same time, the cost recovery deteriorated over the years, from 6.42% in 2006-07 to 4.92% in 2014-15 and increased to 5.47% in 2015-16, on account of the poor performance of collection from power tariff. It may be said that there has been a slight improvement in the efficiency of expenditure for social services in recent years, mostly driven by an increase in collection of user charges from water supply & sanitation. At the same time, deterioration of efficiency in economic services is a matter of concern as power tariff collection, which is the main contributor of expenditure under this sector, did not show improvement over the years.

The ratio of own revenue to the aggregate expenditure is considered to be another indicator of the efficiency of public expenditure. This ratio indicates the capacity of the state government to finance its expenditure obligations by its own revenue over a period of time. In other words, the improvement in the fiscal capacity is indicated by the increasing trends of these ratios. Given this fact, it is considered necessary to study the trends of these ratios. They are presented in Table 3.11. The total own revenue (OR), as a percentage of aggregate expenditure (AE), deteriorated from 8.76% in 2006-07 to 6.52% in 2013-14 which indicates the failure of the revenue to catch up with the ever growing public expenditure during this period. But there was significant improvement in the later years as it was almost 10% (9.59%) in 2015-16. This was mostly driven by the expansion of OTR.

Table 3.12: Financing of Expenditure by Own Revenue (Percent)

Year	OTR/AE	ONTR/AE	OTR/RE	OR/AE
2006-07	2.95	5.82	3.94	8.76
2007-08	2.98	5.01	4.06	7.99
2008-09	3.30	5.53	4.09	8.83
2009-10	2.93	3.45	3.98	6.39
2010-11	3.13	3.53	4.00	6.66
2011-12	3.94	3.70	4.80	7.64
2012-13	4.11	3.92	4.95	8.02
2013-14	3.53	2.58	4.67	6.52
2014-15	3.43	3.11	4.72	6.54
2015-16	5.24	4.35	6.43	9.59

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

The ratio of OTR-AE showed an upward trend from 2.95% in 2006-07 to 5.24% in 2015-16. There was substantial upward movement in the year 2015-16, and the increasing tax revenue in this year was fuelled by the increased collection from state excise. A more or less similar trend was observed in case of the ratio of OTR and Revenue Expenditure (RE). So, the capacity of the state to finance its expenditure by own revenue slightly increased during the period under study. This is a commendable experience of the state to improve its tax-GSDP ratio over a period of time, although there is long way to go to attain an acceptable level. At the same time, the situation of own non-tax revenue (ONTR) did not show improvement. It decreased from 5.82% in 2006-07 to a low of 3.11% in 2014-15 and 4.35% in 2015-16. So, the sticky revenue collection from ONTR in consonant with the ever growing expenditure has been draining the fiscal capacity of the state.

3.6. Measures to Enhance Allocative and Technical Efficiency of Public Expenditure

The capacity of the state to control expenditure is an important factor for the fiscal sustainability of the state government. As a consequence of Pay Revision of the Government Employees in the FY 2010-11, there has been an upward pressure on public expenditures due to the increasing committed salary and pension expenditures. At this juncture, it is critical to take appropriate measures to enhance efficiency in public expenditure. The major initiatives of the state government during the last 5 years may be summarised as follows:

3.6.1. Public Expenditure Reforms under MPRMP

The Government embarked on Mizoram Public Resource Management Programme (MPRMP) to bring about fiscal reforms in a balanced and sustainable way. The programme was implemented through the Programme Loan, also called Structural Adjustment Loan, from Asian Development Bank (ADB) with a total corpus of $100 million (₹470 crores approx.). The Government of India converted the loan into 90% grant and 10% loan. The loan was to be released in three tranches (instalments) based on their performance. The programme started in September 2009 and ended in February 2015. The uncompleted works under the MPRMP is still pursued by the Fiscal Management Unit (FMU) of the State Finance Department. The major reform initiatives targeted towards improvement of public expenditure efficiency under the programme are:

(a) *Computerisation of Treasuries*: Computerisation of treasury offices in Mizoram was started on a pilot basis in September 2011. The computerisation of all treasuries was completed in 2015. The programme is now known as Integrated Financial Management Information System (IFMIS).

(b) *Voluntary Retirement Scheme*: To embark on improved quality framework in the primary and middle education, Mizoram Special Voluntary Retirement Rules, 2009 –

a voluntary retirement scheme (VRS) was adopted. As per Official record, 193 teachers opted for VRS. In addition, 300 government drivers also availed the scheme.

3.6.2. Pension Reform

The State Government introduced the Mizoram New Defined Contributory Pension Scheme in June 2010, and all the State Government employees recruited after September 2010 are covered by the new pension scheme (NPS). The government developed a computerised system, called Pensioner's Database Management System (PDMS), for processing of all types of pension cases. Introduction of PDMS was found to have positive impact in speeding up the settlement of all retirement benefits and the quantum of pension cases settled per year.

3.6.3. Restructuring of Public Sector Enterprise (PSE)

There are five PSEs under the Government Mizoram, namely ZENICS, MAMCO, ZOHANDCO, ZIDCO, and MIFCO. Heeding on the report submitted by PSE Restructuring Specialist, the Council of Ministers in its meeting dated 18th February 2015 decided to close down three loss making PSEs, namely ZENICS, MAMCO, and ZOHANDCO with immediate effect. In continuation to the efforts in restructuring PSEs, the Council of Ministers meeting dated 7th April 2016 decided on the privatisation of MIFCO. As part of the PSE restructuring, the Mizoram State Public Sector Enterprises (Early Retirement) Rules 2015 was framed and offered to all employees of the 5 PSEs. It was estimated that more than ₹ 42 crores was saved as a result of the implementation of early retirement schemes for PSE employees. Restructuring PSEs may be considered as one of the biggest achievement of the government in controlling an increasing pressure of public expenditure during the study period.

3.6.4. Economy Measures

In an attempt to promote fiscal discipline without restricting the operational efficiency, the Government of Mizoram issued an Office Memorandum on 8th July 2014 under the subject of *Expenditure Management – Economy Measures and Rationalisation of Expenditure*. The order covered a wide range of items for rationalisation of expenditures like expenditures on meeting, seminar and conference, purchase of vehicles, engagement of muster roll/contract employees, traveling expenses, POL, creation of posts, measures to avoid rush of expenditure towards the end of the financial year, etc. All the administrative heads of government departments were required to submit actions taken by them within a specified period.

Successful compliance of these measures by the departments will have significant impact on controlling public expenditure in the long run.

3.6.5. Rationalisation of PDS

Under the Targeted Public Distribution System (TPDS), the state government is allocated foodgrains by the FCI which is insufficient to meet the actual requirements. Hence the government has to purchase huge amount of foodgrains from the market at a higher rate and sell it to the beneficiaries at highly subsidised rates. Since a separate budgetary allocation had not been drawn up to meet this subsidisation, it puts a great pressure on the state exchequer as the unrecovered expenditure on food trading amounted to more than ₹156 crores every year. As the state has to continue with PDS, it has taken several steps to minimise losses in food trading.

Firstly, the ex-godown rate of PDS rice retail selling was revised upward from ₹9.50 per kg, which was used since 2002, to ₹15 per kg in 2015. Second, to avoid irregularities and bring about efficiency, the government initiated end-to-end computerisation of TPDS in 2013. Further, complete digitisation of ration cards in 2015 alone filtered out 31500 double or bogus ration cards and about 4 lakh death/double/non-existent persons. This initiative alone saved annual expenditure of around ₹100 crores for the purchase of foodgrains. Thirdly, the government introduced a system of procurement of rice from the open market rather than from the FCI at economic cost to meet additional requirement of about 8000MT per month since 2014. Costs being lower in the open market, this measure alone reduced annual expenditure by around ₹53.66 crores.

3.7. Concluding Observations and Suggestions

Although total public expenditure has increased manifold with double digit annual growth rate, its magnitude as a percentage of GSDP has shown a declining trend. This may be considered as an improvement in the resource utilisation by the state government in the recent years. However, the expanding volume of revenue expenditure which surpassed the growth of total expenditure invites serious concern. Moreover, the share of committed expenditures on salaries, pensions, and interest payments increased tremendously which resulted in significant decline of the allocation for capital outlay (for creation of assets). In fact, the increasing budgetary allocation for capital outlay should be the basic fiscal effort to sustain economic growth, and its declining allocation would pose serious challenge to the sustainability of economic growth in the long run. In addition, the composition of expenditure on plan and non-plan expenditure also showed significantly higher growth rate of non-plan expenditure over plan expenditure during the period under study. Consequently, *the main thrust area for efficiency in resource allocation boils down to the rationalisation and control of revenue expenditure. Thus, any expenditure policy of the state government must be directed towards containing the ever expanding revenue expenditure.*

A look at the functional classification of expenditure showed higher allocation of resource for developmental expenditure (social and economic services), while less than one-third was allocated for general services. While the allocation for economic services showed a declining share, that of social services expanded tremendously. The expanding social service expenditure is justified by substantial increase in the allocation for education, health, and water supply, which are key to social development. This is commendable on the grounds that social development is the *sine quo non* for any developmental initiative. At the same time, the share of economic services declined, driven by a sharp decline in the share of agriculture and allied activities, after 2014 side by side with insufficient expenditure for rural development. The state being an agrarian rural economy, it is surprising to see the decline in the relative share of agriculture and rural development. Given the discontinuation of several CSS for agriculture and allied, and rural development schemes post FC IV, *it is necessary that the state government allocate more resources to agriculture and rural development to achieve more inclusive growth.*

A good indicator of efficiency of public spending would be cost recovery as represented by the ratio of Non-Tax Revenue (NTR) to Non Plan Revenue Expenditure (NPRE). There has been slight improvement in cost recovery under social services, of which water tariff recorded substantial increase while others like education did not show improvement over the years. Meanwhile, the scenario of cost recovery under economic services deteriorated due to the sticky and declining power tariff collection. It is thus clear that the efficiency of the public expenditure is significantly dependent on the cost recovery, which in turn is dependent on collection of user charges. Therefore, *continuous effort should be undertaken for rationalisation and revision of user charges and fees, keeping in view the changing consumption patterns and living standard of the people, to improve efficiency of public expenditure.*

A commendable measure taken up by the state government during the study period is the closing down and restructuring of loss making PSEs. This initiative saved substantial amount of fund for the exchequer and freed up fiscal space. *It is suggested that such kind of drastic reform action be extended further to other public undertakings to contain the growing revenue expenditure.* In the same way, the efforts of the state government to rationalise TPDS through digitisation and other arrangement in rice procurements have significantly reduced public expenditure. *The success of the initiative should be taken as the beginning, and further reforms may be introduced to improve efficiency in the supply chain and delivery of PDS. The reforms may either be in the form of Aadhaar linked direct benefit transfer (DBT) or any other technology aided system.*

Chapter 4

DEFICITS AND LIABILITIES

4.1. Introduction

Deficit in the government account simply indicates the gap between receipt and expenditure. If the expenditure is greater than receipt it is called deficit and it is called surplus if the former is greater than the latter. The nature of the deficit and the way it is financed are the indicators of the financial health of a state government. The three measures of deficits namely revenue, fiscal, and primary deficits are considered to be the extent of overall fiscal position in the finance of state government. Revenue deficit is the difference between revenue receipt and expenditure; fiscal deficit is the difference between total expenditure and total receipt net of borrowing; and primary deficit is the difference between fiscal deficit and interest payment on previous borrowings. This chapter examines the trends and magnitude the deficits, and the outstanding debt of the Government of Mizoram during the period of 2006-07 to 2015-16.

4.2. Trends in Deficits/Surpluses

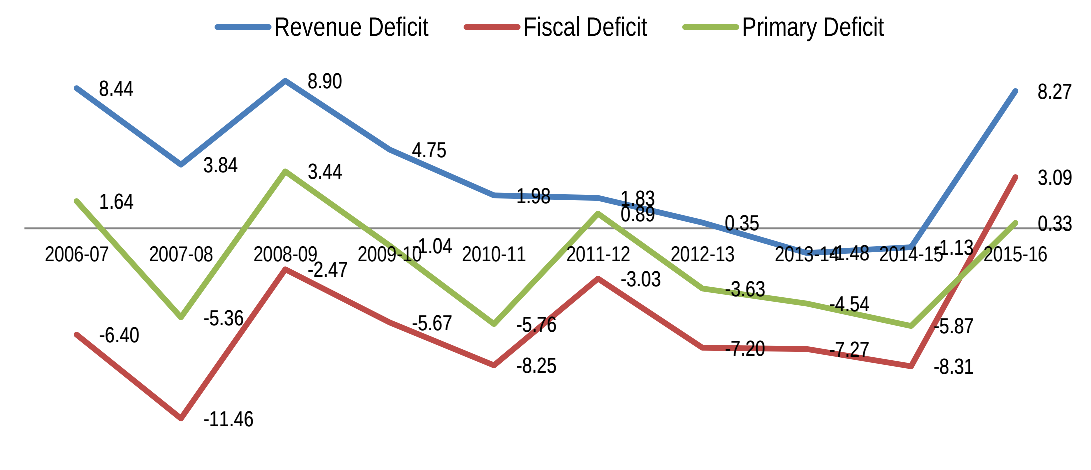
Table 4.1 and Figure 4.1 present the trends in deficits/surpluses in Mizoram during the period of 2006-07 to 2015-16. As the revenue surplus represents the difference between revenue receipts and revenue expenditure, revenue surplus helps to reduce the borrowing requirement of the state government, while revenue deficit pressurise the government to borrow. It was observed that there were revenue surpluses in most of the years, except for two years 2013-14 and 2014-15. This may be considered as a commendable achievement of the state government in financial management. The magnitude of revenue surplus showed high fluctuation and did not show a clear pattern as it decreased from ₹252 crores in 2006-07 to ₹131 crores in 2007-08 and suddenly increased to ₹339 crores the next year and to a deficit of ₹152 crores in 2013-14, and reversed back to a high amount of surplus of ₹1106 crores in 2015-16. It is notable that there was revenue surplus in the year when the government adopted Pay Revision (2010-11). It may be said that the revenue deficit/surplus showed sporadic trend which was basically on account of the change in fund devolution from the centre. Revenue surplus relative to GSDP showed trend of deterioration till 2014-15, and improved significantly afterwards. It decreased from 8.44% in 2006-07 to -1.48% in 2013-14 and reversed back to a surplus to the tune of 8.27% of GSDP.

Table 4.1: Major Deficit Indicators of Mizoram State Finance

Year	Revenue Deficit (₹ Crores)	Fiscal Deficit (₹ Crores)	Primary Deficit (₹ Crores)	Revenue Deficit as % of GSDP	Fiscal Deficit as % of GSDP	Primary Deficit as % of GSDP
2006-07	252	-191	49	8.44	-6.40	1.64
2007-08	131	-391	-183	3.84	-11.46	-5.36
2008-09	339	-94	131	8.90	-2.47	3.44
2009-10	261	-312	-57	4.75	-5.67	-1.04
2010-11	120	-500	-349	1.98	-8.25	-5.76
2011-12	128	-212	62	1.83	-3.03	0.89
2012-13	28	-580	-292	0.35	-7.20	-3.63
2013-14	-152	-749	-467	-1.48	-7.27	-4.54
2014-15	-141	-1039	-734	-1.13	-8.31	-5.87
2015-16	1106	413	44	8.27	3.09	0.33

Source: Budget Documents, Government of Mizoram
Note: (+) Surplus and (-) deficit.

Figure 4.1: Trends in Deficit Indicators relative to GSDP (percent)



At the same time, the fiscal deficit showed an increasing trend from ₹191 crores in 2006-07 to ₹749 crores in 2013-14 and a substantial jump to ₹1039 crores in 2014-15. However, the trend quickly reverted to fiscal surplus to the tune of ₹413 crores in 2015-16 with the apparent reason being the significant increase in revenue surplus vis-à-vis the increased revenue transfer from the centre with the start of FC-XIV era. It may also be noted that the Finance Minister in its Budget speech avowed the commitment to bring down revenue deficit and declared 2015-16 as the “Year of Consolidation”. Although several ups and downs in the fiscal correction path was experienced, the state government could contain its fiscal deficit around the benchmark of 3% of GSDP as suggested by FC-XIII in 2008-09 and 2011-12, and could achieve surplus to the tune of 3.09% of GSDP in 2015-16.

Primary deficit as the difference between fiscal deficit and interest payment is the extent to which the borrowing is used for interest payment of the previous years' outstanding debt. With the exception of three years viz. 2006-07, 2011-12, and 2015-16 when there were surpluses, the primary deficit showed fluctuation in the range of 1% to 6% of GSDP in all the years.

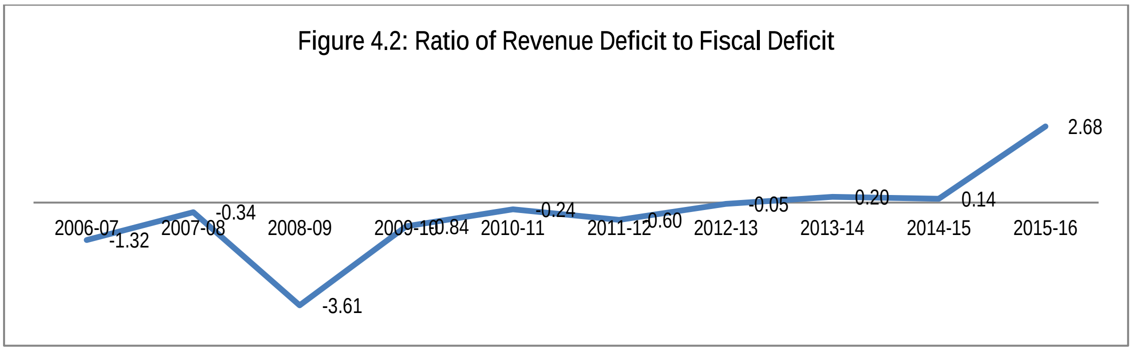


Figure 4.2 presents the ratio of revenue deficit to fiscal deficit for a measure as to what extent the borrowed fund was used for current consumption. Persistently high ratio implicates a continuously deteriorating financial position as it indicates that major part of the borrowing was used for expenditure which does not add to the asset base of the economy. Figure 4.2 shows significant deterioration in the quality of deficit financing in 2008-09, but showed an improvement afterwards to a relatively better position in 2015-16 as the ratio moved up in the positive zone, indicating an enhancement of capital account through revenue surplus. So, it may be said that the fiscal position of the state significantly improved after 2014-15.

The state government had revenue surplus in most of the years since 2006-07, except for two years (2013-14 and 2014-15) when there were revenue deficits. It is understood that surplus in revenue account had been utilised to finance plan expenditure. Thus, the ratio of revenue surplus to the total plan expenditure could be interpreted as the capacity of the state government to finance its plan expenditure from the surplus of its revenue generation. Table 4.2 presents the ratio of revenue surplus to the plan expenditure, which may be interpreted as adequacy of revenue for plan financing, during the study period.

Table 4.2: Financing of Plan Expenditure by Revenue Surplus

Parameters	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue Deficit (₹ Crores)	252	131	339	261	120	128	28	-152	-141	1106
Plan Expenditure (₹ Crore)	1055	1143	1119	1453	1703	1938	2272	2286	2945	2589
Ratio of Revenue Surplus to Plan Expenditure (%)	23.9	11.5	30.3	18.0	7.0	6.6	1.2	--	--	42.7

Source: Budget Documents, Government of Mizoram

It can be deduced from Table 4.2 that the adequacy of revenue to finance plan expenditure showed fluctuation as it decreased from 23.9% in 2006-07 to 11.5% in 2007-08, and reverted back to 30.3% in 2008-09, and decreased continuously till 2012-13 when the revenue surplus was only 1.2% of the plan expenditure and further went on deficit in the next two years. After a 2-year revenue fallout, we saw substantial amount of revenue surplus in 2015-16 which amounted to 42.7% of the plan expenditure. So, the surplus in the revenue account had helped the state government to support the increasing percentage of plan expenditure.

4.3. Trends in Outstanding Debts

The trend of public debt of the state government is presented in Table 4.3. It can be observed from this table that the accumulated public debt continuously increased with the average annual compound growth rate of 10.83% during the 10 years under study. The total debt outstanding also increased from ₹2810 crores in 2006-07 to ₹3260 crores in 2008-09, and after a 2.95% decrease in the next year, there was an increase to ₹6550 crores in 2014-15. However, the trend reversed in 2015-16 when the total outstanding debt decreased by 2.18%. The year-on-year growth of debt was highest at 2012-13 when it recorded 27.85% increase, followed by 2010-11 and 2014-15 when the rate of increase were 16.85% and 16.80% respectively. It may be noted that the state government entered the 12th Plan era from the fiscal year 2012-13, and it introduced New Pay Rules in 2010-11, while there was a drastic change in the plan funding from the centre from the year 2014-15 following the abolition of the Planning Commission. Meanwhile, the adoption of the recommendation of FC-IV since FY 2015-16 resulted in substantial amount of surplus in the revenue account. So, major events in the centre-state financial relation are believed to have impacted the debt position of the state government. At the same time, the total public debt, when considered relative to

GSDP (Figure 4.3), showed a declining trend from a high of 94.1% in 2006-07 to 47.9% in 2015-16.

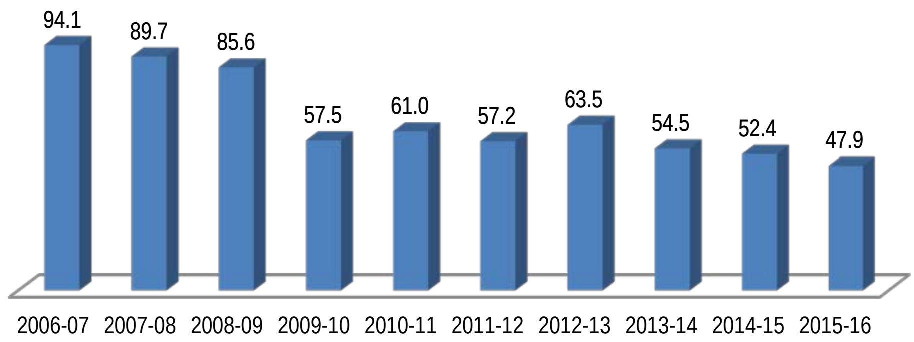
Table 4.3: Trends in Total Public Debt of the State Government

Year	Outstanding Liabilities (₹ Crore)	Annual Growth (%)	Debt-GSDP Ratio (%)
2006-07	2811	--	94.1
2007-08	3062	8.97	89.7
2008-09	3260	6.47	85.6
2009-10	3164	-2.94	57.5
2010-11	3697	16.85	61.0
2011-12	4000	8.20	57.2
2012-13	5114	27.85	63.5
2013-14	5608	9.66	54.5
2014-15	6550	16.80	52.4
2015-16	6407	-2.18	47.9

Source: Budget Documents, Government of Mizoram

Note: Debt outstanding at the end of the 31st March of the Year

Figure 4.3: Total Outstanding Debt as Percentage of GSDP (%)



It may be noted that the Thirteenth Finance Commission (FC-XIII) recommended that the debt stock as a percentage of GSDP of Mizoram be reduced as per the target as follows: 87.3% in 2010-11, 85.7% in 2011-12, and 82.9% in 2012-13. Comparing the achievements (Figure 4.3) with these targets, the actual position of the state in respect of outstanding debt is quite amenable. The actual achievements were much lower than the targets laid down by the FC-XIII.

4.4. Composition of Public Debt

Table 4.4 and Table 4.5 present the trends and changing composition respectively of public debt from various sources. To enhance better understanding of the trends of debt from these sources, compound annual growth rate (CAGR) was calculated for each. However, calculation of CAGR was avoided for Ways & Means Advances or Other Deposit (WMA/OD) and other liabilities due the heavy impact of seasonal fluctuations on their trends.

Table 4.4: Trends of Mizoram State Government Liabilities

Year	Market Borrowing	Loans from Centre	Spl. Sec. Issued to NSSF	Borrowing from Fin. Inst.	WMA/OD from RBI	Provident Funds, etc.	Other Liabilities	Total
2006-07	750	566	142	429	47	863	14	2811
2007-08	838	558	141	463	27	1035	--	3062
2008-09	867	547	138	458	27	1223	--	3260
2009-10	838	560	146	325	27	1267	--	3163
2010-11	1084	540	168	336	27	1542	--	3697
2011-12	1218	542	173	338	46	1658	25	4000
2012-13	1154	548	191	257	116	1854	994	5114
2013-14	1379	336	198	367	-18	2164	1180	5606
2014-15*	1550	322	222	381	-17	2475	1617	6550
2015-16	1606	305	233	344	-18	2859	1078	6407
CAGR (%)	9.2	-7.0	6.4	-3.1	--	13.5	--	10.8

Source: Budget Documents, Government of Mizoram

Note: Debt outstanding at the end of the 31st March of the Year & * Pre Actual

Table 4.5: Composition of State Government Debt Liabilities (Percent)

Year	Market Borrowing	Loans from Centre	Spl. Sec. Issued to NSSF	Borrowing from Fin. Inst.	WMA/OD from RBI	Provident Funds, etc.	Other Liabilities	Total
2006-07	26.68	20.14	5.05	15.26	1.67	30.70	0.50	100
2007-08	27.37	18.22	4.60	15.12	0.88	33.80	--	100
2008-09	26.60	16.78	4.23	14.05	0.83	37.52	--	100
2009-10	26.49	17.70	4.62	10.28	0.85	40.06	--	100
2010-11	29.32	14.61	4.54	9.09	0.73	41.71	--	100
2011-12	30.45	13.55	4.33	8.45	1.15	41.45	0.63	100
2012-13	22.57	10.72	3.73	5.03	2.27	36.25	19.44	100
2013-14	24.60	5.99	3.53	6.55	-0.32	38.60	21.05	100
2014-15	23.66	4.92	3.39	5.82	-0.26	37.79	24.69	100
2015-16	25.07	4.76	3.64	5.37	-0.28	44.62	16.83	100

Source: Budget Documents, Government of Mizoram

Table 4.6: State Government Debt Liabilities as Percentage of GSDP (%)

Year	Market Borrowing	Loans from Centre	Spl. Sec. Issued to NSSF	Borrowing from Fin. Inst.	WMA/OD from RBI	Provident Funds, etc.	Other Liabilities	Total
2006-07	25.13	18.96	4.76	14.37	1.57	28.91	0.47	94.17
2007-08	24.56	16.35	4.13	13.57	0.79	30.33	--	89.74
2008-09	22.76	14.36	3.62	12.02	0.71	32.11	--	85.59
2009-10	15.24	10.19	2.66	5.91	0.49	23.04	--	57.53
2010-11	17.89	8.91	2.77	5.55	0.45	25.45	--	61.03
2011-12	17.42	7.75	2.47	4.83	0.66	23.72	0.36	57.22
2012-13	14.33	6.80	2.37	3.19	1.44	23.02	12.34	63.50
2013-14	13.39	3.26	1.92	3.56	-0.17	21.02	11.46	54.44
2014-15	12.40	2.58	1.78	3.05	-0.14	19.80	12.94	52.40
2015-16	12.01	2.28	1.74	2.57	-0.13	21.38	8.06	47.91

Source: Budget Documents, Government of Mizoram

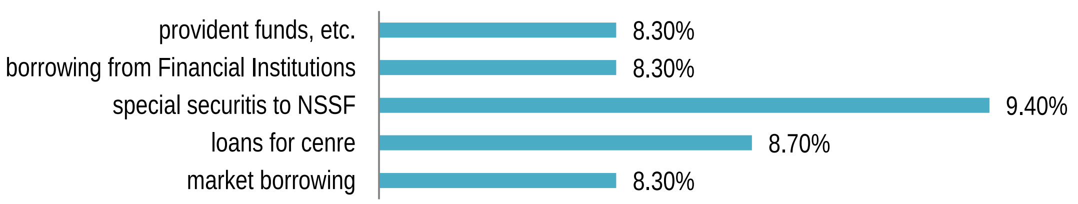
It can be seen in Table 4.4 that borrowing from *provident funds, etc.* gained importance over the years as the quantum of outstanding liability increased from ₹863 crores in 2006-07 to ₹2859 crores in 2015-16. The estimated annual compound growth turned out to be 13.5%. The second most important source of borrowing is *market borrowing* as the outstanding liability of the government on this source increased by 9.2% per annum from ₹750 crores to in 2006-07 to ₹1606 crores in 2015-16. Debt outstanding from *special securities issued to National Small Saving Fund (NSSF)* was more or less the same till 2013-14 (in the range of ₹138-200 crores) but gained substantial increase afterwards to ₹233 crores in 2015-16 and showed a CAGR of 6.4%. The *loans from the centre* (plan and non-plan loans, loans for central plan schemes and CSS) showed a declining trend from ₹566 crores to ₹305 crores with an annual decline rate of -7.0% during the study period. The rate of decline was sharper after 2012-13. In the same way, borrowing from *financial institutions* also showed a decline of -3.1% per annum, from ₹429 crores to ₹381 crores.

At the same time, *Ways and Means Advances, and Other Deposit from RBI (WMA/OD)* declined from ₹47 crores in 2006-07 and remained constant at ₹27 crores from the next FY till 2010-11, and there was a sharp increase afterwards. It reached a high of ₹116 crores in 2012-13, and again reverted back suddenly to a negative zone to ₹-18 crores the next year and remained at this level till 2015-16. It is notable that the category of *other liabilities* came up with substantial volume since 2012-13 at ₹994 crores to ₹1617 crores and ₹1078 crores in 2014-15 and 2015-16 respectively. The main contributor of liabilities under this is the reserve fund parked under *Deposit and Advances* head of Public Account, which is a non-interest bearing head. As the fund lying in this account is considered as debt outstanding, it may be prudential for the government to take necessary action to avoid its further accumulation.

Table 4.5 present the percentage composition of various sources of public debt during the study period. It can be clearly seen from this table that *provident fund* had been the main contributor of government liabilities in Mizoram and its share in the total outstanding showed a rising trend from 30.7% in 2006-07 to 44.62% in 2015-16. Next to *provident fund* is *market borrowing* which accounted for around more than a quarter of the total debt outstanding in most of the years under study. At the same time, the share of outstanding from *special securities issued to NSSF* slightly decreased from 5% in 2006-07 to 3.6% in 2015-16, and in the same way, the contribution of the *loans from the centre* experienced a sharp fall from 20.14% to only 4.76% during the same period. Similarly, the share of *financial institutions* declined from 15.26% in 2006-07 to 5.37% in 2015-16. Meanwhile, the share of *other liabilities* shot up from a mere 0.63% in 2011-12 to 24.69% in 2014-15, but decreased to 16.83% the next year. Consequently, it is clear that there was structural change in the composition of public debt during the study period as *provident fund* and *market borrowing* gained increasing importance.

Table 4.6 presents the state government debt as percentage of GSDP. As noted above, the two main sources of public debt are provident fund and market borrowing, of which the latter showed increasing importance. When the outstanding from these sources were taken relative to the growth of GSDP, they showed a declining trend: provident fund as a percentage of GSDP decreased from 28.91% in 2006-07 to 21.33% in 2015-16, while that of market borrowing declined from 25.13% to 12% during this period. This may be considered an improvement in the debt position of the state government in relation to its economic growth.

Figure 4.4: Average Interest of Public Debt from Different Sources (% per annum)



It may also be an interest to know the borrowing cost (in terms of interest rate) of the existing debt outstanding of the state government. Figure 4.4 presents the average interest of borrowing from various sources. The average interest was highest for the borrowing from NSSF followed by the loans obtained from the Central Government (i.e. Centre).

Table 4.7 presents further detail of the borrowing of the state government. Upto the FY 2010-11, the loans from the Government of India (centre) had two components, *block loans* and *other loans*, with more or less equal significance. However, with the onset of 12th Five Year Plan, *block loan* virtually became the main channel of loans obtained from the central government. As discussed above, *provident fund* was the main source of state borrowing and it gained importance year after year both in absolute and relative terms. There are two main components under *provident fund*, namely general provident fund (GPF) and Insurance & Pension Fund. Of these, GPF gained increasing shares, from 93.5% in 2006-07 to 97.2% in 2015-16. At the same time, borrowing from *insurance & pension fund* showed increasing trend in absolute term, but its share in the total borrowing from provident funds, etc. decreased due to the increase in borrowing from GPF.

Table 4.7: Detailed Break up of Outstanding Liabilities of the State by Various Sources (₹ Crores)

Sources	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1. Market Borrowing	709	838	867	838	1084	1218	1154	1379	1550	1606
(a) Market Loans	709	838	867	809	1059	1197	1138	1368	1543	1604
(b) Power Bonds	--	--	--	29	25	21	16	11	7	2
2. Loans from Centre	626	558	546	560	540	542	548	336	322	305
(a) Block Loans		310	300	318	298	533	523	336	322	305
(b) Other Loans	--	348	246	242	242	--	25	--	--	--
3. Special Securities Issued to NSSF	--	141	138	146	168	173	191	198	222	233
4. Borrowing from Financial Institutions	626	463	457	325	336	338	257	367	381	344
(a) LIC	--	286	282	235	221	186	72	68	65	-5
(b) NABARD	--	56	60	61	89	141	167	195	193	221
(c) NCDC	--	2	0.24	3	4	4	4	5	13	19
(d) Other Institutions	--		115	26	21	8	14	99	28	26
5. WMA/OD from RBI	47	27	27	27	27	46	116	-18	-18	-18
6. Provident Funds, etc.	863	1035	1223	1267	1542	1658	1854	2164	2475	2858
(a) General Provident Fund	807	976	1243	1204	1481	1593	1787	2095	2399	2778
(b) Insurance & Pension Fund	56	60	64	63	61	65	67	69	77	81
7. Other Liabilities	--	--	--	--	--	24	994	1180	1617	1078
TOTAL	2810	3062	3260	3164	3697	4000	5114	5606	6550	6407

Source: Budget Documents, Government of Mizoram

Note: (i) Debt outstanding at the end of the 31st March of the Year & (ii) Figures may not tally due to rounding off

Borrowing from *financial institutions* has four major sources - LIC, NABARD, NCDC, and other institutions. Among these sources, NABARD was the main source and its share increased from 12.1% in 2006-07 to 65% in 2012-13 and 64.2% in 2015-16. Borrowing from LIC, which used to be the main source till 2011-12, experienced declining importance in the later years. It constituted 61.8% of the total borrowing from financial institutions in 2006-07 and increased to 65.8% 2010-11 and 55% in 2011-12, but sharply decreased to 28% in 2012-13 and further to -1.5% in 2015-16.

4.5. Loans from Multilateral Lending Agencies

Central Government, acting on behalf of the states, borrows from multilateral lending agencies such as World Bank, Asian Development Bank (ADB), etc. and the loan amounts are given to states as plan grants and the Grants–Loans components are decided in line with the Gadgil formula. Normally, Special Category States receive these loans at 90% as grants and 10% as loans. The general profile of the loans received by Mizoram Government is presented in Table 4.8.

Table 4.8: External Assistances Received by the Government

Sl. No	Name of the Project	Multilateral Agencies	Approved Amount	Nature of Assistances
1	NERCCDIP, Tranche-1/Project-1	ADB	₹ 27.27 Crore	90% Grants & 10% Soft Loan @ 9% interest for a period of 25 years + 5 grace period
2	NERCCDIP, Tranche-2/Project-2	ADB	₹ 206 Crores	- do -
3	NERCCDIP, Trance-3/Proect-3	ADB	₹ 385 Crores	-do-
4	Mizoram State Roads II - Regional Connectivity Project	World Bank	₹ 661 Crores	-do-
5	North Eastern Roads Investment Program - Project 2	ADB	₹ 168 Crores	100% Grant-in-Aid
6	Mizoram Public Resource Management Project (MPRMP)	ADB	₹ 245 Crores	100% Grant-in-Aid

Source: Finance Department, Government of Mizoram
Note: NERCCDIP : North Eastern Capital Cities Development Investment Program; &
ADB: Asian Development Bank

It was presented in the previous chapter that Mizoram Public Resource Management Project (MPRMP) was an important measure taken by the government to reduce public expenditure and improve efficiency in spending. This project encompassed a wide range of administrative reforms like tax and non-tax reforms, debt management, public expenditure management, sectoral improvement, pension reforms, and PSE reforms.

4.6. 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. The Mizoram State Legislative Assembly enacted "The Mizoram Ceiling on Government Guarantees Act, 2011", and under this Act, The Mizoram Ceiling on Government Guarantee Rules 2013 was notified. As per the Rules, (i) the total outstanding guarantees shall not exceed 25% of GSDP on the first day of April any year, (ii) total fresh guarantees in a given year shall not exceed 3% of the estimated GSDP for the year, (iii) guarantees shall be ordinarily extended by the government on behalf of departmental undertakings, PSUs, local authority, statutory boards, cooperative institutions and other authorities and agencies under the government, and (iv) the government shall charge a minimum of 0.75% of the amount guaranteed loan as guarantee commission and this will be remitted to public account of the state. The composition of current outstanding guarantees of the state government is presented in Table 4.9.

Table 4.9: Composition of Outstanding Guarantees of the State Government

	Outstanding Liability (₹ Crore)			Share in Total Debt Outstanding (%)		
Categories	2012-13	2013-14	2015-16	2012-13	2013-14	2015-16
Cooperative	36	26	29	0.70	0.46	0.45
Govt. Companies	60	19	16	1.17	0.34	0.25
Other Statutory Corporation	26	20	18	0.51	0.36	0.28
Other Institutions	5	15	5	0.10	0.27	0.08
Total	127	80	68	2.48	1.43	1.06

Source: Budget Documents, Government of Mizoram

The total outstanding liability of government guarantee sharply decreased in the later years. It decreased by almost 50% in a span of 3 years: it decreased from ₹127 crores in 2012-13 to ₹68 crores in 2015-16. If it goes on following this trend, the total outstanding liability will be quite minimal in the future. Its relative value to total debt outstanding also showed consistent decline from 2.48% to 1.06% during this period, and the sharpest decline was observed in the case of government companies (undertakings) which recorded a fall from ₹60 crores to ₹16 crores. The guarantees given to cooperative sector, although it decreased in absolute terms, gained increasing share in the total government guarantee, from 28.3% in 2012-13 to 42.6% in 2015-16.

4.7. Forecasting of Deficits and Liabilities

Having analysed the trends and patterns of deficits and liabilities of the state government over the 10 years period under consideration, it may be worthwhile to make projections of these fiscal parameters for the coming years, especially for 2020-25. However, as the actual budget data were available only up to 2016-17, we have to use revised estimate and budget estimate for the year 2017-18 and 2018-19 respectively. Given the limited time series data, it is a big challenge to make accurate forecasting for future years. Despite this fact, attempt is made in this section to forecast the various fiscal indicators for the year starting from 2019-20 till 2024-25 to give at least rough idea about the financial performance of the state in the near future.

The Box-Jenkins (BJ) Methodology, also called ARIMA model, is adopted for making forecasting of OTR, ONTR, Own Revenue Receipt (ORR), Revenue Expenditure, revenue deficit and fiscal deficit. It is a combination of Auto-Regressive (AR) and Moving Average (MA) of errors (residual) terms, with data being converted into stationary process before forecasting. The results are presented in Table 4.10.

Table 4.10: Projections of Revenue Deficit and Fiscal Deficit during 2020-25

Year	Own Tax Revenue	Own Non-Tax Revenue	Own Revenue Receipt	Revenue Expenditure	Revenue Deficit / Surplus	Fiscal Deficit	GSDP	Revenue Deficit / Surplus (% of GSDP)	Fiscal Deficit (% of GSDP)
2015-16	358	298	656	5571	1105.6	413.3	13374	8.3	3.1
2016-17	442	365	807	6230	1169	253	14549	8.0	1.7
2017-18 (RE)	388	318	706	7599	1256	-834	23067	5.4	-3.6
2018-19(BE)	483	464	947	7180	1869	-124	23067	8.1	-0.5
2019-20 (P)	443.7	481.3	925	7347.5	1107.5	-120.6	20099	5.5	-0.6
2020-21 (P)	607.7	544.3	1152	7577.7	1153.5	-105.0	22103	5.2	-0.5
2021-22 (P)	507.3	551.7	1059	7865.9	1211.2	-85.4	24239	5.0	-0.4
2022-23 (P)	705.8	608.2	1314	8063.9	1250.8	-72.0	26516	4.7	-0.3
2023-24 (P)	566.3	621.4	1188	8311.9	1300.4	-55.2	28944	4.5	-0.2
2024-25 (P)	809.0	672.9	1482	8482.3	1334.4	-43.6	31533	4.2	-0.1
CAGR (%)	7.9	9.5	8.7	4.0					

RE: Revised Estimate, BE: Budget Estimate, and P: Projected

It is observed from Table 4.10 that the forecasted growth rate for OTR, ONTR and ORR for the 10 years starting from 2015-16 till 2024-25 are 7.9%, 9.5% and 8.7% respectively, while the revenue expenditure is forecasted to grow at an annual rate of 4% during this period. The state is forecasted to have revenue surplus over these years; however the surplus as percentage of GSDP will decrease continuously from 8.3% in 2015-16 to 4.2% in 2025-25. At the same time, the state is not likely to achieve zero fiscal deficits in the near future, though fiscal deficit in absolute and relative to GSDP are forecasted to decline continuously. However, the state is likely to achieve the FRBM fiscal deficit target of 3% throughout the FC-XV award period (2020-25). In addition, Table 4.11 presents the forecasted debt outstanding liabilities of the state government.

Table 4.11: Forecasted Debt Outstanding Liabilities of the State Government

Year	Debt Outstanding (₹Crore)	GSDP (₹Crore)	Debt-GSDP Ratio (%)
2015-16	6407	13374	47.9
2016-17	6725	14549	46.2
2017-18 (RE)	7195	23067	31.2
2018-19(BE)	7887	23067	34.2
2019-20 (P)	8120	20099	40.4
2020-21 (P)	9328.8	22103	42.2
2021-22 (P)	9744.3	24239	40.2
2022-23 (P)	10161.6	26516	38.3
2023-24 (P)	10577.1	28944	36.5
2024-25 (P)	10992.9	31533	34.9

RE: Revised Estimate, BE: Budget Estimate, and P: Projected

Note: Estimated Compound Annual Rate for Outstanding Liabilities of the Government during this period is 6.59%

Table 4.11 shows that debt outstanding liability will be increasing by 6.59% during the period starting from 2015-16 till 2024-25, while GSDP is expected to increase by around 8% per annum. Thus, the Debt-GSDP ratio would be continuously brought down from 42.21% in 2020-21 to 34.9% in 2024-25.

Chapter 5

IMPLEMENTATION OF FRBM ACT

5.1. Introduction

Fiscal policy rule is defined as a permanent constraint on fiscal policy through numerical limits on budgetary aggregates (Kopits and Symansky, 1998). The rule based fiscal policy was introduced with the passing of the Fiscal Responsibility and Budget Management Act (FRBMA) 2003. The FRBM Act 2003 that came into force on 5th July 2004 anchored at the principle of intergenerational equity in fiscal management and fiscal sustainability for long term macroeconomic stability. It aimed at the elimination of revenue deficit by 2008-09 and the reduction of Fiscal Deficit to 3% of GSDP in the same year. The Twelfth Finance Commission (FC-XII) insisted that the central government shall not provide loans to the states and that the states may take recourse to market loans. The latter should adopt fiscal responsibility legislation to avail State's Debt Consolidation and Relief Facility (SDCRF) for general debt relief comprising of consolidation, reschedule of, and lowering of interest rate.

5.2. Implementation of FRBM Act in Mizoram

Pursuant to the recommendation of Twelfth Finance Commission (FC-XII), government of Mizoram also enacted fiscal responsibility legislation, "Mizoram Fiscal Responsibility and Budget Management Act, 2006 (hereinafter, referred to as FRBM Act 2006). According to Section 3 of FRBM Act 2006, the Government shall

1) take appropriate measures to eliminate the revenue deficit and contain the fiscal deficit at sustainable levels,
2) pursue policies to raise non-tax revenue with due regard to cost recovery and equity, and
3) lay down norms for prioritisation of capital expenditure, and pursue expenditure policies that would provide impetus for economic growth, poverty reduction, and improvement in human welfare.

The FRBM Act required that the government shall progressively reduce revenue deficit to zero by 2008-09 and reduce fiscal deficit to 3% of the GSDP by 2008-09. Further, this Act required the state government to take measures to ensure greater transparency in its fiscal operation. The Act also stipulated that Medium Term Fiscal Policy Statement and Fiscal Policy Strategy Statement should be laid before the State Legislature along with the Annual Budget in each financial year.

The Medium Term Fiscal Policy (MTFP) is concerned with the fiscal objectives and strategic priorities of the state government. It also deals with (i) an assessment of the sustainability of the balance between revenue receipts and revenue expenditure; (ii) the use of capital receipts including borrowing for productive assets; and (iii) the estimated yearly pension liabilities worked out on actuarial basis for the next 10 years. At the same time, The Fiscal Policy Strategy Statement presents (i) 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; (ii) the strategic priorities of the state government in the fiscal area for the ensuing year; (iii) 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; and (iv) evaluation of current policies of the state government vis-à-vis fiscal management principles set out.

5.3. Roadmap for Fiscal Consolidation

The Thirteenth Finance Commission (FC-XIII) required the Government of Mizoram to reduce its fiscal deficit to 3% of GSDP by 2014-15. The FC-XIII recommended that the government should maintain fiscal deficit target as a percentage of GSDP in the following pattern: 7.5% in 2010-11, 6.4% in 2011-12, 5.2% in 2012-13, 4.1% in 2013-14 and 3% in 2014-15. The Fourteenth Finance Commission (FC-IV) further stipulated revised roadmap for fiscal consolidation for the government of Mizoram in terms of specific target for fiscal deficit and annual borrowing limits. The revised fiscal targets recommended by the FC-IV are as follows:

1) Fiscal deficit of all states will be anchored at the annual limit of 3% of GSDP. The state will be eligible for flexibility of 0.25% over and above this for any given year, for which the borrowing limits are to be fixed if their debt-GSDP ratio is less than or equal to 25% in the preceding year.

2) States will further be eligible for an additional borrowing limit of 0.25% of GSDP in a given year for which the borrowing limits are to be fixed if the interest payments are less than or equal to 10% of the revenue receipts in the preceding year.
3) The two options under these flexibility provisions can be availed by a state either separately, if any of the above criteria is fulfilled, or simultaneously if both the above stated criteria are fulfilled. Thus, a state can have a maximum fiscal deficit-GSDP limit of 3.5% in any given year.
4) The flexibility in availing the additional limit under either of the two options or both will be available to a state only if there is no revenue deficit in the year in which borrowing limits are to be fixed and the immediate preceding year.

The Fiscal Responsibility and Budget Management Act, 2006 and its subsequent amendments in 2009, 2010, and 2011 envisage the reduction of fiscal deficit as a percentage of GSDP and contain it at 7.50% in the base year 2010-11, 6.40% in 2011-12, 5.20% in 2012-13, 4.10% in 2013-14 and 3% in 2014-15. The Medium Term Fiscal Policy (MTFP) roadmap drawn by the FC-XIII is presented in Table 5.1.

Table 5.1: Medium Term Fiscal Policy (MTFP) Roadmap Drawn by FC-XIII

Percentage of GSDP

Indicators	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Deficit	0	0	0	0	0
Grass Fiscal Deficit (-)	-7.5	-6.4	-5.2	-4.1	3
Outstanding Debt	87.3	85.7	82.9	79.2	74.8

Source: Budget Documents, Government of Mizoram

5.4. Outcome Evaluation of Fiscal Correction

Table 5.2 presents the selected outcome indicators of fiscal correction path during the period from 2010-11 to 2015-16. Although there were fallouts in the Gross Fiscal Deficit (referred to as Fiscal Deficit) during 2013-14 and 2014-15, the state could achieve the target and also had surplus in the year 2015-16. In the same way, there was revenue surplus in the FY 2015-16 conforming to the correction path required by FC-XIII. Further, the debt-GSDP ratio is also in line with the stipulation of the FC-XIII.

Table 5.2: Outcome Indicators of State Finance in the light of FC-XIII Recommendation

Items		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Gross Fiscal Deficit as % of GSDP	8.3	3.0	7.2	-7.3	-8.3	3.1
2	Revenue Deficit (-)/ Surplus (+) as % of GSDP	2.0	4.1	0.4	-1.5	-1.1	8.3
3	Revenue Deficit (-)/ Surplus (+) as % of TRR	5.9	7.2	0.6	-3.2	-2.6	16.6
4	Total Liabilities-GSDP Ratio (%)	61.0	57.2	63.5	54.5	52.4	47.9
5	Total Liabilities-Total Revenue Receipt (%)	109.6	99.7	112.7	117.7	118.9	96.0
6	Total Liabilities-State's Own Rev. Receipt (%)	1335.8	1153.7	1173.1	1322.7	1288.2	976.7
7	State's Own Revenue Receipts-Rev. Exp. (%)	8.5	9.3	9.7	8.6	9.0	11.8
8	Capital Outlay as % of Gross Fiscal Deficit	123.2	232.8	104.7	-80.0	-89.2	172.0
9	Interest Payment as % of TRR	3.1	6.8	6.4	6.0	5.6	5.5
10	Salary Expenditure as % of TRR	34.7	28.7	30.4	40.8	31.3	33.0
11	Pension Expenditure as % of TRR	7.4	7.4	8.2	11.0	9.9	9.2
12	Non-Development Expenditure as % of AD	24.1	26.9	26.3	25.9	22.5	28.0
13	Gross Transfer from the Centre as % of AD	72.1	80.8	61.0	53.6	52.7	53.7
14	Non-Tax Revenue as % of TRR	4.4	4.2	4.7	4.1	4.4	4.5

Source: Budget Documents, Government of Mizoram
Note: (1) Pre Actual Figures are presented for the year 2014-15 and 2015-16
(ii) TRR: Total Revenue Receipt; AD: Aggregate Disbursement

The total liabilities as a percentage of total revenue receipt increased from 109.7% in 2010-11 to a high of 118.9% in 2013-14 and sharply decreased to 96% in 2015-16. A rather poor performance of the state government in fiscal correction could be seen in the ratio of debt and own revenue receipt. The outstanding liability was as high as 1335.8% of the own revenue in 2010-11 which showed a gradual decline to 1173.1% in 2012-13, but increased to 1322.7% in 2013-14. However, it sharply decreased to 976.7% in 2015-16. Although it is showed an improvement over the years, the state government needs to raise its own revenue or reduce debt outstanding to be in the right path of the fiscal correction. Side by side with this, only around 10% of the total revenue expenditure could be met from own revenue of the state government as the ratio of own revenue to total revenue expenditure hovered around 8-10%. At the same time, considerably high capital outlay as percentage of fiscal deficit indicates that the borrowings of the government were used for creating new assets.

Table 5.2 also shows that there was slight improvement in the fiscal correction through reduction of interest payment because the percentage of total revenue receipt (TRR) slightly decreased from a high of 6.8% in 2011-12 to 5.5% in 2015-16. However, there was no substantial improvement in terms of salary expenditure and pension payments, and no considerable improvement in non-tax revenue relative to TRR. With the bulging public expenditure of the state, the gross transfer from the centre as percentage of aggregate disbursement significantly decreased from 72.1% in 2010-11 to 53.7% in 2015-16.

Meanwhile, the non-developmental expenditure as a percentage of aggregate disbursement increased from 24.1% to 28%, indicating declining quality of public spending towards socio-economic development. Similarly, the declining ratio of central fund transfer to aggregate disbursement and the sticky trend of own revenue implicated the increasing expenditure obligation of the state government irrespective of the revenue sources. Thus, it is necessary that the state government take up initiatives to collect more revenue through rationalisation of tax and non-tax sources.

Table 5.3 presents the various outcome indicators of the state finance during 2015-16 and 2019-20 and the roadmap stipulated by the FC-XIV. As the award period of FC-XIV is underway, actual figures could be obtained for 2015-16 and 2016-17 only. The revised estimate (RE), budget estimate (BE), and projected figures are used for the subsequent years.

Table 5.3: Outcome Evaluation of the State Finance in the Context of FC-XIV Recommendations

Year	2015-16 (Actual)	2016-17 (Actual)	2017-18 (RE)	2018-19 (BE)	2019-20 (Proj.)
Revenue Receipt (₹ Crore)	6676	7398	8950	8909	10466
Revenue Expenditure (₹ Crore)	5571	6230	7603	7182	8833
Revenue Deficit (₹ Crore)	1106	1168	1351	1730	2722
Gross Fiscal Deficit (₹ Crores)	413	252	-739	-264	569
Outstanding Debt (₹ Crore)	6407	6725	7195	7887.0	8124
Interest Payment (₹ Crore0	369	341	383	390.0	480
GSDP (₹ Crore)	13374	14549	18958	22471.0	26635.0
Revenue Surplus as % of GSDP	8.27	8.03	7.13	7.70	10.22
Fiscal Deficit (-)/Surplus (+) as % of GSDP	3.09	1.73	-3.90	-1.17	2.14
Outstanding Debt % of GSDP	47.91	46.22	37.95	35.10	30.50
Interest payment % of Revenue Receipt	5.53	4.61	4.28	4.38	4.59
Requirement Stipulated by FC-XIV					
Revenue Deficit (%)	0	0	0	0	0
Fiscal Deficit (-) (%)	-3	-3	-3	-3	-3
Debt-GSDP Ratio (%)	25	25	25	25	25
Interest Payment % of Revenue Receipt	10	10	10	10	10

Source: Budget Documents, Government of Mizoram & Own Calculation
Note:
(i) The GSDP figures after 2016-17 are projected using semi-log regression estimated from previous years
(ii) Projected Figures for the Year 2019-20 are obtained from MTFP presented in the Budget 2018-19
BE: Budget Estimates, RE: Revised Estimates, and Proj.: Projected (made by Finance Department)

It can be seen that the state had revenue surplus which increased from 8.27% in 2015-16 to 10.22% by 2019-20 and the fiscal deficit contained below 3% of GSDP throughout the years. Although the state could not achieve the standard stipulation of FC-XIV to avail the facility of additional 0.25% borrowing, the projections made by the State Finance Department has shown that the outstanding debt-GSDP ratio could be brought down continuously from 47.91% in 2015-16 to 30.50% in 2019-20. Similarly, interest payment as percentage of revenue receipt was contained within the required limit of 10% for availing additional borrowing as stipulated by FC-XIV, and is showing decline from 5.53% in 2015-16 to 4.59% in 2019-20. Given all these, it is clear that there has been substantial improvement in the fiscal position of the government of Mizoram during the FC-XIV award period, and the state is on track towards further fiscal consolidation.

5.5. Suggested Fiscal Consolidation Path for the period 2020-25

As shown in Table 4.11 in Chapter 4, the earlier projections made by the State Finance Department on Debt-GSDP ratio as given in Table 5.3 could not be realised due short term disruption in revenue receipt caused by GST implementation and demonetisation. Despite this fall out, the projections made by this study, after giving due consideration to this short term disruptions in government revenue, clearly suggests the possibility of fiscal consolidation during the FC-XV award period (i.e. 2020-25). In view of the forecasted trends of revenue expenditure, ORR and GSDP, given in Chapter 4, we have worked out suggested roadmap for fiscal consolidation in Mizoram for a period of 2020-21 to 2024-25. This is presented in Table 5.4.

Table 5.4: Suggested Roadmap for Fiscal Consolidation in Mizoram during 2020-25

Sl. No	Fiscal Parameters	2020-21	2021-22	2022-23	2023-24	2024-25
1	Outstanding Debt (% of GSDP)	42.0	39.5	35.5	32.0	30.0
2	Revenue Deficit (% of GSDP)	0.0	0.0	0.0	0.0	0.0
3	Fiscal Deficit (% of GSDP)	-0.45	-0.30	-0.25	-0.14	0.0

Source: Computed

The state has achieved revenue surplus for most of the years starting from 2006-07. Consequently, zero revenue deficits may be continued throughout the FC-XV award period, while fiscal deficit may be completely eliminated by 2024-25. Assuming normal business environment in the economy, the GSDP is also forecasted to increase continuously. Side by side with the fiscal deficit being projected to zero, the outstanding debt relative to GSDP may also be brought down to 30% or below by 2024-25.

Chapter 6

ANALYSIS OF SUBSIDIES

6.1. Introduction

Subsidies to the disadvantaged sections of the society is a common measure adopted by any welfare state. Subsidy can be given in two forms - explicit (direct) and implicit (indirect) subsidies. If the government clarifies the actual amount that would go to the beneficiaries through budgetary outlays, it is called explicit subsidy. At the same time, poor recovery of user charges from social and economic services provided by the government may be considered as implicit subsidy. The government spends high amounts of expenditure in the provision of public services but receive less amount in return, and as such, the users are benefited by the public expenditure through lower user charges, fees, etc.

As substantial amount of public fund are expended for the provision of subsidies (direct or indirect), it is always crucial for a responsible government to ensure that the target groups benefit from it while non-target groups are excluded. While direct subsidy can be made to be better target-oriented through effective mechanism in the identification of beneficiaries, the chance of the inclusion of non-target groups is relatively high in case of implicit subsidy as it is done by provision of public expenditure of the government department or bodies that provide the services. The main items of explicit subsidies in Mizoram are rice through Targeted Public Distribution System (TPDS), or simply PDS, direct subsidies (cash or material) to agriculture and allied sector; and subsidies given to the cooperative societies. At the same time, implicit subsidies arise through public expenditures in the delivery of social and economic services like power, education, water supply, etc. in which the collection of user charges are well below the expenditure on it.

6.2. Explicit Subsidies

This section considers the different types of direct subsidies given by the state government to the people through budgetary support. It is broadly divided into two – subsidies to agriculture and allied sector, and food subsidies through PDS. The former is generally provided through price support and material support directly given to the beneficiaries, while the latter is that of selling rice at highly subsidised rates through a network of ‘retailers’ across the state.

6.2.1. Agriculture and Allied Activities

Table 6.1 presents the trend of subsidies given by the state government on various agriculture and allied activities from 2006-07 to 2015-16. It can be seen that the quantum of subsidies is quite minimal throughout the years under study, and these expenditures are normally given through various CSS and other plan schemes.

Table 6.1: Public Expenditure on Subsidies for Agriculture and Allied Activities in Mizoram

Year	Crops Husbandry	Manures & Fertilizers	Agriculture Engineering	Fisheries	Cooperation	Total	% of Rev. Exp. Agri & Allied
2006-07	0.10	--	--	--	--	0.10	0.06
2007-08	4.67	2.50	0.32	--	0.04	7.53	3.66
2008-09	2.69	0.50	0.69	2.00	--	5.88	2.61
2009-10	4.08	--	--	1.50	--	5.58	2.28
2010-11	1.89	--	--	--	2.55	4.44	0.88
2011-12	4.07	--	--	--	1.09	5.16	0.98
2012-13	2.11	--	--	--	0.37	2.48	0.34
2013-14	0.49	--	--	--	0.24	0.73	0.11
2014-15	0.08	--	--	--	2.00	2.08	0.29
2015-16	--	--	--	--	4.91	4.91	1.27

Source: CAG, Finance Accounts, Government of Mizoram

Till the FY 2009-10, subsidies on crop husbandry was the main expenditure component, and subsidies for cooperative societies constituted another major component of subsidies since 2010-11. Expenditure on subsidies of crop husbandry showed fluctuating trend ranging from ₹0.08 crores in 2014-15 to ₹4.67 crores in 2007-08, and decreased consistently from ₹4.07 crores in 2011-12 to zero in 2015-16. Meanwhile, considerable amount of subsidies was observed for manures & fertilizers, agriculture engineering, and fisheries for two years each. Subsidies for cooperative societies showed a more or less increasing trend, from ₹2.55 crores in 2010-11 to ₹4.91 crores in 2015-16.

Taking the total agriculture & allied sector subsidies as a percentage of total revenue expenditure on agriculture and allied services, agriculture subsidy showed declining importance in the total revenue expenditure. Its share decreased from 3.66% in 2007-08 to 0.11% in 2013-14, and a slight increase to 1.27% in 2015-16. Given these trends, it can be concluded that agriculture sector subsidy had gradually lost its significance in the total expenditure, most likely because of the withdrawal of several CSS after the implementation of FC-XIV. Side by side with the declining subsidies on other heads, cooperation gained importance, and thus became the main item of explicit subsidy given to the agriculture and allied sector after 2014-15.

6.2.2. Food Subsidies

The state government spends huge amount of expenditure under Targeted Public Distribution System (TPDS). It has to purchase food grains from the market at a high rate and sell it to the beneficiaries at subsidised rates. The state government incurs heavy losses due to non-recovery of the huge amount of expenditure on account of purchase of food under stock suspense of Food, Civil Supplies & Consumer Affairs Department. Moreover, the government adopted the National Food Security Act 2013 (NFSA, 2013) on 22nd June, 2015. Under this Act, the public distribution system (PDS) was implemented by categorising all the households into three categories, namely *Antyodaya Anna Yojana* (AAY), *Priority Households* (PHH), and others or *Above Poverty Line* (APL). The AAY households are entitled to 35 kg of rice per household per month at Rs.3 per kg. PHH are entitled to receive 5 kg of food grains per person per month at a rate of Rs.3 per kg, and they are permitted to purchase additional 3 kg per person over and above their entitlement for being PHH but at higher rate as specified for the others (APL households). Other households not covered by the Food Security Act may be called *Non-Food Security Household* (NFSH) or APL households. The APL households enjoy monthly ration quota of 8 kg per person at a rate of Rs.15 per kg at present, which would be revised by the government as and when necessary.

As of October 2016, there were 25745 AAY Card holders, 115622 PHH holders and 121056 NFSA families. The quantity of rice lifted for distribution under TPDS was 1.42 lakh MT during 2007-08, and decreased to 1.09 lakh MT in 2016-17. Given the interrelated nature of TDPS delivery system and since no separate budget head for the subsidy component is present, it is difficult to clearly evaluate the amount of subsidy expenditure for price and sale of food grains under the TPDS. It may be more appropriate to put this expenditure under unrecovered public expenditure for economic services. However, as the trend of yearly expenditure on food subsidy during the study period could be obtained from the CAG Report, it is presented here as part of direct (explicit) subsidy.

Figure 6.1 and Table 6.2 present the trends of government expenditure on food subsidy during the period under study. The total amount of subsidy showed more or less increasing trends with seasonal fluctuations as it increased from ₹14.26 crores in 2006-07 to ₹33.7 crores in 2015-16, and recorded the highest amount of ₹45.24 crores in 2009-10.

Figure 6.1: Expenditures on Food Subsidy by the Government of Mizoram (Rs. Crores)

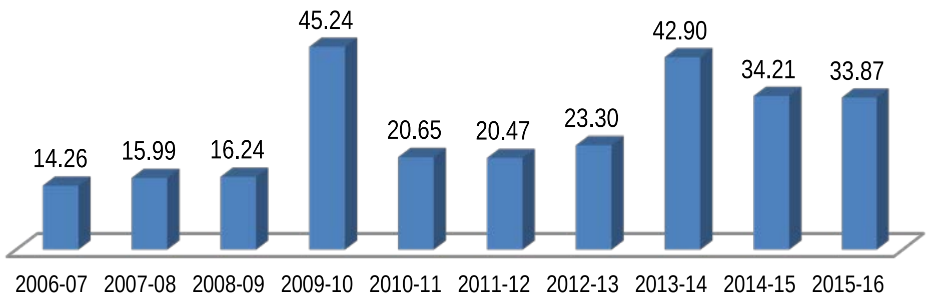


Table 6.2: Trends of Government Expenditure on Food Subsidy

Year	Food Subsidy (Rs. Crore)	Expenditure on Food Storage, etc	Food Subsidy % of Exp. on Food Storage, etc	% of total Rev. Expenditure
2006-07	14.26	9	158.44	0.83
2007-08	15.99	55	29.07	0.84
2008-09	16.24	214	7.59	0.70
2009-10	45.24	107	42.28	1.67
2010-11	20.65	244	8.46	0.63
2011-12	20.47	207	9.89	0.55
2012-13	23.30	246	9.47	0.52
2013-14	42.90	114	37.63	0.87
2014-15	34.21	141	24.26	0.61
2015-16	33.87	107	31.65	0.61

Source: (i) Finance Account of States, CAG; and (ii) Budget Documents, Govt. of Mizoram

Since there is no separate budget head for food subsidy, expenditure on the procurement of rice for PDS is booked on disbursement under capital account for economic services under the head of *food storage & warehousing* along with other capital expenditure. However, the main portion of expenditure under this head of account is constituted by expenditure on procurement of rice, and thus, it is considered to be another proxy of government expenditure on food subsidy. The total expenditure under this head increased from ₹9 crores in 2006-07 and reached the highest amount of ₹246 crores in 2012-13 but decreased to ₹107 crores in 2015-16. The amount of food subsidy as a percentage of total expenditure on procurement showed the worst situation in 2006-07 when it recorded 158.44%, but it declined sharply afterward to only 7.59% in 2008-09. It further increased to 31.65% in 2015-16. It is clear that there was no substantial improvement in the cost recovery of food expenditure in the face of increasing subsidy amount over the years.

The government has taken several measures to ensure better targeting of food subsidies as part of its measure to rationalise public expenditure. The government started the project of end-to-end computerisation of TPDS from the year 2013 with an aim to stop irregularities and bring about efficiency in the delivery system. As part of this project, complete digitisation of Ration Cards was undertaken. Further, to ensure better targeting of subsidies, the government encourage rich families to surrender their Ration Card, and the government would in turn issue Certificate of Appreciation which can be used for official documents in lieu of family Ration Card. As a result of the above mentioned initiatives, around 31500 double or bogus Ration Cards and about 4 lakh death/double/non-existent persons were filtered out in the year 2015. It is also reported that a number of families have surrendered their Ration Card.

6.3. Implicit Subsidies

It is understood that the state government is responsible for the provision of several social and economic services and for which it would collect user charges, fees, etc. from the public in return of the expenditure. Since the collection of user charges from these services are well below the expenditure incurred, the users are considered to be subsidised indirectly. Although the extent to which the users are given subsidy cannot be worked out, a good indicator of the implicit subsidy is cost-recovery as represented by the ratio of total non-tax revenue (NTR) to the total Revenue Expenditure (RE) on the respective services.

Table 6.3 presents the cost-recovery on few selected activities (or sectors) under social services and economic services from 2006-07 to 2015-16. The ratio was calculated by dividing the NTR of a specific sector (like education, etc., water supply) by the RE expenditure of the same sector, while the aggregate cost-recovery was also worked out separately for social and economic services by dividing their NTR by respective RE expenditures.

Table 6.3: Cost Recovery from Selected Activities under Social and Economic Services (Ratio of Non-Tax Revenue to Total Revenue Expenditure)

Percent

	Services	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
A	Social Services	1.3	1.2	0.9	0.9	0.9	0.9	1.2	1.3	0.1	1.9
	i. Education, Sports, Arts and Culture	0.2	1.5	0.1	0.2	0.2	0.2	0.2	0.3	0.1	0.2
	ii. Medical and Public Health	0.7	0.8	0.3	0.1	0.1	0.2	0.1	0.0	0.1	0.3
	iii. Water Supply and Sanitation	11.3	8.4	7.7	7.0	7.2	8.5	10.8	8.3	14.9	21.9
B	Economic Services	12.6	17.6	17.2	12.5	9.9	11.3	11.5	13.2	9.9	13.8
	i. Power	38.0	57.7	56.3	39.7	36.7	37.9	36.8	45.4	42.6	45.9
	ii. Transport	3.4	2.4	3.0	2.6	3.4	2.2	1.7	1.5	1.3	0.9

Source: Budget Documents, Government of Mizoram

The cost-recovery of the government expenditures on social services (aggregate) was very low. It was less than 2% of the total expenditure throughout the years under study. The recovery was even lower in case of education, sports, arts and culture; and medical and public health as it was less than 1% of the total expenditure on these activities all through the years. Water supply and sanitation showed a slightly better cost recovery position of more than 10% in most of the years. However, taking into consideration the existing market cost of drinking water, there is wide room for enhancing the recovery through rationalisation of water tariff structures.

At the same time, the cost recovery is slightly better for economic services and ranged from 9.9% in 2014-15 to 17.6% in 2007-08. But there was no clear improvement during the 10 years. Cost-recovery for power sector which is considered as the best proxy for power subsidy did not show clear trends of improvement and ranged from 36.8% in 2012-13 to 57.7% in 2007-08. The situation of transport was no better as it showed gradual worsening of cost-recovery and implicated increased loss of the government in its operations. Given the above analysis, it is clear that the government had spent huge amount of expenditure on social and economic services and the revenue generated from the collection of user charges was quite low, showing substantial percentage of subsidies given to the people indirectly. In view of their shares in the total revenue expenditure, the two critical sectors, namely power and water & sanitation attracted attention the most. The low cost-recovery for these services should be a critical point of any policy decision on government subsidies in the state.

Table 6.4: Impact of the Losses of State Transport on State's Finances

₹ Crore

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Persons employed	726	650	650	650	650	501	501	395	395
No. of Buses	28	54	52	49	31	33	29	33	44
Revenue receipt	1.66	2.07	1.91	2.31	2.14	1.95	2	2.31	1.85
Cost of operation	9.56	10.46	10.85	12.53	16.89	17.64	27.41	24.85	26.74
Profit/Loss	-7.9	-8.4	-8.9	-10.2	-14.8	-15.7	-25.4	-22.5	-24.9
Profit/Loss (%)	82.6	80.2	82.4	81.6	87.3	88.9	92.7	90.7	93.1
Loss per Bus	-0.28	-0.16	-0.17	-0.21	-0.48	-0.48	-0.88	-0.68	-0.57
Loss % of ONTR	6.06	5.29	7.07	6.97	8.78	7.37	15.12	9.32	8.36
Loss % of Rev. Exp.	0.41	0.36	0.33	0.31	0.40	0.35	0.52	0.40	0.45

Source: Statistical Abstract of Mizoram, 2017 & Finance Department, Mizoram

In addition, the state government is incurring substantial losses incur by the State Transport Department which operate bus services in different locations. Unlike in other states, the state transport is not corporatised and it is still full-fledge department till date. Normally, the fares on these bus services are lower than their counterpart private services. As such, the loss incurred on the bus services may be interpreted as implicit subsidy given to the passengers. Table 6.4 presents the details of revenue and operation cost of buses operated by the state transport department. It is clear that revenue receipt is well below the cost of operation throughout the years and shows continued loss from ₹7.9 crores in 2007-08 to ₹24.9 crores in 2015-16. While taken relative to ONTR, the loss has ranged from 5.29% in 2008-09 to 15.12% in 2013-14. Similarly, the loss constituted 0.45% of the total revenue expenditure in 2015-16. This table clearly points to the fact that the loss of the state transport department is substantial enough and has been a drain of public resources. So, it is necessary to reform the state transport which may come in the form of corporatisation or privatisation or other measures to increase operational efficiency.

Chapter 7

POWER SECTOR AND PUBLIC SECTOR UNDERTAKINGS

7.1. Introduction

Although Mizoram is a hilly state having rich potential of hydropower generation, the utilisation of this potential is very low till date despite several efforts of the state government. As per the record of Economic Survey 2017-18, Mizoram is endowed with many rivers with estimated hydro-power generation potential of 3663 MW. The present peak demand is 102 MW, but the state can generate only about 15 MW from the installed capacity of 29.35 MW. Thus, the state government has spent huge amount of expenditure on purchase of power, and the cost-recovery in the form of collection from power tariff is extremely low. Therefore, electricity is heavily subsidised implicitly by the government through budgetary expenditure. Further, due to the persistently high Transmission and Distribution Loss (T&D Loss), the power sector reform to bring about efficiency in the distribution and tariff collection have become a critical point of the policy decision for sustainable fiscal management. Likewise, the state's Public Sector Undertakings (PSUs) had been incurring huge losses year after year, and became a drain of the state budget rather than contributing to it.

7.2. Power Sector Reforms

The State Government and Ministry of Power, Government of India signed Memorandum of Agreement (MOA) in 2002 for power sector reform under which the latter would provide funds to the former in the ratio of 90% grants and 10% loans under Accelerated Power Development and Reform Programme (APDRP). Under the MOA, the state government would take initiatives (i) to corporatise the Power & Electricity Department (P&ED), (ii) to set up State Electricity Regulatory Commission (SERC), (iii) to ensure timely payment of subsidies required in pursuance of orders on the tariff determined by Electricity Regulatory Commission; and (iv) to achieve 100% metering of all consumers, and 100% electrification of villages.

Till date, the P&E Department is yet to be corporatised and the proposal is underway for consideration. Also, computerised billing was implemented and online payment of the bill was started under the funding through the New Economic Development Policy (NEDP) since

2017. As the state government could not have a separate SERC of its own, a Joint Electricity Regulatory Commission (JERC) for the states of Manipur and Mizoram was constituted by the Central Government under the provision of Electricity Act, 2003 and the Commission started functioning from 2008. The tariff rates are revised annually by the state P&ED and Tariff Petition are filed to JERC for approval. The award is then given by the latter based on the petition for implementation. Further, the state is yet to ensure 100% electrification of villages.

7.3. Analysis on the Outcome Indicators of Power Sector

Since the P&ED is not yet corporatised and remains a Government Department, power subsidy is not booked separately and is deemed to be included in the annual budget of the department. To study the performance of P&ED, the total expenditure on various heads and revenue is presented in Table 7.1. It was found that the main component of expenditure was purchase of power from central sector projects like TSECL of Tripura, NEEPCO, NHPC, etc. While the total expenditure increased from ₹128.8 crores in 2007-08 to ₹292.2 crores in 2015-16, the share of power purchase revolved around 50-60% all through the years. A notable trend observed here is the fast increase in expenditure on administration & general administrative expenses from ₹27.4 crores in 2007-08 to ₹89.8 crores in 2015-16, while its share increased from 21.3% to 30.7% during this period.

Table 7.1: Expenditure and Revenue of Power & Electricity Department

₹ Crore

Expenditure/Revenue Heads		2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
A	Total Expenditure	128.8	161.1	209.7	176.6	216.1	228.2	242.6	297.2	292.2
1	Generation Cost	2.1	2.6	3.7	7.8	11.4	9.6	14	11.5	16.3
2	Purchase of Power	76.7	86.3	78.8	91	126.4	123.3	126.3	171.4	167
3	Repair & Maintenance	12.4	15.7	15.7	13	13	15.1	15.4	21	10
4	Adm. & Gen. Expenditure	27.4	36.8	60.4	59.2	58.3	71.9	78.8	84.2	89.8
5	Depreciation	--	--	--	3.9	4	4.1	4.1	5.6	6
6	Interest Payment	10.2	19.7	51.1	1.8	3	4.2	4	3.6	3.2
B	Revenue	82.9	87.1	67.6	72.4	135.8	129.8	111.8	142.6	166
1	Sale of Power (within)	49.4	43.3	48.5	55.5	115.2	111.9	107.3	126.7	132.4
2	Sale of Power (outside state)	32.1	42.1	17.6	15.2	18.3	15.4	2.3	13.6	19
3	Other Income	1.4	1.6	1.6	--	--	--	--	--	--
C	Revenue - Cost Ratio (%)	64.4	54.1	32.2	41.0	62.8	56.9	46.1	48.0	56.8
D	Exp. % of Rev. Exp. Eco. Services	6.8	7.0	7.8	5.4	5.8	5.1	4.9	5.3	5.2
E	Rev. % of ONTR on Eco. Services	83.4	82.7	83.5	72.3	83.7	78.7	82.2	82.7	83.7

Source: Finance Department, Government of Mizoram

Table 7.2: Purchase of Power by the State Government

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Total Generation (MKWH)	38.87	22.8	58.61	55.34	36	28.88
Purchased (MKWH)	329.51	364.2	384.52	424.97	502.5	565.55
Purchased (% total)	89.45	94.11	86.77	88.48	93.31	95.14
Ave. Cost of Power						
Hydro (paise/kWH)	147.67	183.5	233.33	270.33	217	252.35
Thermal (Paise/kWH)	297.5	291.33	318.67	324.33	343	270.19
Gas (Paise/kWH)	273	282	344	344	317.5	353.45

Source: Finance Department, Government of Mizoram

On the revenue side, the total revenue increased by more than two-fold, from ₹82.9 crores in 2007-08 to ₹166 crores in 2015-16, of which receipt from sale of power within the state accounted for around 80%, which increased from 59.6%. Under the Availability Based Tariff (ABT) system, Mizoram also sell its unused power through power trading (bilateral, etc.). The state generates substantial income from the sale of power outside the state under the system. However, the share in the total revenue decreased from a high of 48.3% in 2008-09 to 11.4% in 2015-16.

The ratio of revenue and total expenditure (revenue-cost ratio) which implicitly revealed the status of revenue loss incurred by P&ED did not have substantial improvement during the years under study. It ranged from 32.2% in 2009-10 to 64.4% in 2007-08, while it was 56.8% in 2015-16. The sticky revenue-cost ratio within a small range may be interpreted as the situation where there is no substantial improvement in mitigating loss of revenue under power sector. The trend of revenue-cost ratio being observed is also substantiated by the total revenue as a percentage of ONTR under economic services which did not show a clear trend, upward or downward. With the exception of 2010-11 when the ratio was 72.3%, the ratio revolved around 80% all through the years. It may also be noted that P&ED being a government department, the subsidy component is not booked separately. It is basically subsidised to the user in implicit form and thus, it is rather difficult to study the subsidy component, so also the presence of cross-subsidisation of power in the state.

To substantiate the information presented in Table 7.1, the general details of power purchase by P&ED since 2010-11 is presented in Table 7.2. This table clearly reveals the fact that the existing power generation is well below the requirement and thus, the state is heavily depending on purchase of power from sources from outside at a rate of ₹2.52, ₹2.70 and ₹3.53 per kWH in 2015-16 for Hydro, Thermal and Gas respectively.

Table 7.3 presents the scenario of the power sector in Mizoram during the period from 2007-08 to 2015-16. The installed capacity increased from 37 MW to 52.8 MW, while energy generation was well below the installed capacity throughout the years. There was significant progress in rural electrification as the number of villages electrified increased from 81% in 2007-08 to 96% in 2015-16. The number of electrified rural household also increased significantly from 69% in 2010-11 to 89% in 2015-16, while more than 10% of the rural households are still un-electrified. The total number of consumers also increased by around 72,000 during this period.

One of the crucial outcome indicators of the efficiency of power sector is the magnitude of Transmission & Distribution (T&D) loss. Although the P&ED had shown several efforts to bring down the T&D loss, Table 7.2 shows that there was no significant achievement on this. Starting with 34%, it reached a high of 43.4% in 2008-09, and after temporary ups and downs in the range of 29-34%, it came down to 28.4% in 2015-16. However, as it did not exhibit a strong trend, a reduction to 28.4% might be due to a temporary phenomenon. At the same time, there is no substantial improvement in the aggregated transmission and commercial (AT&C) losses. Thus, it is necessary that the government set out a clear policy to bring down T&D loss with workable time bound targets.

Table 7.3: Performance Indicators of Power Sector of Mizoram

Parameters		2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Installed Capacity (MW)	37.27	37.8	40.8	52.8	52.8	52.8	52.8	52.8	52.8
2	Energy Generation (MKWH)	18.9	10.9	17.5	33.7	22.8	58.6	55.3	36	28.9
3	Village Electrified (%)	81	81	81	86	94	94	95	95	96
4	Rural Household Electrified (%)	--	--	--	69	75	78	83	86	89
5	Consumer Metering (%)	98	100	99	98.6	96	100	100	100	100
6	No. of Consumer (in lakh)	1.44	1.59	1.58	1.79	1.78	1.86	1.96	2.03	2.16
7	T&D Losses (%)	34	43.4	41.4	33.4	36.8	29.3	34.1	31.3	28.4
8	AT&C Losses (%)	28	34	38	32.1	41.3	29	35.3	27.8	31.2
9	ARR (₹/KWH)	2.75	2.62	6.58	2.34	4.56	3.88	3.54	3.87	3.91
10	ACS (₹/KWH)	3.81	3.33	3.58	4.03	7.01	3.34	3.77	6.5	7.68
11	ACS-ARR (₹/KWH)	1.06	0.71	-3.00	1.69	2.45	-0.54	0.23	2.63	3.77

Source: Finance Department, Govt. of Mizoram & *Statistical Abstract of Mizoram,* Directorate of Eco. & Stats., Mizoram

Note: Average Realisation Rated (ARR) and Average Cost of Supply (ACS) are computed from available data

To further examine the performance of the state government in achieving efficiency in revenue collection in power sector, average realisation rate (ARR) and average cost of supply (ACS) rate were worked out by using the data obtained from the Finance Department. It is desirable that the state government bring down ACS-ARR gap to zero to attain efficiency in tariff collection and cost management. While the ARR showed slight improvement over the years, the ACS increased much higher than the increase in the ARR, which reveals an increase in the public expenditure (or implicit power subsidy) per unit of electricity supply. Therefore, in addition to the inability of the state government to bring down the T&D losses, it is not capable of raising efficiency in tariff collection and supply cost management.

7.4. Public Sector Undertakings

There are five units of public sector undertakings (PSUs) in Mizoram established mostly in the pre-reform era, and the activities covered by these PSUs are agriculture marketing, food processing, industrial finances, and electronic developments. The organisational details of these PSUs are presented in Table 7.4.

Table 7.4: Organisational Details of Public Sector Undertakings in Mizoram

Name of PSUs	Year of Estd.	Employees (excl. MR)	Areas of Activities
1. Zoram Electronics Industries Development Corporation Ltd (ZENICS)	1991	89	Electronic development and imparting training in electronics and related trades
2. Mizoram Agricultural Marketing Development Corporation Ltd (MAMCO)	1993	26	Agriculture marketing
3. Zoram Industrial Development Corporation Ltd. (ZIDCO)	1978	62	Financing institution on industrial loans
4. Zoram Handloom & Handicraft Development Corporation Ltd (ZOHANCO)	1988	51	Handloom and handicraft development
5. Mizoram Food & Allied Development Corporation Ltd (MIFCO)	1989	89	Agriculture & food processing

Source: (1) Finance Department, Govt. of Mizoram, *Memorandum to 13th Finance Commission*
(2) Ahmed, J. U. (2007). *Industrialisation in North Eastern Region.* New Delhi: Mittal Publications.

Although these PSUs were established with an aim to transform the economy and to protect the interest of the people, and contribute to the state's exchequer, all of them were suffering losses and were always in need of support from the government. In other words, all the units were sick units and in need of revitalisation or reforms urgently. The performance indicators of these PSUs as observed from the CAG Report 2015 are presented in Table 7.5. The debt outstanding of the PSUs was around ₹30 crores which did not show a declining trend. The accumulated loss increased from ₹40.23 crores in 2008-09 to 58.03 crores in 2013-14, while taken as a percentage of GSDP showed slight decrease due to the robust growth of GSDP rather than a decrease in the absolute amount of loss. Table 7.5 clearly reveals that the PSUs that were supposed to have substantial contribution to the state government and improve the fiscal health of the state were all incurring losses and practically become a drain of the state finance. This table alone clearly justifies the need for their closure or restructuring.

Table 7.6 presents further financial details of the PSUs from 2007-08 to 2011-12. One thing that is very clear from this table is that all of them were incurring huge loss every year relative to their respective capital base. They were apparently depending on the budgetary support from the government. The MIFCO had the highest amount of loss all through the years. The aggregate annual loss of these PSUs increased consistently from ₹19.36 crores in 2007-08 to ₹22.46 crores in 2011-12. So, reforms of the PSUs became one of the key areas of concern for fiscal consolidation by the state government.

Table 7.5: Performance Indicators of Public Sector Undertakings in Mizoram

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Turnover (₹ Crore)	2.41	1.45	1.72	1.57	5	15.26
Debt (₹ Crore)	33.65	30.3	30.93	30.93	30.93	30.93
Debt/Turnover Ratio (₹ Crore)	13.96	20.90	17.98	19.70	6.19	2.03
Interest Payment (₹ Crore)	2.18	2.18	0.3	0.3	0.3	0.06
Accumulated losses (₹ Crore)	40.23	43.45	49.2	50.58	51.34	58.03
Debt as % of GSDP	0.88	0.55	0.51	0.44	0.38	0.30
Accumulated Loss as % of GSDP	1.06	0.79	0.81	0.72	0.64	0.56

Source: CAG Report on State Finance, 2015

Table 7.6: General Status of the 5 Public Sector Undertakings in Mizoram

₹ in Crore

Public Sector Undertakings	2007-08	2008-09	2009-10	2010-11	2011-12
1. ZENICS					
a) Authorised Capital	5	5	5	5	5
b) Paid up Capital	6.32	6.974	7.22	8.6	9.76
c) Profit/Loss	-0.69	-0.662	-0.243	-1.105	-0.463
2. MAMCO					
a) Authorised Capital	10	10	10	10	10
b) Paid up Capital	4.41	4.93	5.45	5.72	5.99
c) Profit/Loss	-0.82	-0.78	-0.76	-1.02	-1.02
3. MIFCO					
a) Authorised Capital	20	20	20	20	20
b) Paid up Capital	17.06	18.46	19.78	20	20
c) Profit/Loss	-15.72	-16.08	-16.69	-18.33	-18.95
4. ZOHANDCO					
a) Authorised Capital	10	10	10	10	10
b) Paid up Capital	8.37	8.96	9.51	10	
c) Profit/Loss	-0.07	-0.54	-0.94	-0.05	-1.2
5. ZIDCO					
a) Authorised Capital	20	20	20	20	20
b) Paid up Capital	15.78	15.78	15.78	15.78	15.78
c) Profit/Loss	-2.06	-1.38	-1.41	-0.47	-0.83
6. Aggregate of all PSUs					
a) Authorised Capital	65	65	65	65	65
b) Paid up Capital	51.94	55.104	57.74	60.1	51.53
c) Profit/Loss	-19.36	-19.44	-20.04	-20.98	-22.46

Source: Finance Department, Government of Mizoram

7.5. Reform Initiatives of the Government on PSUs

The state government contemplated the need and modus operandi for reforms of the loss making PSUs from time to time. Given their poor performance and the need to minimise expenditure incurred by the loss making PSUs, the Cabinet Meeting dated 18th February 2015 approved the closure of three PSUs, namely ZENICS, ZOHANDCO and MAMCO with immediate effect. It also approved the downsizing and restructuring of ZIDCO, while the proposal for privatisation of MIFCO was subsequently approved by the Cabinet Meeting on 7th April 2016. The cost of this reform was to be met from Structural Adjustment Loan from ADB under MPRMP Programme. To reinforce the process of this reform, the state government offered early retirement to all the employees of the PSUs under The Mizoram State Public Enterprises Early Retirement Rules (ERR) 2015, notified in the Official Gazette in July 2015. Those who decline the offer may opt for appointment into government service under the category of Group B, C, and D as the case may be.

As many as 135 employees opted for the ERR scheme and the total expenditure towards settlement of these cases has been ₹33.60 crores as of now. At the same time, 51 employees were absorbed into various posts under the government. The implementation of ERR schemes made substantial savings to the state exchequer. The estimated salary of employees who retired under the scheme was ₹76.12 crores, which would bring a saving of ₹42.52 crores approximately.

7.6. Concluding Note

Despite some initiatives undertaken by the government, there was no drastic measure undertaken by the government towards power sector reforms in the state. The state government embarked on MOA with the Ministry of Power in 2002 for undertaking reforms in the power sector. Formation of the JERC for Manipur and Mizoram under the provision of Electricity Act 2003, in compliance to the terms of this MOA, should be considered the most important reform measure undertaken by the state government to bring about power sector efficiency. However, as the P&ED is not yet corporatised, the state has a long way to go in power sector reforms and enjoy its positive impact on the state fiscal position.

The initiatives of reforms on Public Sector Enterprises (PSEs) undertaken by the state government was found to be successful and commendable. The success of closures, restructuring and privatisation of the sick PSEs will have far reaching impact on improving the state finance in the long run. It is also expected that the state government would pursue the reform process for the remaining PSEs until they are brought on the right track in terms of finance and corporate management. In-depth study on the financial and operational viability of the existing PSUs, viz. ZIDCO and MIFCO is necessary to take further measures to improve their performance.

Chapter 8

STATE'S TRANSFER TO LOCAL BODIES

8.1. Introduction

Along with other hilly North Eastern states, Mizoram is exempted from the provision of 73rd Constitutional Amendment, and thus, there is no Pachayati Raj system implemented in the state. The village administration is governed by the Lushai Hills District (Village Council) Act, 1953, and the amendment of this Act in 2014 reserved one-third of the seats for women while also lengthening the tenure of the Village Council (VC) to a period of 5 years (from 3 years). The VCs are given limited administrative functions like maintenance of law and order, allotment of houses (except in notified towns), jhumland allotment, maintenance of village internal roads, etc. Under the Mizo District (Forest) Act, 1955, the VCs are responsible for the demarcation of safety reserve, supply reserve, and community land. However, the VCs have neither created significant impact at the village level nor have they provided leadership to the local community due to lack of financial and political powers (Prasad, 2003).

There are 22 notified urban towns in Mizoram and the urban population (including Aizawl city) constitute around 50% of the total population of the state. Of these urban areas, only Aizawl has a municipality till date. The Aizawl Municipal Council (AMC) was established on 1st July 2007 under The Mizoram Municipalities Act, 2007. It was upgraded to Corporation on 15th October 2015 by the Fourth Amendment of the Mizoram Municipalities Act 2007.

Mizoram also has three Autonomous District Councils established under Sixth Schedule of the Constitution of India. They are Lai Autonomous District Council (LADC), Mara Autonomous District Council (MADC), and Chakma Autonomous District Council (CADC). This chapter deals with the existing scenario of transfer from the state to the local bodies, AMC, ADCs, and VCs. However, unavailability of time series data for a longer period seriously limited the analysis and interpretation of the results.

8.2. Mizoram Finance Commission

In spite of the fact that Mizoram is exempted from the operation of 73rd and 74th Amendments to the Constitution, steps were actively taken by the state government to make all the local bodies perform functions analogous to those of the local bodies existing in other parts of the country, while enjoying the degree of autonomy to protect tribal culture, customs, and traditions. In view of this, the Government of Mizoram passed the Mizoram Finance Commission Act, 2010 (MFC Act, 2010) which stated, in its introduction, *'it is expedient to constitute a single State Finance Commission for all the local bodies which will also be suitable to local bodies exempted from the aforementioned provision of the Constitution on the basis of the existing administrative arrangements to enable all the local bodies to have financial autonomy to perform functions analogous to the functions of other local bodies constituted under Constitution Part IX and Part IX-A while retaining the distinctive tribal identity protected by the Sixth Schedule to the Constitution of India which is foundational to the local bodies of the State'.*

Under MFC Act, 2010, the first State Finance Commission (SFC) with nomenclature of "Mizoram Finance Commission" was constituted on 30th September 2011 and the award period of the Commission is 2015 to 2020. The first SFC is considered to be the most significant initiative undertaken by the state government towards decentralisation of powers and revenue to various local bodies of the state.

The Commission submitted its report on 19th February 2015 which recommended devolution of 15% of the state's Own Tax Revenue (OTR) to local bodies of the state and non-plan revenue deficit grants. The Report was laid in the Mizoram Legislative Assembly in March 2016 and subsequently, devolution to local bodies was implemented from May 2016. The Commission set out clear criteria with appropriate weights in determining the mechanism for the devolution of 15% of the OTR to the three Autonomous District Councils (ADCs) and Village Councils (VCs). Table 8.1 presents the criteria and allocation of weightage to different criteria of fund devolution. Further, the distribution of the devolution to local bodies is being done in stages as given in Table 8.2.

Table 8.1: Allocation of Weightages to Different Criteria for Fund Devolution to Local Bodies

Autonomous District Councils			Village Council		
	Criteria	Weight		Criteria	Weight
1	Population (2011)	40%	1	Non-Municipal Population	40%
2	Area	30%	2	Non-Municipal Area (Sq. Km)	20%
3	Distance of ADC Headquarters from State Capital	10%	3	Per Capita Income Distance (from highest income district (in Rs)	10%
4	Literacy	10%	4	Road length (Km)	5%
5	Villages Electrified	10%	5	No. of Electrified Villages	5%
			6	No. of Streetlight Connections	10%
			7	No. of Water Connection	10%

Source: Report of the First State Finance Commission, Mizoram 2015

Table 8.2: Distribution of the 15% of State's OTR among Local Bodies

Stage I: 15% of state's OTR is shared by			Stage 3: 24.17% of the 15% OTR is shared by		
1	Autonomous District Council	58.33%	1	Aizawl District	12.32%
2	Village Councils of the 8 Districts	24.17%	2	Lunglei District	22.27%
3	Aizawl Municipal Corporation	17.50%	3	Champhai District	16.42%
			4	Serchhip District	7.66%
Stage 2: 58.33% of 15% of OTR is shared by			5	Mamit District	9.80%
1	Lai Autonomous District Council	41.97%	6	Kolasib District	10.73%
2	Mara Autonomous District Council	34.07%	7	Saiha District	7.81%
3	Chakma Autonomous District Council	23.96%	8	Lawngtlai District	12.99%

Source: Report of the First State Finance Commission, Mizoram 2015

Besides the devolution and sharing of state's resources, the first SFC recommended delegation of powers and functions to different local bodies to enable them to function as democratic institutions of local self-government. While the state government has adopted and implemented the recommendation of the devolution to the local bodies in most of the cases, recommendation of transfer of subjects and functional activities is achieved only in few cases while the rest are under consideration.

8.3. Transfer to Autonomous District Councils

Under the Sixth Schedule of the Constitution of India, the Autonomous District Councils (ADCs) are vested with certain powers and functions as organs of self-government and have the power to make laws with respect to:

(1) Allotment, occupation and use, or setting apart of land other than reserved forest, for the purpose of agriculture or grazing or residential or any other;

(2) Management of forests that are not reserved forests;
(3) Use of canals or any water-course for agriculture purpose;
(4) Regulation of the practices of Jhum or any other forms of shifting cultivation;
(5) Establishment of village or town committees or councils and their powers;
(6) Any other matters relating to village or town administration, including village or town police and public health and sanitation;
(7) Appointment of succession of chiefs or headmen;
(8) Inheritance of property, marriage and divorce;
(9) Social customs and regulation and control of money lending and trading by non-tribal.

The aggregates of own revenues and transfer of fund to the three ADCs, namely Chakma Autonomous District Council (CADC), Lai Autonomous District Council (LADC), and Mara Autonomous District Council (MADC) from 2009-2010 to 2014-15 is presented in Table 8.3. As it is rather difficult obtain detailed data on readily comparable format, Tables related to the finance of ADCs are simply reproduced from the Report the First SFC which also made projections till 2014-15. It is seen from Table 8.3 that generation of own revenue through tax and non-tax revenues of the ADCs increased by more than 3 times within a span of 5 years. The non-plan devolution (non-plan grant) from the state government also increased significantly from ₹8363.2 lakhs in 2009-10 to ₹16540 lakhs in 2014-15, while the total transfer (plan and non-plan) also increased from ₹14002.8 lakh to ₹22591 lakhs during the same period.

It can also be argued from Table 8.3 that these ADCs suffered high revenue deficits as indicated by high revenue expenditure which was well above the total non-plan revenue. It was as high as 100% of the plan and non-plan revenue taken together. Given the position of the state government in the collection of OTR and the recommended percentage of devolution to the ADCs, it is clear that the state government had to incur transfer of huge amount of funds to them as post devolution revenue deficit grant (PDRDG). As presented in Table 8.4, the projected amount of tax devolution accounted for only around 10% of the total revenue expenditure of these ADCs.

In addition, as per the record of the Finance Department, the latest data on the revenues of the ADCs (though no separation were made between OTR and ONTR) the aggregate own revenue (OTR & ONTR) of the three ADCs did not show substantial increase in recent years. The total own revenue receipt (ORR) of these ADCs are, respectively, ₹231.32 lakh, ₹213.1

lakh, and ₹322.51 lakh for the year 2015-16, 2016-17 and 2017-18. The C&AG has been entrusted with the Technical Guidance & Support (TG&S) over the audit of all the local bodies. Meanwhile, the State Government made separate office for the Director of Local Fund Audit under the Department of Account & Treasuries to take responsibility for audit of the accounts of the local bodies. The local fund audit has to be laid in the State Legislative Assembly. The latest report of Local Fund Audit was laid in the Assembly on 14th November 2017.

Table 8.3: Budgetary Positions of the three Autonomous District Councils

₹ lakh

	Items	2009-10 (Actual)	2010-11 (Actual)	2011-12 (PA)	2012-13 (RE)	2013-14 (Proj)	2014-15 (Proj)
1	Own Tax Revenue	101.5	113.0	134.4	173.1	192.9	220.8
2	Own Non-Tax Revenue	31.9	35.5	109.3	88.3	93.3	125.5
3	Own Revenue Receipts (ORR)	133.4	148.6	243.7	261.4	286.2	346.3
4	Non-Plan Grants from State	8363.2	11466.0	12768.0	14500.0	15052.0	16540.0
5	Central FC Grants (Non plan)	--	80.0	187.5	--	160.0	160.0
6	Total Non-Plan Grant	8363.2	11546.0	12955.5	14500.0	15212.0	16700.0
7	Plan Grants	5639.6	6174.2	7275.1	11613.9	11587.4	5891.0
8	Total Transfer	14002.8	17720.2	20230.6	26113.9	26799.4	22591.0
9	Total Revenue Receipt (TRR)	14136.1	17868.8	20474.3	26375.4	27085.6	22937.3
10	Total Revenue Expenditure (TRE)	14073.4	17720.2	19070.7	26603.0	27242.1	22591.0
11	TRE as % of TRR (*percent*)	99.6	99.2	93.1	100.9	100.6	98.5

Source: Budget Documents of ADCs (reproduce from the Report of the First SFC, Mizoram 2015)
Note: PA: Pre Actual; & RE: Rough Estimate, & Proj.: Projected

Table 8.4: Evaluation of the Impact of First SFC Recommendation to ADCs

₹ Lakh

	Items	2009-10 (Actual)	2010-11 (Actual)	2011-12 (PA)	2012-13 (RE)	2013-14 (Proj)	2014-15 (Proj)
1	Total Own Tax Revenue of the State	10758	13008	17867	22315	22978	26653
2	Non-Plan Grants to ADCs	8363	11466	12768	14500	15052	16540
5	Total Revenue Expenditure (TRE)	14073.4	17720.2	19070.7	26603.0	27242.1	22591.0
3	*Projected* Devolution as Recommended by SFC	941.3	1138.1	1563.3	1952.5	2010.5	2332.0
4	*Projected* Devolution as % of TRE (%)	6.69	6.42	8.20	7.34	7.38	10.32

Source: Computed

Table 8.5 presents the budgetary status of the 3 ADCs from 2009-10 to 2014-14 in a more detailed manner. It can be seen from this table that the total revenue receipt (TRR) of MADC was the highest throughout the years under consideration, while LADC generated the largest amount of own revenue (tax and non-tax) during this period. It should also be noted that there was no significant improvement in revenue receipts relative to the increasing revenue expenditure in all the 3 ADCs over the years.

Table 8.5: Detailed Statement of Fund Transfer to the three Autonomous District Councils

Rs. Lakh

Items		2009-10 (Actual)	2010-11 (Actual)	2011-12 (PA)	2012-13 (RE)	2013-14 (Proj)	2014-15 (Proj)
1. Chakma Autonomous District Council (CADC)							
1	Own Tax Revenue	22.75	23.16	34.08	37.51	37	50
2	Own Non-Tax Revenue	3.91	4.84	55.54	23.42	29.49	55.65
3	Own Revenue Receipt (ORR)	26.66	28	89.62	60.93	66.49	105.65
4	Non-Plan Grants from State	1490.57	2186	2657	3136	3195	3510
5	Central FC Grants (Non plan)	--	22.5	45	--	45	45
6	Total Non-Plan Grant	1490.57	2208.5	2702	3136	3240	3555
7	Plan Grants	2458.09	1861.98	2224.53	3920	2138.74	1550
8	Total Transfer	3948.66	4070.48	4926.53	7056	5378.74	5105
9	Total Revenue Receipt (TRR)	3975.32	4098.48	5016.15	7116.93	5445.23	5210.65
10	Total Revenue Expenditure (TRE)	3948.57	4070.48	4926.53	7101.01	5378.74	5105
11	TRE % of TRR (percent)	99.3	99.3	98.2	99.8	98.8	98.0
2. Lai Autonomous District Council (LADC)							
1	Own Tax Revenue	48.7	55.2	65	71	72.5	73.3
2	Own Non-Tax Revenue	24.2	26.2	48.4	54.8	47.5	48.7
3	Own Revenue Receipt (ORR)	72.9	81.4	113.4	125.8	120	122
4	Non-Plan Grants from State	3491.6	4890	5183	5996	6237	6854
5	Central FC Grants (Non plan)	--	30	60	--	60	60
6	Total Non-Plan Grant	3491.6	4920	5243	5996	6297	6914
7	Plan Grants	1627.8	2327	2679.4	3955.6	5611.4	2391
8	Total Transfer	5119.4	7247	7922.4	9951.6	11908.4	9305
9	Total Revenue Receipt (TRR)	5192.3	7328.4	8035.8	10077.4	12028.4	9427
10	Total Revenue Expenditure (TRE)	5190.12	7247	6762.5	10395.64	12351.17	9305
11	TRE % of TRR (percent)	100.0	98.9	84.2	103.2	102.7	98.7
3. Mara Autonomous District Council (MADC)							
1	Own Tax Revenue	30	34.65	35.32	64.6	83.4	97.48
2	Own Non-Tax Revenue	3.8	4.5	5.37	10.11	16.3	21.18
3	Own Revenue Receipt (ORR)	33.8	39.15	40.69	74.71	99.7	118.66
4	Non-Plan Grants from State	3381	4390	4928	5368	5620	6176
5	Central FC Grants (Non plan)	--	27.5	82.5	--	55	55
6	Total Non-Plan Grant	3381	4417.5	5010.5	5368	5675	6231
7	Plan Grants	1553.71	1985.24	2371.17	3738.33	3837.22	1950
8	Total Transfer	4934.71	6402.74	7381.67	9106.33	9512.22	8181
9	Total Revenue Receipt (TRR)	4968.51	6441.89	7422.36	9181.04	9611.92	8299.66
10	Total Revenue Expenditure (TRE)	4934.71	6402.74	7381.67	9106.33	9512.22	8181
11	TRE % of TRR (percent)	99.3	99.4	99.5	99.2	99.0	98.6

Source: Budget Documents of ADCs (reproduced from the Report of the First SFC, Mizoram 2015)

Note: PA: Pre Actual; & RE: Rough Estimate, & Proj.: Projected

8.4. Transfer to Village Councils

The Village Councils (VCs) in Mizoram enjoyed a high level of autonomy in village administration including judicial matters prior to the abolition of Mizo District Council and emergence of Union Territory in 1972, and statehood in 1987. The matters of village governance have now been left to the Local Administration Department (LAD) of the Government, while the VCs are given limited financial and administrative authorities. A total of 757 villages have separate VCs, viz. 87 in LADC areas, 93 in MADC, 87 in CADC; and 91 in Aizawl District, 138 in Lunglei District, 105 in Champhai District, 44 in Serchhip District, 45 in Kolasib District, and 85 in Mamit District. With the exception of the localities in Aizawl City, which are under Aizawl Municipal Corporation (AMC), all localities in other urban towns possess VCs.

The powers conferred to the VCs in Mizoram are as follows:

(1) Allotment of land for house sites (except in urban town);
(2) Control of stray animals, with fines imposed on owners;
(3) Power to enforce social works for common benefit of the community in which every household has to participate by obligation, with fines imposed on those who do not comply the social work order;
(4) It also functions as a Village Court and is capable of trying cases of civil and miscellaneous nature falling within their purview of village or tribal laws and customs;
(5) The Village Court can also try criminal cases falling within the purview of tribal laws and customs, and offences of petty nature, and can impose fines which may extent to ₹500 according to the nature of offence; and
(6) It looks after and manages burial grounds.

The regular core functions that have been assigned to the VC are: (i) street lights are fixed at the points selected by the VC; (ii) public water points are fixed at the places selected by the VC; (iii) public water points of natural sources are under the control of VC; and (iv) it looks after village cleanliness and sanitation. In addition to these, they are also assigned developmental functions: (i) activities related to the grants received from the Central Finance Commissions for the schemes i.e. water supply & sanitation are implemented through VC; and (ii) schemes under Rural Development Programmes are mostly implemented through VC.

At present, there are three main sources of revenue for the VCs, namely own revenue, transfer from the centre through recommendation of Finance Commissions, and grand-in-aid from the state government. In addition to these sources, there is also fund transfer from the central government for some specific central schemes which are implemented by the District/Block/Village Council. The main sources of own revenue for the VCs are animal tax, collection of fees for the village crier, contribution against absence from social work and fines for absence from social work, fees for issuing documents (ILP, etc.), and other sources. Table 8.6 presents the revenue of the VCs from different sources and its expenditure from 2010-11 to 2014-15. Due to unavailability of data, data for earlier years could not be presented in this table.

Table 8.6: Fund Devolution to the Village Council and Expenditure

₹ in Lakh

Year	Own Revenue	Grant-in-Aid from State Government	Transfer from 13th FC	Total Revenue	Revenue Expenditure	Capital Expenditure	Total Expenditure
2010-11	6.20	151.67	1971.96	2129.83	151.67	1978.16	2129.83
2011-12	3.28	124.41	1188.00	1315.69	124.41	1191.28	1315.69
2012-13	4.14	145.42	1188.00	1337.56	145.42	1192.14	1337.56
2013-14	4.92	198.14	3102.71	3305.77	198.14	3107.63	3305.77
2014-15	11.8	249.89	1348.32	1610.01	249.89	1348.32	1598.21

Source: Finance Department, Government of Mizoram

The VCs generated a meagre amount of revenue from own sources, which ranged from ₹3.28 lakh in 2011-12 to ₹11.8 lakh in 2014-15, while the grant-in-aid from the state government increased over the years, from ₹151.6 lakh in 2010-11 to ₹249.89 lakh in 2014-15. The grant-in-aid given to the VC are basically used for revenue expenditure under the head of salary and expenditures. At the same time, there was substantial amount of fund transfer from the 13th Finance Commission. The total transfer was ₹1971.96 lakh in 2010-11, ₹1188 lakh in 2011-12. It reached a peak of ₹3102.71 lakh in 2013-14 but decreased to ₹1348.32 in 2014-15. However, the receipt of fund transfer from the central Finance Commission was discontinued from the FC-XIV award period (2015-16). The pattern of expenditure of the VCs shows that the fund receipt from Central FC were fully utilised by the VC for capital expenditures and were used mainly for creation of village assets like internal roads, sanitation, etc. Unfortunately, with the onset of the FC-XIV award period, fund transfer to the VCs for creation of assets (capital expenditure) have completely stopped, and they are practically deprived of undertaking developmental activities.

Table 8.7: Impact Evaluation of State Finance Commission on Fund Transfer to Village Council

₹ in lakh

Sources	2016-17	2017-18	2018-19	2019-20
1. Devolution Recommended by SFC	1200.72	1441.89	1752.34	2046.27
2. Actual Devolution	437.14	1441.89	----	----
3. Grant-in-Aid Recommended by SFC	930.71	852.78	753.25	628.37
4. Grant-in-Aid Actual	763.18	689.55	----	----
5. Total Transfer as Recommended by SFC	2131.43	2294.67	2505.59	2674.64
6. Actual Transfer	1200.32	2131.44	----	----
7. Achievement Percent (%)	56.32	92.89	----	----

Source: Finance Department, Government of Mizoram

As per the recommendation of the First SFC, devolution of funds to the Village Councils (VCs) started from the FY 2016-17. To examine the impact of the SFC on the position of fund transfer from the state government to the VCs, Table 8.7 presents the recommended amount and achievement for the first two years of SFC award period. The recommended amount of devolution to the VCs during the award period increased from ₹1200.72 lakh in 2016-17 to ₹2046.27 lakh in 2019-20, while the achievement rate in the first year was only 36.4%, but there was 100% achievement in the second year (2017-18). Similarly, the recommended grant-in-aid decreased from ₹930.71 lakh in 2016-17 to ₹628.37 lakh in 2019-20, and the achievements in the first and second year were 82% and 80.85% respectively. The total fund transfer from the state government to VC as recommended by SFC increased consistently from ₹2131.43 lakh in 2016-17 to ₹2674.64 lakh in 2019-20 with the achievement rate (ratio of actual transfer to recommended transfer) in the first two years at 56.32% and 92.89%.

Given the discontinuation of fund transfer to the VC from Central Finance Commission with effect from FC-XIV, the fund transfer from the state government through SFC recommendation has occupied a significant place in the funding of local government in rural areas. However, with the limited own tax revenue generation by the state government side by side with the meagre own revenue collection by VCs, the capacity of the latter in undertaking own development activities has been seriously limited.

8.5. Transfer to Aizawl Municipal Corporation

The Aizawl Municipal Council was established on 1st July 2007 under The Mizoram Municipalities Act, 2007. It was upgraded to Corporation on 15th October 2015 by Fourth Amendment of the Mizoram Municipalities Act 2007. Under the AMC, there are 19 wards comprising of 82 localities with a total population 2.93 lakhs, according to 2011 Census. Each locality is governed by a separate elected council called Local Council (LC). Although the AMC collects revenue from own sources like property tax, parking fees, advertisement fee, trade license, etc., the fund transfer from the Central Government through recommendations of Finance Commission and Grant-in-Aid received from the State Government are the main sources of revenue.

Figure 8.1 presents the trends of fund transfer to AMCs from the two main sources of central Finance Commission and Grant-in-Aid from the State Government during the period from 2010-11 to 2017-18. There was continuous increase in central transfer during the FC-XIII award period, reaching a maximum of ₹3600.46 lakh in 2014-15. But there was a sharp decline with the onset of FC-XIV award period to ₹1154 lakh in 2015-16, but it slightly increased to ₹1846 lakh in 2017-18. Meanwhile, state transfer in the form of grant-in-aid increased slowly and continuously till 2015-16 from ₹161.5 lakh in 2010-11 to ₹570.28 lakh in 2015-16, but decreased to ₹388.04 lakh in 2016-17. However, the state transfer picked up significantly to ₹1721.71 in the second year of the SFC award period (2017-18). It can be assumed that the implementation of the recommendation of the 1st SFC had resulted in the significant increase in fund transfer from the state government to AMC. Thus, the fund transfer from the state government has started assuming significant importance in the funding of the Corporation.

Figure 8.1: Fund Transfer to Aizawl Municipal Corporation (₹ lakh)

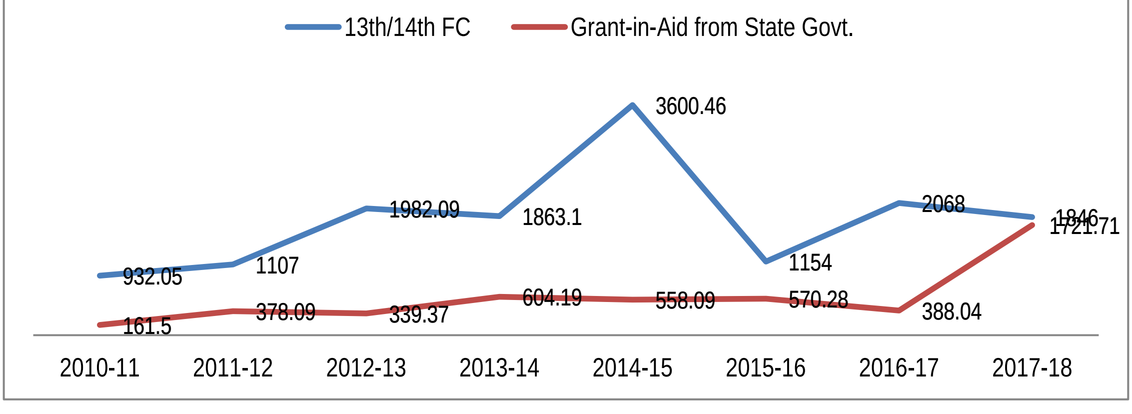


Table 8.8: Revenue and Expenditure of Aizawl Municipal Council

Rs. Lakh

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
1. Total Own Revenue	20.41	29.7	304.81	102.97	131.02	311.35	498.84	430.66
Property Tax	---	---	223.47	---	1.94	116.68	220.03	250
Non-Tax Revenue	20.41	29.7	81.34	102.97	129.08	194.67	278.81	180.66
2. Total Fund Transfer	1093.55	1485.09	2321.46	2467.29	4158.55	1724.28	2456.04	3567.71
Transfer from 13th/14th FC	932.05	1107	1982.09	1863.1	3600.46	1154	2068	1846
Grant-in-Aid from State Govt.	161.5	378.09	339.37	604.19	558.09	570.28	388.04	1721.71
3. Total Expenditure	393.76	1686.25	1878.82	2830.45	3027	2591.64	2802.57	6202.37
Revenue	181.91	407.79	931.97	1375.16	1374.87	1120.49	1741.97	2563.37
Capital	211.85	1278.46	946.85	1455.29	1652.13	1471.15	1060.6	3639

Source: Finance Department, Government of Mizoram

The substantial increase in revenue collection from own sources by more than 20 times within a span of 8 years is a commendable development of the AMC. Of the own revenue, collection from non-tax revenue increased consistently from ₹20.41 lakh in 2010-11 to ₹180.66 lakh in 2017-18. Although there was high fluctuation in revenue collection from property tax, this tax has become the major source of own revenue and is expected to continue to be so in the future. It is also notable that the capital expenditure accounted for more than half of the total expenditure all through the years. One can assume that AMC is contributing substantial activities towards the development of Aizawl city.

8.6. Concluding Notes

The foregoing analysis showed that the exemption of the state from the operation of 73rd and 74th Constitutional Amendment and the resulting non-existence of PRIs resulted in limited fund transfer to the rural local bodies, especially after the implementation of the recommendation of FC-XIV which discontinued central transfer to non-PRI local bodies in rural areas. This seriously affected the scope of developmental works undertaken by the local government. Although the state government had taken up commendable initiatives for transfer to rural local bodies by adopting proper mechanism of fund transfer through the implementation of the recommendation of SFCs, there was no substantial improvement in the amount of fund transfer, given the limited amount of state’s OTR. Moreover, the VCs are deprived of financial and administrative powers it used to possess during the period prior to UT. Thus, the very principle of local self-government practically lost its ground in rural areas of Mizoram. Therefore, it is necessary to delegate more functions to the democratically elected Village Councils to sustain grassroot democracy in rural areas. Further, as the tenure, composition, and forms of functioning of Village Council is similar to PRIs in other parts of the country in many respects, they should not be deprived of transfer from the Central Government through the Finance Commission.

The Autonomous District Councils (ADCs) are functioning as per Constitutional mandate and are basically depending on the resource transfer from the state government. With the slow growth of revenue collection from own sources relative to the fast growing revenue expenditure vis-à-vis availability of limited amount of state's OTR for devolution through SFC formula, the three ADCs in the state are sustaining on the grant-in-aid received from the state government. Steps have to be taken by these ADCs to augment their own revenue and they should take measures to control their revenue expenditure. At the same time, given the fiscal position of the state government, it is also necessary that the Central Government make arrangements for transfer of substantial amount of fund to them through Finance Commission.

The only municipality, Aizawl Municipal Corporation (AMC), which utilise both sources of major transfer of fund from the Central Finance Commission as well as from the state government, has made commendable progress in terms of own revenue generation and expenditure towards the development of the city. However, the fund received from the central government decreased sharply during the award period of FC-XIV necessitating more transfer from state government in the form of grant-in-aid. Given the increasing expenditure obligations in the delivery of public services in urban areas side by side with the declining fiscal space of the state government, it is necessary that transfers via Finance Commission be directed consistently in an upward trend.

Chapter 9

CONCLUSIONS AND SUGGESTIONS

Evaluation of the state finance of Mizoram is undertaken in this study using various fiscal parameters and other factors affecting the financial health of the state. The key indicators that were analysed are revenue, expenditure, deficit, debt, and other liabilities. In addition to these, this study also examined the implementation of the FRBM Act, nature, and magnitude of subsidies, power sector, and public sector undertakings, and transfers to local bodies. The conclusions and suggestions presented in the foregoing chapters of this study are summarised as follows:

There has been a consistent increase in the revenue transfer from the centre, which constitutes around 90% of the total revenue receipt of the state government, in the form grants and shared taxes which recorded annual growth rates of 12.4% and 21.2% respectively. The onset of FC XIV award period brought about significant changes in the component of central revenue transfer where the contribution of shared taxes increased significantly from 16.5% to 35.2% side by side with a substantial decrease of grant-in-aid (post devolution revenue deficit grant) from 74.2% to 55% of the total revenue receipt of the state government. *So, enhancement of vertical devolution by FC XIV had significant impact on fund transfer to the state in which the state's share in the central taxes has started to gain more importance.*

The state performed moderately well in raising own tax revenue (OTR) and there was a quantum jump in the later years due to increased collection of state excise following the implementation of MLPC Act, 2014 that allowed sale of liquor. The state was able to achieve commendable annual growth of OTR at 20.3% during this period. It is to be noted that more than 85% of the OTR came from VAT (68.9%) and state excise (16.9%) in 2015-16. At the same time, poor mobilisation of revenue from user charges resulted in a sticky growth of own non-tax revenue (ONTR) which grew by around 9% per annum during this period.

The state government showed continued effort to rationalise VAT and to bring about efficiency in its collection and administration. Despite all these, the buoyancy was estimated at around unity, meaning that it grew more or less proportionately with GSDP. Moreover, the estimated tax effort was very low compared to other NE states. *So, this study found the existence of a wide room for its improvement to leverage opportunities arising out of the* *changes in the living standard and consumption patterns of the population.* In fact, this tax was subsumed under the GST regime. It is expected that the new tax regime will transform the system, thus enhancing the tax revenue of the state government.

Although land revenue had shown significant buoyancy with respect to GSDP, there is a wide gap between its tax effort and tax capacity. This study observed large revenue potential to leverage since large number of landholdings in rural areas are yet to be assessed due to the capacity limitation of the state's revenue department. So, the problem seems to lie on capacity limitation, rather than institutional constraints. *It is thus suggested that necessary efforts be made by the government to assess all the landholdings with immediate effect and institute a more efficient mechanism for its revenue collection.*

The most buoyant tax observed in this study was Stamp & Registration which recorded an annual growth of more than 38%, mostly fuelled by the amendment of related rules and the establishment of a separate Directorate to look after it since the later part of the study period. It was observed that the scope of Stamp & Registration in Mizoram is normally restricted to transfer of land pass and its securitisation, while the depth of coverage on other assets is rather low. Further, interview of some officials and middlemen of land transfer business revealed that there is rampart under-quoting of land price during sale deeds, undertaken in mutual agreement between the participating parties to avoid high registration fee. The same is also practised in registrations including those under Societies Registration Act 2005. Thus, there is high revenue potential from Stamp & Registration through rationalisation of its structure and efficiency in the collection. *The state government need to clearly define the tax parameters and make the people aware of its significance, while also taking steps to make dealings on transfer of assets more transparent, thus enhancing efficient assessment of taxes/fees.*

The significant increase in revenue receipt from state excise after the implementation of MLPC Act, 2014 deserves recognition, because it has become the second most important source of OTR in the state. Given the high degree of buoyancy, its collection can be increased significantly by making its structure more progressive relative to the growth of the economy. Alcohol is by nature a *demerit good* and its consumption is not desirable for the society nor is it healthy for the consumer themselves. In fact, there is strong objection from the Church bodies against its free sale in the state. At the same time, the prices of different IMFL sold in the state are low compared to the neighbouring states. *Given all these, there is a scope to* *mobilise more revenue by introducing an additional levy which may be in the form of cess or sin tax.* In fact, there was an upward revision of VAT on tobacco products on these grounds in the recent years.

It is surprising to observe that tax collection from vehicles and passengers & goods tax were non-buoyant with low tax effort in the age of fast growing transport sector, and ever increasing motor vehicles causing traffic jams in all the urban areas. Moreover, different types of luxury vehicles are increasingly plying on roads every year in the state. As per the record of Directorate of Economics & Statistics, the number of vehicles registered by the government grew at a CAGR of more than 14%, from around 46 thousands to 1.5 lakhs during the 10 years. So*, it is necessary to rationalise the structure of vehicles tax, and taxes on goods & passenger in a progressive manner keeping in view the (i) growing number of luxury vehicles, (ii) changes in the travel mode choices among the people, and (iii) emergence and growth of logistic sector and changes in the means of commodity transportation.*

The tribal population living and working in Mizoram are exempted from paying income tax, but they are liable if income is earned in any other part of India. Given the need for augmenting resources for the state, there is a sound economic sense if professional tax is used as some kind of proxy for taxing earnings in Mizoram and keeping it under the state subject. In fact, there is no strong logic for fixing the ceiling of profession tax at ₹2500. *Instead, it has to be made progressive according to the level of earnings of the income earners. However, any action on this matter would invite the amendment of Article 276 (2) of the Indian Constitution which is beyond the legislative purview of the state government.*

It was observed that there was substantial increase in the receipt from own non-tax revenue (ONTR) from ₹133.5 crores to ₹297.6 crores during the study period, but the rate of increase failed to keep in pace with the economic development, represented by GSDP. Thus, ONTR is not buoyant to the level of economic development. This is basically due to the poor performance of the state in the collection of user charges from different services. The insignificant buoyancy of interest, dividend, etc. is the manifestation of the poor performances of the PSUs and cooperative institutions in which the government had invested. Instead of contributing revenue to the state's coffers in the form of dividend and profits, the PSUs are basically the liability of the state that drain the financial resources. Thus, *the state government need to take up initiatives to rationalise the user charges for different services* *rendered to the people and institute continuous review mechanism in view of the price escalation as well as the level of economic development*. The recent initiative of the state government for the closure of some loss making PSUs is commendable, and *it is necessary to extend such initiatives in other loss making units as well*.

It is notable that water tariff (receipt from water supply & sanitation) which contributed more than 80% of the receipt under social services was found to be significant and buoyant with respect to GSDP. This indicates the *existence of great revenue potential through efficiency in collection and review of the rate structure*. At the same time, power tariff (power supply) which is the major contributor of ONTR under economic services was not buoyant, indicating stagnancy of revenue collection relative to GSDP. In this digital age where people are using different kinds of household equipment with high electricity consumption, one would expect revenue collection from power tariff be at least in pace with the level of economic development. *This observation clearly necessitates power sector reform in the state to bring about efficiency in revenue collection while also improving technical efficiency by bringing down operational losses*. Further, this study also came up with the suggestion that *user charges for any service rendered by the government be determined on the basis of economic status of different groups, rather than that of imposing a flat rate. There may also be an increment of the charges, in regular intervals, at least at a marginal rate.*

The government had taken several initiatives to raise the receipt from OTR and ONTR during the study period. However, only few initiatives were undertaken by the government to raise ONTR. Any effort shown by the government to rationalise and enhance the tax base was found to be positively responded to by revenue collection, and similarly, the revision of tariff also had a positive impact on ONTR receipt. *Thus, continued effort of the government is necessary to enhance the tax base and to raise ONTR.* At the same time, it is understood that politico-economic consideration are at play with respect to every decision on the collection of non-tax revenue through changes in the user charges, fees, etc. and it is practically impossible to apply pure economic rationality. In spite of this fact, it was found that there is indeed a possibility of determining user charges (power tariff, etc.) at a level which would maximise cost recovery, while also preventing over consumption by people in the higher income bracket. *It is necessary to understand the socio-economic status of the targeted users to determine effective rate of user charges for any services provided by the government.*

The total public expenditure of the state government had increased manifold with double digit annual growth rate. One can see an improvement in the magnitude of public expenditure over the years when taken as a percentage of GSDP, which shows a declining trend. However, *the expanding volume of revenue expenditure surpassing the growth rate of total expenditure has to be a serious concern*.

The share of committed expenditures on salaries, pensions, and interest payments increased tremendously which resulted in significant decline of the allocation for capital outlay (for creation of assets). In fact, the increasing budgetary allocation for capital outlay should be the basic fiscal effort to sustain economic growth, and its declining allocation would pose serious challenge to the sustainability of economic growth in the long run. Moreover, the composition of expenditure on plan and non-plan expenditure also showed significantly higher growth rate of non-plan expenditure over plan expenditure during the period under study. Consequently, *the main thrust area for efficiency in resource allocation boils down to the rationalisation and control of revenue expenditure. Thus, any expenditure policy of the state government must be directed towards containing the ever expanding revenue expenditure.*

Functional composition of expenditure showed higher allocation of resources for developmental expenditure (social and economic services), while less than one-third was allocated for general services. The declining allocation for economic services was accounted for by a surge in social services. This is justified on grounds that increased allocation for education, health, and water supply are considered key to social development.

The share of economic services declined over the years, driven by a sharp decline in the share of agriculture and allied activities after 2014 and insufficient expenditure for rural development. The state being an agrarian rural economy, it is surprising to see the decline in the relative share of agriculture and rural development. Given the discontinuation of several CSS for agriculture and allied and rural development schemes post FC XIV, *it is necessary that the state government allocate more resources for agriculture and rural development to achieve more inclusive growth.*

There has been slight improvement in cost recovery under social services, under which water tariff recorded substantial increase while others like education did not show improvement over the years. Meanwhile, the scenario of cost recovery under economic services deteriorated due to the stagnant and declining power tariff collection. It is thus clear that the efficiency of public expenditure is significantly dependent on the cost recovery, which in turn is dependent on collection of user charges. Therefore, *effort needs to be undertaken for rationalisation and revision of user charges and fees, keeping in view the changing consumption patterns and living standard of the people, to improve the efficiency of public expenditure.*

To improve efficiency in public expenditure, the state government embarked on expenditure reform under Mizoram Public Resource Management Programme (MPRMP) through the Structural Adjustment Loan availed from ADB since 2009. The significant achievement that can be perceived as of now toward efficiency in public expenditure are the computerisation of treasuries, introduction of Voluntary Retirement Scheme (VRS), and pension reform by introducing contributory based New Pension Scheme (NPS). The reform is expected to have far reaching effects in containing revenue expenditure in the long run. *Further expenditure reform is necessary to bring about efficiency of public expenditure on administrative expenses. A good candidate for the next round of expenditure reform may be (i) streamlining of existing posts in various departments and abolition of redundant posts, and (ii) rationalisation of the liability of the state government on medical reimbursement of the employees.*

The efforts of the state government to rationalise TPDS through digitisation and other arrangement in rice procurements have significantly reduced public expenditure. *The success of the initiative should be taken as the beginning, and further reforms may be introduced to improve efficiency in the supply chain and delivery of PDS. The reforms may either be in the form of Aadhaar linked direct benefit transfer (DBT) or any other technology aided system.*

With the exception of two financial years, namely 2013-14 and 2014-15, the state could achieve revenue surpluses. It was also able to attain fiscal surplus in 2015-16 with the onset of FC XIV award period. Moreover, the roadmap laid down by the FC XIII on outstanding debt as percentage of GSDP could also be achieved and the interest payment as percentage ratio of revenue receipt was contained below 10% and is projected to decline further. It is commendable that the state government expressed its commitment to bring down revenue deficit to zero, and declared the year 2015-16 as "Year of Consolidation". It is necessary that the government extend its commitment in the coming years and adopt a clear benchmark in the determination of fiscal roadmap. *This study emphasised the necessity of keeping (i) revenue deficit to zero, (ii) zero fiscal deficit below by 2020-24, and (iii) interest payment* *below 10% of revenue receipt, for a sustainable fiscal roadmap in the FC-XV period of 2020-2025.*

The huge expenditure incurred by the government in the delivery of various services at a rate below the economic price is well known, and they are practically subsidies in implicit forms. Food subsidy through TDPS has been the most significant subsidy given to the people, and it has great impact on total public expenditure. The existing enrolment under different schemes (Food Security, AAY, etc.) revealed that all the bona fide residents are the beneficiaries of TPDS in Mizoram. The government has been spending huge amount of money for purchase of rice for distribution under the scheme every year and it has gone a long way in bringing about efficiency in its delivery. However, various budgetary documents do not clearly present the actual amount of expenditure for its procurement and disaggregation of subsidy component. In fact, the expenditure on the procurement of rice for TPDS is booked in the capital disbursement account along with other capital expenditure under this head. The same is also the case for the receipt which is booked under revenue account. Such a complicated accounting system has prevented the people from clearly understanding the extent of food subsidies and thus, they usually fail to honour its very purpose. It is suggested that *(i) there must be simplified accounting system for TPDS which clearly presents subsidy components and make the people aware of the extent of subsidy they availed in a factual manner, thereby, creating awareness and accountability of the beneficiaries; (ii) the simplified accounting system may be extended to other social and economic services from which people receive subsidies in implicit form; and (iii) universalisation of food subsidy to the people may lead to waste of resources as it can easily be misused for other purposes (e.g. use for animal feed, etc.) by certain strata of the population. Thus, the system has to be streamlined and made more target oriented. Further, the use of Family Ration Card as documentary proof for availing various services may be stopped or alternative documents may be issued in lieu of it.*

The state government embarked on Memorandum of Agreement (MOA) with the Ministry of Power in 2002 for undertaking reforms in the power sector, under which the JERC for Manipur and Mizoram was established under the provision of Electricity Act 2003. The establishment of JERC, which instituted mechanism for continuous revision of power tariffs, is to date the only significant initiative of the state government in power sector reform. However, corporatisation of power & electricity department (P&ED) is yet to be undertaken, and there is no substantial improvement in efficiency in terms of T&D and AT&C losses till date. Thus, *the state has a long way to go in power sector reforms.* It is necessary that power sector reform, to improve the overall operational efficiency, be one of the next agenda for fiscal policy reforms. The next line of action to this effect may be *(i) corporatisation of P&ED, and (ii) management reforms through separation of the core business units of generation, transmission, and distribution into legally and operationally distinct and independent entities.*

The exemption of the state from the operation of 73rd and 74th Constitutional Amendment and the resulting non-existence of PRIs resulted in limited fund transfer to the rural local bodies, especially after the implementation of the recommendation of FC-XIV. Despite the commendable initiatives of the state government for transfer to rural local bodies by adopting proper mechanism of fund transfer through SFCs, there cannot be transfer of substantial amount given the limited amount of state's OTR. Moreover, the VCs are continuously deprived of financial and administrative powers it used to possess during the period prior to UT, and consequently, the very principle of local self-government practically lost its ground in rural areas of Mizoram. Therefore, *it is necessary to delegate more functions to the democratically elected Village Councils to sustain grassroot democracy in rural areas*. *Given that their roles and functional composition have affinity to PRIs in other parts of the country in many respects, they should not be deprived of fund transfer from the Central Government through the Finance Commission.*

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Annexure - I

Estimated Double Log Regression For Buoyancy of Own Tax Revenues in North Eastern States of India

Dependent Variable	Intercept		Slope		R-square
	Coefficient	t-value	Coefficient	t-value	
Mizoram					
Total Own Tax Revenue	-4.8***	-7.3	1.12***	14.8	0.96
Land Revenue	-12.78***	-7.32	1.58***	7.97	0.89
Stamp & Registration	-18.3***	-8.1	2.03***	7.9	0.89
State Excise	-13.2**	-3.02	1.6***	3.31	0.58
VAT/Sales Tax	-4.6***	-6.8	1.1***	13.8	0.96
Taxes on Vehicles	-7.29***	-3.8	1.1***	5.04	0.76
Taxes on Goods & Passengers	-6.01***	1.41	0.75***	4.7	0.73
Profession Tax	-5.17***	-5.84	0.84***	8.37	0.90
Other Taxes & Duties	-8.5***	-5.11	0.91***	4.67	0.73
Assam					
Total Own Tax Revenue	-2.37	-1.64	0.95***	7.58	0.88
Land Revenue	-1.9	-1.4	0.59***	4.97	0.76
Stamp & Registration	-3.2**	-2.7	0.72***	6.87	0.85
State Excise	-7.67***	-6.88	1.18***	12.18	0.95
VAT/Sales Tax	-3.0*	-2.0	0.98***	7.5	0.88
Taxes on Vehicles	-4.45***	-4.89	0.86***	10.94	0.94
Taxes on Goods & Passengers	-11.22	8.42	1.46*	1.99	0.33
Profession Tax	1.07	1.66	0.34***	6.13	0.82
Other Taxes & Duties	-12.9***	-4.79	1.46***	6.23	0.83
Arunachal Pradesh					
Total Own Tax Revenue	-2.87**	-3.31	0.94***	9.62	0.92
Land Revenue	-4.2**	-2.89	0.65***	3.95	0.66
Stamp & Registration	-8.2***	-7.46	1.01***	8.13	0.89
State Excise	-5.48***	-6.87	1.01***	11.21	0.94
VAT/Sales Tax	0.28	0.24	0.53***	3.96	0.66
Taxes on Vehicles	-3.77**	-2.56	0.71***	4.18	0.69
Taxes on Goods & Passengers	-11.07***	-7.75	1.68***	11.06	0.98
Manipur					
Total Own Tax Revenue	-5.11***	-4.33	1.18***	9.10	0.91
Land Revenue	-5.65**	-3.28	0.63**	3.34	0.58
Stamp & Registration	-7.84***	-10.16	1.04***	12.23	0.94
State Excise	-5.82***	-3.66	0.84***	4.84	0.74
VAT/Sales Tax	-5.42***	-4.27	1.21***	8.56	0.90
Taxes on Vehicles	-14.13***	-8.27	1.79***	9.53	0.92
Taxes on Goods & Passengers	-4.47**	-3.2	0.49**	3.19	0.56
Profession Tax	-1.3*	-2.09	0.47***	6.86	0.85
Other Taxes & Duties	-37.54***	-4.86	4.23***	4.97	0.76
Meghalaya					
Total Own Tax Revenue	-4.37*	-2.13	1.11***	5.08	0.76
Land Revenue	2.14	0.18	-0.17	-0.13	0.002
Stamp & Registration	-2.27	-1.68	0.47**	3.3	0.58
State Excise	-4.13***	-6.45	0.93***	13.75	0.96
VAT/Sales Tax	-5.6	-1.77	1.19***	3.53	0.61
Taxes on Vehicles	-8.61***	-9.38	1.24***	12.76	0.95
Taxes on Goods & Passengers	-2.63***	-5.01	0.43***	7.71	0.88
Profession Tax	0.86	0.22	0.04	0.09	0.001
Other Taxes & Duties	-10.57***	-6.89	1.23***	7.53***	0.87

Note ***, ** & * indicates significant at 1%, 5% & 10% level of significance respectively

Continue...

Dependent Variable	Intercept		Slope		R-square
	Coefficient	t-value	Value	t-value	
Nagaland					
Total Own Tax Revenue	-2.51**	-3.06	0.86	9.74	0.92
Land Revenue	-2.92***	-7.53	0.26***	6.37	0.84
Stamp & Registration	-4.19***	-5.85	0.49***	6.36	0.84
State Excise	-3.28***	-5.32	0.49***	7.36	0.87
VAT/Sales Tax	-3.20***	-3.63	0.9***	9.51	0.92
Taxes on Vehicles	-6.48***	-6.08	1.04***	9.12	0.91
Taxes on Goods & Passengers	-8.3***	-4.19	1.06***	4.97	0.76
Profession Tax	-0.24	-0.44	0.37***	6.15	0.82
Other Taxes & Duties	-32.28***	-7.87	3.31***	7.51	0.88
Sikkim					
Total Own Tax Revenue	0.11	0.15	0.64***	7.34***	0.87
Land Revenue	-2.11	2.19	0.38	1.48	0.22
Stamp & Registration	-1.32	-1.67	0.35***	3.81	0.64
State Excise	-1.08	-2.66	0.64***	13.32	0.96
VAT/Sales Tax	-3.6*	-2	0.96***	4.55	0.72
Taxes on Vehicles	-2.76***	-7.64	0.62***	14.49	0.96
Profession Tax	3.68	0.90	-0.19	-0.41	0.02
Other Taxes & Duties	-3.17**	-3.24	0.79***	6.9	0.86
Tripura					
Total Own Tax Revenue	-3.51***	-4.29	1.04***	12.31	0.95
Land Revenue	-5.52	-1.31	0.78	1.79	0.29
Stamp & Registration	-4.87***	-6.05	0.84***	10.11	0.93
State Excise	-5.62***	-4.91	1.03***	8.74	0.91
VAT/Sales Tax	-4.81***	-5.24	1.14***	12.08	0.95
Taxes on Vehicles	0.19	0.16	0.33**	2.74	0.48
Profession Tax	-0.46	-1.19	0.4***	10.07	0.93
Other Taxes & Duties	-1.45	-0.33	0.21	0.46	0.02

Note ***, ** & * indicates significant at 1%, 5% & 10% level of significance respectively

Annexure-II

Mizoram At a Glance

Sl. No.	Particulars	Unit	
1.	**Geographical Area**	Sq. Km	21,081
2.	**Geographical Location**		
	Longitude	Degree	92°.15"E to 93°29"E
	Latitude	Degree	21°.58" N to 24°.35" N
3.	**Length**		
	North to South	Kms	277
	East to West	Kms	121
4.	**International Borders**		
	With Myanmar	Kms	404
	With Bangladesh	Kms	318
5.	**Inter State Borders**		
	With Assam	Kms	123
	With Tripura	Kms	66
	With Manipur	Kms	95
6.	**Administrative Set Up**		
	1. No. of District	No.	8
	2. No. of Autonomous District Council	No.	3
	3. No. of Sub-Division	No.	23
	4. No. of R.D. Block	No.	26
	5. No. of villages (2011 census)	No.	830

7.	**Total Population (2011 Census)**		
	Persons	No.	10,97,206
	Males	No.	5,55,339
	Females	No.	5,41,867
8.	**Decadal Population Growth (2001 – 2011)**		
	Absolute	No.	2,08,633
	Percentage	%	23.48%
9.	**Population Density**	Per Sq. Km	52
10.	**No. of females per 1000 males**	No.	976
11.	**0 – 6 Population (2011 Census)**		
	Persons	No.	1,68,531
	Males	No.	85,561
	Females	No.	82,970

Literacy (2011 Census)			
12	Persons	No	8,48,175
	Males	No	4,38,529
	Females	No	4,09,646
	Rate	%	91.33
Population (2011 Census)			
13	Rural	No	5,25,435
	Urban	No	5,71,771
Total Workers (2011 Census)			
14	Main	No	4,15,030
	Marginal	No	71,675

Source: Economic Survey of Mizoram, 2017-18, Planning & Programme Implementation Department, Government of Mizoram

15	**Average Monthly Per Capita Expenditure**		**(2009-10)**	**(2011-12)**
	(Consumer Expenditure)		NSS 66th Round	NSS 68th Round
	a) Rural	Rs.	1,127.90	1,346.35
	b) Urban	Rs.	1,778.94	2,218.67
16	**Agriculture**		**2015-16**	**2016-17**
	a) Gross Cropped Area	''000 ha	221.43	-
	b) Net Area Sown	''000 ha	218.608	-
	c) Gross Irrigated Area	''000 ha	19.775	-
	d) Area under Principal Crops		**2015-16**	**2016-17**
	i) Rice	ha	37,153	36,858
	ii) Maize	ha	5,877	5,779
	iii) Pulses	ha	3,706	3,529
	iv) Oilseeds	ha	2,659	-
	e) Production of Principal Crops		**2014-15**	**2015-16**
	i) Rice	M. Tonnes	62,089	61,516
	ii) Maize	M. Tonnes	10,295	8,911
	iii) Pulses	M. Tonnes	5,041	4,774
	iv) Oilseeds	M. Tonnes	2,957	-
	f) Agricultural Census		**2005-06**	**2010-11**
	i) No. of operational holdings	Nos.	97,223	91,880
	ii) Total operated area	ha	1,16,645	1,04,789.34
	iii) Average size of holdings	ha	1.2	1.14
17	**Livestock Census**		**2007**	**2012**
	a) Total Livestock	'000	364	384.604
	b) Total poultry	'000	1241.814	1260.298
18	**Forest (FSI Report)**		**2015**	**2017**
	a) Area under dense forest	Sq. Km	5,996	5,992
	b) Area under open forest	Sq. Km	12,752	12,194
19	**Electricity**		**2015-16**	**2016-17**
	a) Installed Capacity	MW	52.27	29.35
	b) Gross Generation	MW	594.43	697.95
	c) Power Purchased *	MU	565.55	645.73
	d) Total Consumption	MW	338.35	353.54

Source: Economic Survey of Mizoram, 2017-18, Planning & Programme Implementation Department, Government of Mizoram

20	**Industries**		**2015-16**	**2016-17**
	a) Registered SSI Units during	No.	122	71
	b) No. of farmers registered in Sericulture	Family	5,054	3,880
	c) No. of enterprises (as per 2005 economic census)	No.	47,730	
	d) No. of enterprises (as per 2005 economic census)	No.	57,486	
	e) Average annual growth rate of enterprise (1998 to 2005)		20.44%	
21	**Cooperation**		**2014-15**	**2015-16**
	a) No. of Coop. Societies	No.	1277	1325
	b) Membership	No.	47238	47750
	c) Working Capital	Rs. crore	528.14	528.97
22	**Banking**		**As on 31.03.2016**	**As on 31.03.2017**
	a) No. of Banks/Branches	No.	185	201
	b) Total Deposits	Rs. crores	6423.18	7902.44
	c) Total Advances	Rs. crores	2838.6	3151.11
	d) Credit Deposit Ratio	%	44.19	39.88
23	**Education**		**2015-16**	**2016-17**
	a) No. of Primary Schools	No.	1,950	1,968
	b) Enrolment in Primary Schools	No.	1,59,334	1,49,612
	c) No. of Middle Schools	No.	1,511	1,542
	d) Enrolment in Middle Schools	No.	93,277	88,655
	e) No. of High Schools	No.	614	640
	f) Enrolment in High Schools	No.	41,534	36,529
	g) No. of Higher Secondary Schools	No.	138	163
	h) Enrolment in Higher Secondary Schools	No.	22,986	22,540
	i) No. of Colleges	No.	22	22
	a) Enrolment in Colleges	No.	12,934	13,152
	b) No. of Universities	No.	2	2
	c) Enrolment in Universities	No.	4,799	5,301
24	**Health**		**2015-16**	**2016-17**
	a) No. of Hospitals (incl. Non-Government)	No.	31	32
	b) Community Health Centres	No.	12	12
	c) Primary Health Centres	No.	57	57
	d) Sub-Centres	No.	372	372
			2015	**2016**
	e) Birth Rate	Per '000	22.59	20.05
	f) Death Rate	Per '000	5.86	5.85
	g) Infant Mortality Rate (CRS)	Per '000	18.76	12.66

Source: Economic Survey of Mizoram, 2017-18, Planning & Programme Implementation Department, Government of Mizoram

25	**Roads**		**2015-16**	**2016-17**
	a) Total Road Length under State PWD	Kms	2434.21	2426.56
	b) National Highway	Kms	1465.12	1414.32
	c) State Highway	Kms	170.00	170.00
	d) District Road	Kms	1579.70	1579.70
	e) Village Road	Kms	1863.15	1863.15
	f) Town Road	Kms	704.91	704.91
	g) Misc roads (unclassified)	Kms	1952.53	1789.22
26	**Transport**		**2015-16**	**2016-17**
	Total Motor Vehicles	No.	1,65,694	1,83,255
27	**Communication**		**2015-16**	**2016-17**
	a) No. of Post Offices	No.	388	383
	b) No. of Mobile Connections (excluding Vodafone)	No.	9,54,633	9,56,833
28	**Water Supply**		**2015-16**	**2016-17**
	1) Rural Water Scheme			
	a) No. of villages fully covered (above 40 lpcd)	No.	395	440
	b) No. of villages partially covered (10 lpcd to 40 lpcd)	No.	339	298
	c) No. of villages not covered	No.	0	0
			734	738
	2) Urban Water Scheme			
	a) No. of city/towns fully covered (70 lpcd)	No.	12	10
	b) No. of towns partially covered (above 10 lpcd but below to 70 lpcd)	No.	8	13
	c) No. of towns non-covered (less than 10 lpcd)	No.	3	0

Source: Economic Survey of Mizoram, 2017-18, Planning & Programme Implementation Department, Government of Mizoram

POPULATION OF MIZORAM THROUGH DECADAL CENSUS

Sl. No.	Year	Population (in nos.)			Percentage decadal variation
		Male	Female	Total	
1	*2*	*3*	*4*	*5*	*6*
1	1901	39,004	43,430	82,434	-
2	1911	43,028	48,176	91,204	(+) 10.64
3	1921	46,652	51,754	98,406	(+) 7.90
4	1931	59,186	65,218	1,24,404	(+) 26.42
5	1941	73,855	78,931	1,52,786	(+) 22.81
6	1951	96,136	1,00,066	1,96,202	(+) 28.42
7	1961	1,32,465	1,33,598	2,66,063	(+) 35.61
8	1971	1,70,824	1,61,566	3,32,390	(+) 24.93
9	1981	2,57,239	2,36,518	4,93,757	(+) 48.55
10	1991	3,58,978	3,30,778	6,89,756	(+) 39.70
11	2001	4,59,109	4,29,464	8,88,573	(+) 28.82
12	2011	5,55,339	5,41,867	10,97,206	(+) 23.48

Source: Economic Survey of Mizoram, 2017-18, Planning & Programme Implementation Department, Government of Mizoram