

EVALUATION OF STATE FINANCE OF
MIZORAM
SUBMITTED TO
SIXTEENTH FINANCE COMMISSION OF INDIA



भारतीय प्रबंध संस्थान शिलाँग
Indian Institute of Management Shillong

INDIAN INSTITUTE OF MANAGEMENT SHILLONG
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Dr Mousumi Bhattacharya, Finance and Control Area, IIM Shillong

Dr Amit Prakash Jha, Economics and Public Policy Area, IIM Shillong

Dr Subhadip Mukherjee, Economics and Public Policy Area, IIM Shillong

Dr Varnita Srivastava, Finance and Control Area, IIM Shillong

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List of Abbreviations

ADC	Autonomous District Council
ADF	Augmented Dickey-Fuller
AE	Aggregate Expenditure
ARIMA	Auto-Regressive Integrated Moving Average
ASCL	Aizawl Smart City Limited
ASEB	Assam State Electricity Board
AT&C	Aggregate Technical & Commercial
CADC	Chakma Autonomous District Council
CAGR	Compound Annual Growth Rate
CGST	Central Goods and Services Tax
CO	Capital Outlay
CSGS	Central Sector Generating Stations
DAY-NULM	Deen Dayal Upadhyaya Antyodaya Yojana – National Urban Livelihood Mission
DLRS	Department of Land Revenue and Settlement
EV	Electric Vehicle
FC	Finance Commission
FRBM	Financial Responsibility and Budget Management
FY	Financial Year
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
IGST	Integrated Goods and Services Tax
IMLF	Indian-Made Foreign Liquor
IS	Interest Subvention
LADC	Lai Autonomous District Council
LIC	Life Insurance Corporation
MADC	Mara Autonomous District Council
MFC	Mizoram Finance Commission
MIFCO	Mizoram Food and Allied Industries Corporation
MLPC	Mizoram Liquor Prohibition & Control
MNF	Mizo National Front
MoHUA	Ministry of Housing & Urban Affairs
MoSPI	Ministry of Statistics and Program Implementation
MTFP	Medium Term Fiscal Policy
MW	Mega Watt
NABARD	National Bank for Agriculture and Rural Development
NEEPCO	North Eastern Power Corporation Limited
NERLDC	North Eastern Regional Load Dispatch Centre
NHPC	National Hydroelectric Power Corporation Limited
NTPC	National Thermal Power Corporation Limited
ONTR	Own Non-Tax Revenue
OTR	Own Tax Revenue
PSE	Public Sector Enterprise
PSU	Public Sector Undertaking
RE	Revenue Expenditure

RES	Renewable Energy Sources
RLB	Rural Local Body
RTS	Representative Tax System
SDRF	State Disaster Response Fund
SDRMF	State Disaster Risk Management Fund
SDCRF	State's Debt Consolidation and Relief Facility
SFC	State Finance Commission
SGDT	State Goods and Services Tax
SIS	State Incentive Subsidy
SLDC	State Load Dispatch Centre
SOTR	State's Own Tax Revenue
SVANidhi	Street Vendors Atmanirbhar Nidhi (Fund)
TOR	Terms of Reference
TPDS	Targeted Public Distribution System
ULB	Urban Local Body
UT	Union Territory
VAT	Value Added Tax
VC	Village Council
ZINDCO	Zoram Industrial Development Corporation
ZOHANDCO	Zoram Handloom & Handicraft Development Corporation

Executive Summary

1.0 Introduction

The state of Mizoram is located in the North-East of India and is one of the eight states in the region. Mizoram is well-known for its beautiful lush green landscapes, ethnic diversity, cultural vibrance and amazing flora and fauna. The state is primarily a hilly state with rich biodiversity making Mizoram one of the most beautiful states of India. The state has a unique cultural heritage. The original inhabitants of the state are indigenous Mizo people. Mizo people celebrate various cultural festivals which reflect their unique cultural identity and rich tradition. The economy of the state is primarily based on agriculture. People practice shifting cultivation and tourism is being promoted in recent years as another important economic activity. Infrastructure is also being developed for improving industrialization. Aizawl is the vibrant capital city. The state is largely peaceful. Nevertheless, the state is facing challenges in health education and infrastructure. The state government and the central government are committed for economic upliftment of the state.

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 Union Territory (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 2011¹.

¹ The 2011 census data is reproduced as 2021 census was not conducted due to pandemic.

Though, the state is endowed with natural beauty, the economic resource endowments are limited. Mizoram is a Special Category State and the state largely depends on revenue transfer from the central government. The population is predominantly tribal with a very large proportion of population following Christianity.

The report analyses the finances of the state of Mizoram in accordance with the Terms of Reference of the 16th Finance Commission. The data source for the report is primarily budget document of the state. The data is cross-checked across the years for consistency and select values are corroborated through Reserve Bank of India (RBI) data and also through data from Comptroller and Auditor General (CAG) reports for the state of Mizoram.

2.0 Revenue Capacity

The state generated ₹2130 Cr and ₹2085 Cr in the FYs 2022-23 and 2023-24,² respectively as revenue from own sources and the total revenue received in these years were ₹10197 Cr and ₹12666 Cr, respectively. Hence, more than 80% of the revenue is coming from either grants-in-aid from centre and devolution of central taxes and duties. Nevertheless, in the period 2012-13 to 2023-24, states own revenue is growing with a CAGR of 15.29% and the total revenue is growing with a CAGR of 9.78%. The CAGR of grants-in-aid stands at just 3.92% in that period. The total revenue received in the FY 2022-23 was 34.2% of GSDP and it was estimated to be 39.6% of GSDP in the FY 2023-24.

Mizoram's Own Tax Revenue (OTR) and Own Non-Tax Revenue (ONTR) were growing with a CAGRs of 16.38% and 14.02%, respectively in the period 2012 to

² 2023-24 data is based on revised budgetary estimates

2024. In FY 2022-23 the state's OTR and ONTR were ₹1102 Cr and ₹1028 Cr, respectively. Whereas, in FY 2023-24 the state's OTR and ONTR were estimated at ₹1183Cr and ₹902 Cr respectively. As per the most recent estimates, the OTR and ONTR stand at about 3.7% and 2.82% of the GSDP, respectively. Nearly 57% of the total revenue is coming from OTR and the rest 43% is coming from ONTR. The major proportion of non-tax revenue is coming from power and most other components of revenue are relatively small resulting in seemingly higher proportion of ONTR in comparison to many other states.

The major components of OTR are Taxes on Income & Expenditure, - this is primarily profession tax as governed by "Profession, Trades, Callings and Employments Taxation Act, 1995" with rates revised from time-to-time - Taxes on Property & Capital Transactions, Taxes on Commodities & Services, and State GST (Goods and Services Tax). The State GST has the largest share in the total OTR. It was ₹904 Cr in the FY 2022-23 and was estimated at ₹952 Cr in the FY 2023-24. Therefore, the contribution of GST in total revenue received is more than 80%. It may be noted that GST as a component of OTR only came into picture from 2017-18 onwards. At disaggregated level, other than GST, Professional Taxes, Land Revenue, Stamps & Registration, State Excise, Sales Tax/VAT (value Added Tax), Taxes on Vehicles, Taxes on Goods & Passengers, and a few other minor taxes make total OTR. Other than GST, the tax revenue is coming mostly from Sales Tax/VAT (for most goods and services GST has taken over) and Taxes on Vehicles. GST realization is growing with a CAGR (Compound Annual Growth Rate) of more than 33%, though the growth in GST collection is now stabilized. The seemingly high growth in GST collection is because of the base effect, the collection in initial years were obviously low.

Major components of State's ONTR are Interest Received, General Services, Social Services, and Economic Services, where Economic Services constituting about three-fourths of the total ONTR. ONTR from Economic Services is coming from Crop and Animal Husbandry, Forestry, Land Reforms, Power, Tourism, Civil Aviation and Transport, Food Storage and Warehousing, and Mining and Metallurgy among others. The power is the most important component of ONTR. All other components are relatively insignificant. ONTR from Power were about ₹740 Cr and ₹620 Cr in last couple of years, whereas, the total ONTR from Economic Services were ₹804 Cr and ₹675 Cr in the same period. ONTR from Social Services are most realized from Water Supply & Sanitation (₹65 Cr and ₹77 Cr in recent couple of years. A total of about ₹90 Cr ONTR is realized from Social Services. The ONTR from General Services is a smaller component of revenue and it was a little below ₹70 Cr, as per the last available estimate.

In the post planning era, i.e. after 2015-16, Grants from Centrally Sponsored Scheme were ₹1600 Cr and ₹3424 Cr in the FYs 2022-23 and 2023-24, respectively. In the same period, Grants from Finance Commission were ₹1722 Cr and ₹1635 Cr respectively. Other minor Transfers and Grants were less than ₹100 Cr in last couple of years.

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 Mizoram the tax buoyancy was high and significant from the GST (estimated at 3.08) in the period of analysis. Most of the buoyancy numbers are above one and are significant. Taxes on Vehicles is one major exception.

3.0 Expenditure Pattern

In a welfare state, which is also stressed on endowed economic resources, the economic growth is primarily driven by public expenditure.

In the period 2022-23 and 2023-24, the revenue expenditure were ₹10092 Cr and ₹12509 Cr, respectively. The capital outlay were ₹1322 Cr and ₹2128 Cr, respectively. The loans and advances in the same period were ₹2605 Cr and ₹1467 Cr, respectively in the same period. Also, in the same period, the total expenses were ₹14019 Cr and ₹16104 Cr, respectively. Revenue expenditure contributes more than 70% of total expenditure (72% in the financial year 2022-23 and 77.7% in the financial year 2023-24). Capital outlay was just 9.4% of the total and loans and advances constituted 18.6% of the total expenditure in the financial year 2022-23. Further, capital outlay increased to 13.2% of the total and loans and advances dropped to 18.6% of the total expenditure in the financial year 2023-24, as per estimates. Total Expenditure is nearly half the size of GSDP.

Revenue expenditure on General Services is growing at a compounded annual rate of almost 11%, revenue expenditure on Social Services is growing at a compounded annual rate of about 10.8%, and revenue expenditure on Economic Services is growing with a CAGR of just about 7%.

Capital expenditure on General Services is growing at a compounded annual rate of almost 14.13%, capital expenditure on Social Services is growing at a compounded annual rate of about 11.12%, and capital expenditure on Economic Services is growing with a CAGR of about 8.92%.

Pension is the most important component of revenue expenditure in General Services (₹1836 Cr in FY 2022-23 and ₹1959 Cr in FY 2023-24) followed by

expenditure on Administrative Services (₹1206 Cr in FY 2022-23 and ₹1437 Cr in FY 2023-24). Pension and Miscellaneous General Expenses, as part of expenses on General Services, are growing with a CAGR of 16.3%.

Education, Sports, Art & Culture are some of the most important and component of revenue expenditure in Social Services (₹1703 Cr in FY 2022-23 and ₹2060 Cr in FY 2023-24) followed by expenditure on Water Supply, Sanitation, Housing & Urban Development (₹544 Cr in FY 2022-23 and ₹1267 Cr in FY 2023-24). Education, Sports, Art & Culture, as part of expenses on Social Services, are growing with a CAGR of 8.6%. Whereas, Water Supply, Sanitation, Housing & Urban Development as part of expenses on Social Services, are growing with a CAGR of 18.88%.

Capital outlay in General Services is a relatively smaller component. Police and Public Works are, nevertheless, important in this category as the capital expenditure in those areas are growing at about 15% CAGR. Most other sub-components are miniscule. The CAGR of Health & Family Welfare; Water Supply & Sanitation Housing Development is a little less than 12% but the size of this sub-component is relatively high.

Under Economic Services the capital expenditure for Communication, Science, Technology and Tourism was growing at a CAGR of 68.16%. This is clearly because of the base effect. Energy, Industry and Transport is an important area under Economic Services and is growing with a CAGR of 13.04%.

From the analysis of expenditure pattern, one may note that OTR to Aggregate Expenditure (AE) ratio was never higher than 8%. The interpretation is that the taxes may not recover more than 90% of the expenditure. ONTR to AE ratio is even lower. It is observed that more than 85%, or almost 90%, of the expenses are financed through central assistance. Cost recovery is highest in Economic

Services (31% and 22% in last couple of years) and very low in Social and General Services (between 1.5% to 2.5% in last couple of years).

4.0 Deficit and Liabilities

Revenue deficit was highest in 2020-21 (most probably because of the pandemic). The period between 2015-16 to 2018-19 were the years of high revenue surplus. Fiscal deficit was very high in 2012-13 but was successfully managed after initial hiccups. The fiscal deficit was then within the three percent limit for few years. It then briefly breached 5% but was later tamed. Primary deficit followed almost similar pattern with fiscal deficit. The most recent available fiscal deficit estimate is ₹1863 Cr. In the peak pandemic period, it increased to ₹1869 Cr. The highest revenue surplus was ₹1679 Cr. In most of the years, Mizoram witnessed revenue surplus. The ratio revenue deficit and fiscal deficit was highest in the year 2016-17 and lowest in 2017-18.

The Total Out Standing Liability of Mizoram is growing at Compounded Annual Growth Rate of 8.68%. This is within reasonable limits, given the overall economic growth rate of the state. There were periods of very high increase in Total Outstanding Debt, e.g. FY 2019-20 & 2021-22 (18.53% and 17.63%). Debt-GSDP Ratio was unfavourable in 2012 to 2015. The same is brought under control now. Debt-GSDP ratio is now a little less than 40%.

The internal debt of Mizoram (on yearly basis) was ₹3719 Cr in 2022-23 and it was ₹2479 Cr in 2023-24. Internal debt constituted 93% of total in 2022-23 and it was 76% of total in 2023-24. Total public debt was ₹4019 Cr in 2022-23 and it was ₹3247 Cr in 2023-24.

5.0 Implementation of Fiscal responsibility & Budget Management (FRBM) Act

Fiscal discipline is of utmost importance when it comes to manage the finances of the economy. Fiscal discipline and monetary discipline both are equally important. Total liabilities as a percentage of state's own revenue receipt was very high in the initial years but later decreased. Pension expenditure is a matter of concern. It is increasing steadily (except for 2017-18) in absolute terms and also in percentage term. Non-tax revenue is hovering around 5% of Total Revenue Receipt. Mizoram is not running into continuous fiscal deficit but in the year 2019-20 there was a sharp rise in the deficit which is much beyond the limits put by the FRBM Act (2003).

6.0 Analysis of Subsidies

From the analysis of subsidies, one may note that the total subsidy granted in Mizoram has crossed the ₹100 Cr mark. Yet, as a percentage of Revenue Receipts and Revenue Expenditure, the total subsidy is just above 1%. As long as it is under one percent of Revenue Expenditure, it is considered to be manageable. Hence, recent expenditure on subsidies is slightly on the higher side and the government must bring it below one percent and should be kept under one percent. The total subsidies in 2021-22 stood at ₹84 Cr and it was a little less than one percent of the revenue expenditure.

7.0 Power Sector and Public Sector Undertaking (PSU)

Power sector in Mizoram is managed by the Power & Electricity Department. Mizoram is among a few states where the power sector is still taken care of by a bundled government department. The Department is functioning as an

integrated utility and responsible for all the activities related to electricity generation, transmission, and distribution of electric power within the state of Mizoram. There are 9 Circles, 20 Divisions and 51 Sub-Divisions.

The per capita consumption of the state as per 2011 Census is 219 kWh, which is considered to be very low. The Department serves more than 2 lakhs consumers under various categories. The total installed capacity of state-owned generating system from Small Hydro Power is 29.35 MW. Mizoram has the potential of generating about 4000 MW hydroelectricity; whereas, the state produces only about 10 MW and has a demand of about 144 MW which is, of course, mostly met by sources outside the state of Mizoram³. In the FY 2023-24, total installed capacity in Mizoram is 136 MW [Central Sector (60 MW), State Sector (45 MW), and rest is from Private Sector]. Only in recent years installed capacity of Private Sector has become sizeable. The mix is almost entirely green with 60MW of Hydro and rest coming from Renewable Energy Sources.

The CAGR in total energy consumption is about 5.50% which is much larger than the annual population growth in the period of analysis which is otherwise good but likely to put further stress on state finances. Similarly, the CAGR in per capita electricity consumption is 3.15% and the state must plan for the same. In the FY 2020-21 and FY 2021-22 the AT&C Losses at national level stood at 22.32% and 17.00% (Provisional) respectively. The same figures for Mizoram stood at 29.05% and 36.23% respectively. Loss as percent of cost was as high as 53% in 2020-21, though the same dropped to 19.5% in 2022-23.

PSUs are not very successful in Mizoram. Zoram Industrial Development Corporation Limited (ZIDCO), Aizawl Smart City Limited (ASCL), Zoram Handloom and Handicrafts Development Corporation Limited (ZOHANDCO), and Mizoram

³ <https://power.mizoram.gov.in/page/power-scenario-in-mizoram>

Food and Allied Industries Corporation Limited (MIFCO) are some of the active PSU which are not very sound in financial terms.

8.0 State's Transfers to Local Bodies

The local bodies in Mizoram are not governed by Panchayati Raj Institutions, rather they are governed by state specific laws. This is in accordance with the Sixth Schedule of Constitution applicable to most of the North-East States in India.

The 2nd State Finance Commission (SFC) of Mizoram recommends a vertical devolution of 42 percent of the net proceeds of the State's own tax revenue for the award period of 2021-22 to 2025-26. Further, the transfers are distributed to three Autonomous District Councils [ADC] (3), Village Councils [VC] (through 11 districts) and two Municipal Corporations (Aizawl and Lunglei). The vertical devolution is expected to vary from ₹327 Cr (in 2021-22) to ₹478 Cr (in 2025-26). The highest revenue gap exists at ADCs and the gap is steadily increasing. The same along with gap at RLBs/ULBs are to be addressed [RLB: Rural Local Body & ULB: Urban Local Body]. The total gap may reach ₹703.37 Cr by 2025-26.

9.0 Conclusion and Recommendations

It may be concluded after analysing in detail the state finances over the periods 2012-13 to 2023-24, that Mizoram needs to put concerted efforts into greater mobilisation of tax and non-tax revenues receipts. State government contains revenue expenditures within the limit of the total revenue receipts, as financing of revenue expenditures from debt capital receipts can be detrimental for the finances of the State. The increasing trends of the state's revenue expenditures in terms of commitments on salaries and pensions should be a matter of concern

for Mizoram while enhancing the fiscal space which is limited at present. Liabilities are growing gradually. Moreover, state's liabilities are growing gradually, it may not be a serious issue at present, however, may quickly become unsustainable if not checked.

The state is also committing devolution to local bodies. This is undoubtedly a good approach towards decentralization, but state needs finances at the highest level of governance for multiple heads including power and infrastructure. Local Bodies (ADCs, RLBs and ULBs), Power Sector, and Public Sector Undertaking need greater professionalism. It is observed that State Finance Commission's recommendations are focused towards increasing fiscal discipline. The state must adhere to these recommendations. Therefore, the assistance should be linked with performance.

Mizoram, being a border state, needs additional assistance from the centre in devolution and finance commission grants as the state is vulnerable due to external factors as neighbouring countries are getting unstable because of socio-political reasons. The economy of Mizoram is growing at a reasonable rate. Yet, additional assistance is needed in the form of investment to accelerate the growth engine of the state and bring the state at par with more economically developed states in India.

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Chapter 1

Introduction

1.1 Mizoram: Introductory Profile

Mizoram is nestled in the lush green hills of Northeast India and exemplifies the rich cultural heritage and natural beauty of the region. With its unique mix of tradition and modernity, Mizoram offers a compelling story of identity, resilience, and development. Mizoram is surrounded by Myanmar (Burma) to the east and south and Bangladesh to the west and by the states of Tripura to the northwest, Assam to the north, and Manipur to the northeast. The state is characterized by its undulating hills, dense forests, and vibrant flora and fauna. The terrain is predominantly hilly, with the Lushai Hills forming the backbone of the state. The diverse topography not only contributes to its stunning landscapes but also influences the local climate, which is generally temperate and conducive to agriculture.

The total area of Mizoram is 21,087 square kilometre and as per the last census (2011), the population of Mizoram was 1,091,014. The estimated population in 2023 is about 1,221,000. 2021 data is estimated based on assumption for India and triangulated from Ministry of Statistics and Program Implementation (MoSPI), as no census data is available for 2021.

One of the state's most celebrated natural features is the Mizo Hills, which offer breath-taking views and are a haven for nature enthusiasts. The state's abundant rivers, such as the Tiau and the Kolodyne, contribute to its fertile land and support a variety of agricultural activities. Mizoram's natural beauty is complemented by its rich biodiversity, with numerous wildlife sanctuaries and national parks like the Phawngpui National Park, which is home to diverse species of birds and animals.

Mizoram's history is deeply intertwined with its ethnic communities, primarily the Mizo people, who have inhabited the region for centuries. The Mizo history is marked by a series of migrations and settlements, with the Mizo hills serving as a refuge from external invasions. The state's history is also defined by the establishment of British rule in the 19th century, which brought significant changes to the region. The struggle for autonomy and self-determination has been a significant aspect of Mizoram's history. The Mizo National Front (MNF) led an insurgency against the Indian government in the late 1960s, seeking greater autonomy for the state. This struggle culminated in the signing of the Mizo Peace Accord in 1986, which led to the establishment of Mizoram as a full-fledged state within the Indian Union. The accord marked a turning point, bringing an era of peace and development to the state.

Mizoram's cultural heritage is a vibrant mosaic of traditional practices, festivals, and art forms. The Mizo people, known for their hospitality and community spirit, celebrate various festivals with great enthusiasm. One of the most prominent festivals is Chapchar Kut, a spring festival that marks the end of the bamboo-cutting season. During this festival, the Mizo people engage in traditional dances, music, and feasting, reflecting their deep connection to their agrarian lifestyle.

Traditional Mizo attire, characterized by brightly coloured fabrics and intricate designs, showcases the craftsmanship and aesthetic sensibilities of the community. The state's music and dance forms, including the Bamboo Dance (Cheraw) and the Khuallam, are integral to its cultural expression and are often performed during festive occasions and cultural gatherings. Mizoram is also renowned for its rich tradition of oral literature, including folklore, legends, and songs that convey the historical and cultural experiences of the Mizo people.

The preservation and promotion of these cultural elements are vital in maintaining the state's unique identity amidst the pressures of modernization.

In recent years, Mizoram has faced several challenges and opportunities in its quest for development. The state has made significant strides in improving infrastructure, education, and healthcare, but it still contends with issues such as economic disparity and limited industrialization. Agriculture remains the primary occupation for many Mizos, and the government has been focusing on enhancing agricultural practices and supporting farmers to boost productivity and sustainability. The state's strategic location and rich natural resources offer potential for economic growth, particularly in sectors like tourism and handicrafts. Mizoram's picturesque landscapes and cultural heritage make it an attractive destination for tourists seeking off-the-beaten-path experiences. The development of eco-tourism and promotion of local crafts can play a crucial role in boosting the state's economy while preserving its cultural and environmental assets.

However, Mizoram is not immune to the challenges of climate change and environmental degradation. Deforestation and the impacts of climate change pose risks to the state's ecological balance and agricultural productivity. Addressing these challenges requires a concerted effort towards sustainable development practices and effective environmental conservation strategies. Mizoram stands as a testament to the rich cultural heritage and natural beauty of Northeast India. Its history, marked by a journey from insurgency to peace and autonomy, reflects the resilience and determination of its people. The state's cultural vibrancy, coupled with its stunning landscapes, offers a unique identity within the Indian Union. As Mizoram navigates its path towards development, balancing modernization with the preservation of its cultural and

environmental treasures will be crucial in shaping its future. Through a blend of tradition and progress, Mizoram continues to shine as a jewel in the mosaic of India’s diverse and dynamic landscape.

1.2 Mizoram: Economic Overview

Mizoram is a small state with not very favourable topography and somewhat limited economic resources. Mizoram is a *Special Category State* of Union of India. The state, despite economic challenges, has made tremendous progress and has great potential. The figure below shows the growth trend of Gross State Domestic Product (Figure 1.1). It is clear from the figure that the state has made reasonable progress on the economic front and has shown steady uninterrupted growth in past decade, except for the pandemic years. The state has achieved a CAGR of 14% despite massive disruptions due to pandemic forced by Corona Virus. Table 1.1 shows the contribution of different sectors in the Gross State Domestic Product. Table 1.2 shows population trend in Mizoram. It may be noted that due to lack of 2021 census data, the value for the year 2021 is just an estimate based on average for India. Table 1.3 shows various socio-economic indicators as per the latest data available for Mizoram.

Table 1.1: Sectoral Share [%] in Gross State Value Added (Current Prices)

<i>Sector</i>	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23
<i>Primary</i>	20.0	32.1	32.0	31.2	27.1	28.0	26.6	26.5	24.3	21.2
<i>Secondary</i>	22.0	20.2	20.2	21.4	26.1	25.8	24.0	26.3	28.6	30.4
<i>Tertiary</i>	58.0	47.6	47.8	47.4	46.8	46.2	49.4	47.2	47.1	48.4

Source: Ministry of Statistics and Program Implementation, Government of India.

<https://www.mospi.gov.in/GSVA-NSVA>

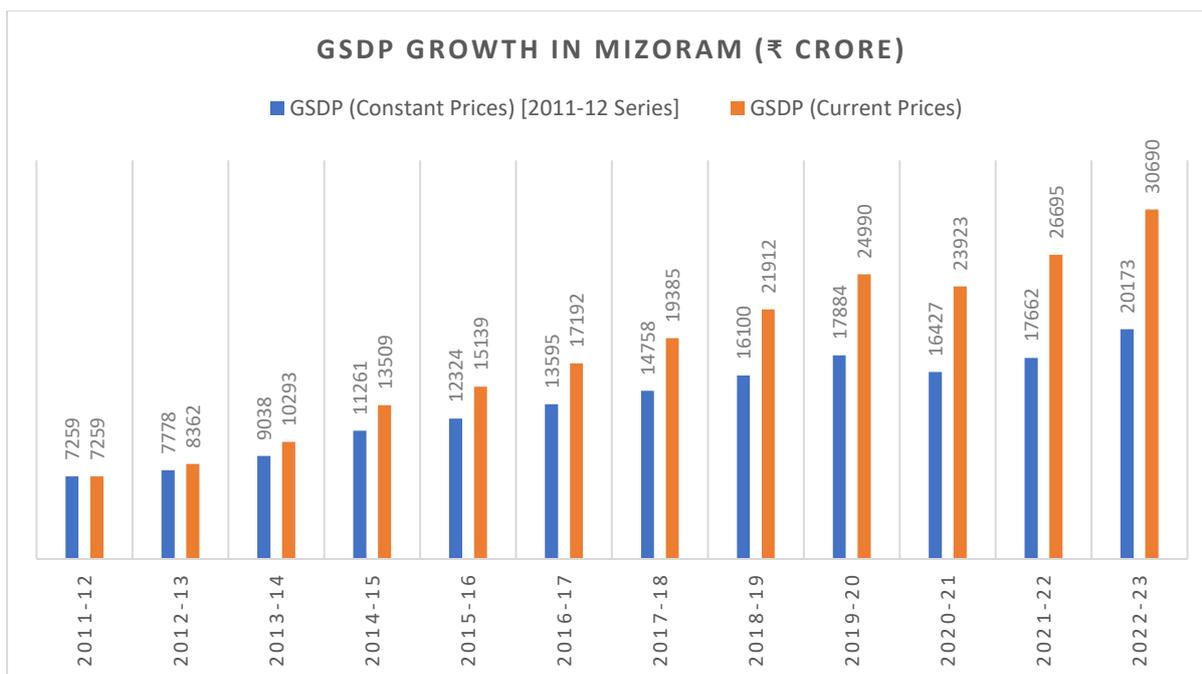


Figure 1.1: GSDP Growth in Mizoram (Source: Ministry of Statistics and Program Implementation, Government of India, <https://www.mospi.gov.in/GSVA-NSVA>)

Table 1.2: Population Trend

Census Year	Male	Female	Total	Decadal Growth (%)
1951	96,136	1,00,066	1,96,202	28.4
1961	1,32,465	1,33,598	2,66,063	35.6
1971	1,70,824	1,61,566	3,32,390	24.9
1981	2,57,239	2,36,518	4,93,757	48.6
1991	3,58,978	3,30,778	6,89,756	39.7
2001	4,59,109	4,29,464	8,88,573	28.8
2011	5,52,339	5,38,675	10,91,014	22.8
2021	NA	NA	12,21,000	11.9

Source: <https://mizoram.nic.in/about/popu-trend.htm>

Note: 2021 data is estimated based on assumption for India and triangulated from MOSPI, as no census data is available.

The detailed revenue break-up of Mizoram is shown in Table 1.3. The table shows the State's Own Tax Revenue and Tax Devolution from the centre. In addition, the detailed revenue break-up of Mizoram is shown in Table 1.3. The table shows the State's Own Tax Revenue and Tax Devolution from the centre in addition to State's Own Non-Tax Revenue. The data shows the trend in

Revenue Receipt under various heads till 2016-17, the erstwhile Yojana Aayog Regime. The detailed revenue break-up of Mizoram in Niti Aayog Regime, after 2016-17, is shown in Table 1.4. The Capital Receipts are shown in Table 1.5. This is followed by expenditure in both revenue and capital – the data is presented in Table 1.6. Finally, GSDP and deficit data is presented in Table 1.7. The Tax Regime also witnessed a watershed in the form of implementation of GST Regime. The same will be discussed in detail in coming chapters.

	2012-13	2013-14	2014-15	2015-16	2016-17
Tax-Revenue (State's Own) [1]	223 (2.67)	230 (2.23)	267 (1.98)	358 (2.36)	442 (2.57)
Devolution of Central Taxes & Duties [2]	786 (9.40)	858 (8.34)	911 (6.74)	2348 (15.51)	2801 (16.29)
Total Tax Revenue [1] + [2] = [3]	1009 (12.07)	1088 (10.57)	1178 (8.72)	2706 (17.87)	3243 (18.86)
Non-Tax Revenue (State's Own) [4]	213 (2.55)	194 (1.88)	242 (1.79)	298 (1.97)	365 (2.12)
Revenue Receipts (Total Tax plus Own Non-Tax) [3] + [4] = [5]	1222 (14.61)	1282 (12.46)	1419 (10.50)	3004 (19.84)	3608 (20.99)
State's Own Revenue [1] + [4] = [6]	436 (5.21)	424 (4.12)	509 (3.77)	656 (4.33)	807 (4.69)
Grants from Central Govt (Non-Plan) [7]	1057 (12.64)	1142 (11.09)	1095 (8.11)	2190 (14.47)	2356 (13.70)
Grants for State Plan Scheme [8]	1866 (22.32)	1905 (18.51)	2264 (16.67)	1003 (6.63)	0
Grants for Central Plan Scheme [9]	15 (0.18)	12 (0.12)	25 (0.19)	40 (0.26)	0
Grants for Centrally Sponsored Scheme [10]	294 (3.52)	369 (3.58)	663 (4.91)	342 (2.26)	0
Grants for Special Plan Scheme [11]	83 (0.99)	55 (0.53)	45 (0.33)	97 (0.64)	0
Grants-In-Aid & Contribution [7] + ... + [13] = [14]	3315 (39.64)	3483 (33.84)	4092 (30.29)	3672 (24.26)	2356 (13.70)
Total Revenue Receipt [5] + [14] = [15]	4537 (54.26)	4765 (46.29)	5511 (40.80)	6676 (44.10)	5964 (34.69)
Source: https://finance.mizoram.gov.in/page/list-of-budget-documents [Budget Documents, Government of Mizoram] (Figures in parenthesis represent values as percentage of GSDP)					

Table 1.4: Detailed Revenue Break-Up of Mizoram (Neeti Aayog Regime) in ₹ Cr

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Tax-Revenue (State's Own) [1]	546 (2.82)	727 (3.32)	731 (2.93)	648 (2.71)	854 (3.2)	1102 (3.59)	1183 (3.29)
Devolution of Central Taxes & Duties [2]	3097 (15.98)	3503 (15.99)	3018 (12.08)	3011 (12.59)	4223 (15.82)	4745 (15.46)	5522 (15.38)
Total Tax Revenue [1] + [2] = [3]	3643 (18.79)	4230 (19.3)	3749 (15)	3659 (15.29)	5077 (19.02)	5847 (19.05)	6705 (18.67)
Non-Tax Revenue (State's Own) [4]	391 (2.02)	450 (2.05)	522 (2.09)	562 (2.35)	622 (2.33)	1028 (3.35)	902 (2.51)
Revenue Receipts (Total Tax plus Own Non-Tax) [3] + [4] = [5]	4034 (20.81)	4680 (21.36)	4271 (17.09)	4220 (17.64)	5699 (21.35)	6875 (22.4)	7607 (21.19)
State's Own Revenue [1] + [4] = [6]	937 (4.83)	1177 (5.37)	1253 (5.01)	1210 (5.06)	1476 (5.53)	2130 (6.94)	2085 (5.81)
Grants for Centrally Sponsored Schemes [12]	1465 (7.56)	1255 (5.73)	2104 (8.42)	1330 (5.56)	1366 (5.12)	1600 (5.21)	3424 (9.54)
Finance Commission Grants [13]	2536 (13.08)	2617 (11.94)	2779 (11.12)	1725 (7.21)	1910 (7.15)	1722 (5.61)	1635 (4.55)
Grants-In-Aid & Contribution [12] + [13] = [14]	4001 (20.64)	3872 (17.67)	4883 (19.54)	3055 (12.77)	3276 (12.27)	3322 (10.82)	5059 (14.09)
Total Revenue Receipt [5] + [14] = [15]	8035 (41.45)	8552 (39.03)	9154 (36.63)	7275 (30.41)	8975 (33.62)	10197 (33.23)	12666 (35.28)

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents> [Budget Documents, Government of Mizoram] (Figures in parenthesis represent values as percentage of GSDP) {GSDP for 2023-24 is 35904 Cr which is based on official budget estimates}

Table 1.5: Capital Receipts Break-Up for Mizoram in ₹ Cr

	Internal Debt of the State Govt. [a]	Loans & Advances from the Central Govt. [b]	Loans & Advances (Recoveries) [c]	Total Capital Receipt [a]+[b]+[c]
2012-13	420	0	29	450
2013-14	1123	0	33	1156
2014-15	1378	5	32	1415
2015-16	559	4	26	589
2016-17	749	7	22	778
2017-18	886	8	22	916
2018-19	123	11	22	156
2019-20	1133	15	27	1174
2020-21	2364	248	34	2645
2021-22	4250	310	32	4592
2022-23	3719	300	26	4046
2023-24 RE	2479	768	34	3280

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents> [Budget Documents, Government of Mizoram]

	Salary & Others	Pension	Interest	Total Revenue Expenditure	Capital Disbursement	Total Disbursement
2012-13	3860 (46)	371 (4)	288 (3)	4519 (54)	924 (11)	5443 (65)
2013-14	3722 (36)	525 (5)	284 (3)	4531 (44)	1282 (12)	5813 (56)
2014-15	4801 (36)	545 (4)	306 (2)	5652 (42)	2119 (16)	7771 (58)
2015-16	4586 (30)	616 (4)	369 (2)	5571 (37)	1268 (8)	6839 (45)
2016-17	5128 (30)	761 (4)	341 (2)	6230 (36)	1251 (7)	7481 (44)
2017-18	5724 (30)	838 (4)	339 (2)	6901 (36)	2447 (13)	9348 (48)
2018-19	6167 (28)	970 (4)	369 (2)	7506 (34)	2153 (10)	9659 (44)
2019-20	7678 (31)	1433 (6)	343 (1)	9454 (38)	1809 (7)	11263 (45)
2020-21	6631 (28)	1483 (6)	401 (2)	8515 (36)	2747 (11)	11262 (47)
2021-22	6685 (25)	1331 (5)	451 (2)	8467 (32)	4805 (18)	13272 (50)
2022-23	7764 (25)	1834 (6)	494 (2)	10092 (33)	3927 (13)	14019 (46)
2023-24 RE	10024 (28)	1956 (5)	664 (2)	12644 (35)	3596 (10)	16240 (45)

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents> [Budget Documents, Government of Mizoram] (Figures in parenthesis represent values as percentage of GSDP) {GSDP for 2023-24 is 35904 Cr which is based on official budget estimates}

	GSDP (Current Prices)	GSDP (Constant 2011-12 Prices)	Revenue Deficit/ Surpluses	Fiscal Deficit	Revenue Deficit (% of GSDP)	Fiscal Deficit (% of GSDP at Current Prices)
2012-13	8362	7778	28	-580	0.3	-6.9
2013-14	10293	9038	233	-59	2.3	-0.6
2014-15	13509	11261	-141	-1040	-1	-7.7
2015-16	15139	12324	1106	413	7.3	2.7
2016-17	17192	13595	1168	252	6.8	1.5
2017-18	19385	14758	1679	-274	8.7	-1.4
2018-19	21912	16100	1534	-353	7	-1.6
2019-20	24990	17884	204	-1224	0.8	-4.9
2020-21	23923	16427	-774	-1869	-3.2	-7.8
2021-22	27824	18494	602	-373	2.2	-1.3
2022-23	29810	20234	190	-1108	0.6	-3.7

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents> [Budget Documents, Government of Mizoram]

Annexures I and II may be referred for certain information on Mizoram: Annexure I provides at-a-glance general information on Mizoram and further, Annexure II provides at-a-glance information on the economy of Mizoram.

1.3 Methodology

The study is primarily based on secondary data sources. The major data sources are as follows:

1. Budget Documents of Mizoram
2. RBI (Handbook of Statistics on Indian Economy)
3. CAG Reports
4. Ministry of Statistics and Programme Implementation
5. Report of the Mizoram State Finance Commission

The most important resource is the budget document which essentially consists of Annual Financial Statement, Budget Speech and other statements.

We have also conducted some informal expert interviews with academicians and practitioners in public finance domain to enrich the findings and to make relevant recommendations.

1.4 Terms of Reference for the Study

The study strictly adheres to the Terms of Reference (TOR) as given by the Sixteenth Finance Commission. The salient points of the TOR are as under

1. Estimation of revenue capacities of State and Measures to improve the tax-GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State
2. Analysis of the state's own non-tax revenues and suggestion to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.
3. Expenditure pattern and trends separately for Revenue and Capital, and major components of expenditure thereunder. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.

-
4. Analysis of deficits – fiscal and revenue
 5. The level of debt to 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, off-budget borrowings, 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 borrowings from agencies such as National Bank for Agriculture and Rural Development (NABARD), Life Insurance Corporation (LIC) etc.
 6. Implementation of FRBM Act (2003) and commitment towards targets. Analysis of Medium-Term Fiscal Policy (MTFP) of various departments and aggregate.
 7. Analysis of the state's transfers to urban and rural local bodies in the State. Major decentralization initiatives.
 8. Impact of State Public Enterprises finances on the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.
 9. Impact of Power Sector Reforms on States' fiscal health. In case reforms have not been implemented, the likely outcome on the States' fiscal health.
 10. Analysis of contingent liabilities of the State.
 11. Subsidies given by the States (Other than Central subsidies), their costs and benefits, targeting and evaluation.
 12. Outcome Evaluation of State Finances in the context of recommendations of the 14th and 15th FC (Finance Commission), in particular
 - (a) analysis of the flow of resources from the Centre to States through various schemes, the expenditure of States in those schemes, resources

of States channelled towards these schemes and the overall impact on development spending of the States;

(b) States' own schemes for different development objectives.

xiii. Determination of a sustainable debt roadmap for 2026-31, taking into account tax/non-tax trend forecasts.

The evaluation study has critically analysed the overall States' finances of Mizoram over the twelve-year period from 2012-13 to 2023-24. The study also provides suggestions for improving the financial performance. This is given under a separate chapter of Conclusions and Recommendations.

Chapter 2

REVENUE CAPACITIES

2.1. Introduction

The budget statement has two primary component - Revenue and Expenditure. Revenue receipts of the State Government comprise of multiple heads – first, revenue raised through various own taxes; second, own non-tax sources (first and second make state’s own revenue); third, transfers from the Central Government in the form of shared taxes; and fourth, grants-in-aid as per the recommendation of the Finance Commission. The first two sources are called Own Tax Revenue and Own Non-Tax Revenue 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.

During the period of analysis two major changes occurred. First, the planning commission (Yojana Aayog) or the planning regime was changed to a new regime and the Niti Aayog took over the Yojana Aayog. Era of planning came to an end. Therefore, post 2016-17 there is no such bifurcation as Plan & Non-Plan grants. Similarly, the old tax system was transformed to GST regime from 2017-18. These were important changes and has affected the finances at least during the transition years. Nevertheless, the new system has smoothly taken over the old one.

It is a fact that due to geographical factors and lack of natural resources, Mizoram do not have enough resource base to generate large OTR. Therefore, Mizoram largely depends on fund transfers from the Centre to finance its revenue expenditure which is rapidly increasing. Hence, for long-term sustainability, it is of prime importance to raise more revenue from state’s own resources in order to raise the fiscal capacity of the state. This chapter aims to

examine the trends and composition of revenue receipts, revenue capacities of Mizoram, and suggest measures for improvement.

2.2. Analysis of Trends and Composition of Revenue Receipts

The figure and the table below (Figure 2.1 & Table 2.1) shows the trend and composition of revenue receipts of the Government of Mizoram. Figure 2.2 represents the similar information, albeit in a form which better shows the composition.

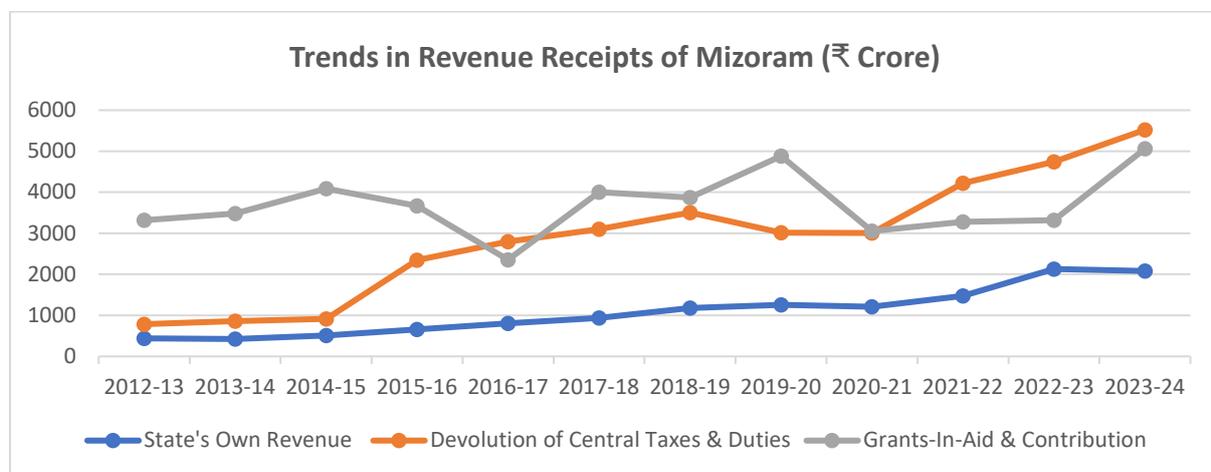


Figure 2.1: Trends in Revenue Receipts of Mizoram (₹ Crore)

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>

[Budget Documents, Government of Mizoram]

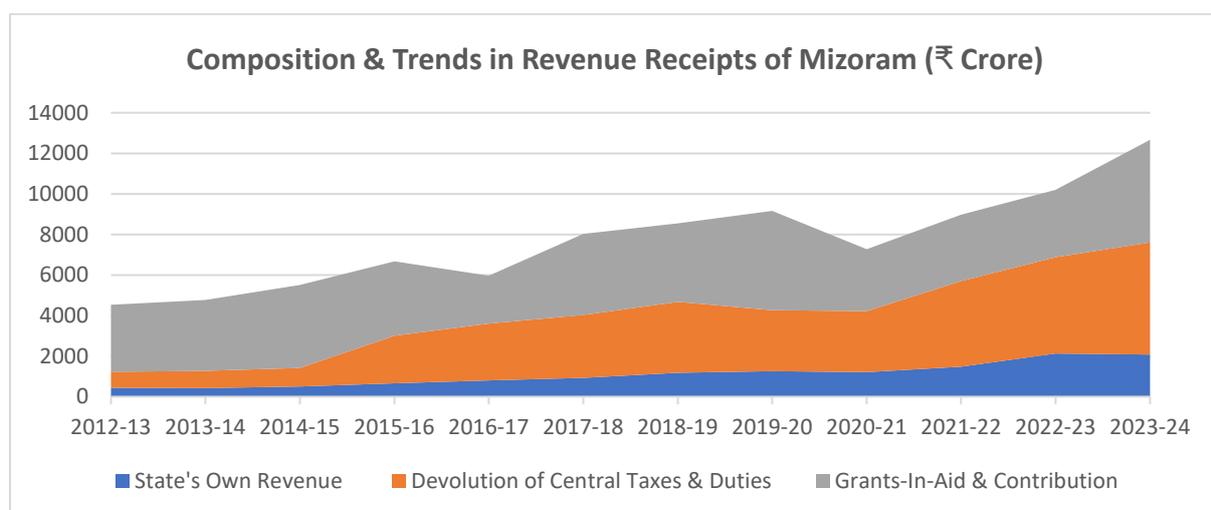


Figure 2.2: Composition & Trends in Revenue Receipts of Mizoram (₹ Crore)

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>

[Budget Documents, Government of Mizoram]

The trend and composition of revenue receipts of the Government of Mizoram is followed by the composition in percentage terms and also as percentage of GSDP (Table 2.2). Grants-in-aid component declined significantly after 2015-16 but devolution of central taxes and duties increased correspondingly offsetting the loss in inflow of fund. Grants-in-aid saw significant jump in 2019-20 but again the devolution of central taxes and duties saw a corresponding dip.

	₹ Crore				Growth Rate (%)			
	State's Own Revenue	Devolution of Central Taxes & Duties	Grants-In-Aid & Contribution	Total Revenue Receipt	State's Own Revenue	Devolution of Central Taxes & Duties	Grants-In-Aid & Contribution	Total Revenue Receipt
2012-13	436	786	3315	4537				
2013-14	424	858	3483	4765	-2.8	9.2	5.1	5
2014-15	509	911	4092	5511	20	6.2	17.5	15.7
2015-16	656	2348	3672	6676	28.9	157.7	-10.3	21.1
2016-17	807	2801	2356	5964	23	19.3	-35.8	-10.7
2017-18	937	3097	4001	8035	16.1	10.6	69.8	34.7
2018-19	1177	3503	3872	8552	25.6	13.1	-3.2	6.4
2019-20	1253	3018	4883	9154	6.5	-13.8	26.1	7
2020-21	1210	3011	3055	7275	-3.4	-0.2	-37.4	-20.5
2021-22	1476	4223	3276	8975	22	40.3	7.2	23.4
2022-23	2130	4745	3322	10197	44.3	12.4	1.4	13.6
2023-24	2085	5522	5059	12666	-2.1	16.4	52.3	24.2
CAGR %	15.29	19.39	3.92	9.78				

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

State's Own Revenue is clearly increasing. Nevertheless, there are periods of high growth and there are periods of negative growth also. We observe a CAGR of 15.29% in State's Own Revenue. The Devolution of Central Taxes & Duties is increasing at a CAGR of 19.39%. One may infer that the rise in tax collection is reasonable and outpace the state's economy which is growing at about 13% per annum in last decade or so. The state must do the needful to increase growth in own revenue generation – both, tax and non-tax – in order to move towards self-sufficiency. Central Grants (Grants-In-Aid & Contribution) are increasing at a

slower rate. A look at the trends shows that Devolution of the Central Taxes and Duties has somewhat replaced the Grants-In-Aid Component. For the rapid progress of state, the Grants-In-Aid Component may be increased. Pandemic was a lean period where Devolution of Central Taxes & Duties fell to just 33% in 2019-20. Yet, in the period after 2020-21, the State's Own Revenue and Devolution of Central Taxes & Duties increased rapidly except for the State's Own Revenue which fell from the previous period in 2023-24. Total Revenue Receipt is growing at a one-digit rate (9.78%). To show significant catch-up effect, GSDP and certain other components of state finances must grow at double digit.

Table 2.2: Composition and Trend in Revenue Receipt and as percentage of GSDP

	Composition/Share (%)			Share as % of GSDP			
	State's Own Revenue	Devolution of Central Taxes & Duties	Grants-In-Aid & Contribution	State's Own Revenue	Devolution of Central Taxes & Duties	Grants-In-Aid & Contribution	Total Revenue Receipt
2012-13	9.6	17.3	73.1	5.2	9.4	39.6	54.3
2013-14	8.9	18	73.1	4.1	8.3	33.8	46.3
2014-15	9.2	16.5	74.3	3.8	6.7	30.3	40.8
2015-16	9.8	35.2	55	4.3	15.5	24.3	44.1
2016-17	13.5	47	39.5	4.7	16.3	13.7	34.7
2017-18	11.7	38.5	49.8	4.8	16	20.6	41.4
2018-19	13.8	41	45.3	5.4	16	17.7	39
2019-20	13.7	33	53.3	5	12.1	19.5	36.6
2020-21	16.6	41.4	42	5.1	12.6	12.8	30.4
2021-22	16.4	47.1	36.5	5.3	15.2	11.8	32.3
2022-23	20.9	46.5	32.6	7.1	15.9	11.1	34.2
2023-24	16.5	43.6	39.9	6.5	17.2	15.8	39.6

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

Figure 2.3 presents the bifurcation of State's Own Revenue in Own Tax Revenue (OTR) and Own Non-Tax Revenue (ONTR). Table 2.3 presents the same information in tabular format.

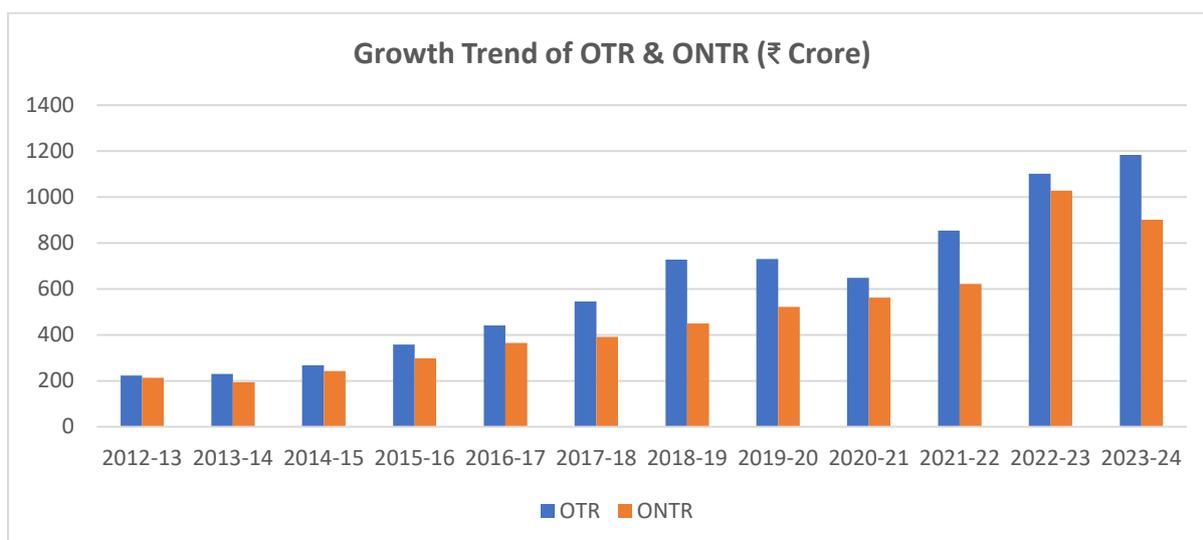


Figure 2.3: Growth Trend of OTR & ONTR (₹ Crore)

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

	₹ Cr		Composition (%)		AS % of GSDP	
	State's OTR	State's ONTR	State's OTR	State's ONTR	State's OTR	State's ONTR
2012-13	223	213	51.1	48.9	2.67	2.55
2013-14	230	194	54.2	45.8	2.23	1.88
2014-15	267	242	52.5	47.5	1.98	1.79
2015-16	358	298	54.6	45.4	2.36	1.97
2016-17	442	365	54.8	45.2	2.57	2.12
2017-18	546	391	58.3	41.7	2.82	2.02
2018-19	727	450	61.8	38.2	3.32	2.05
2019-20	731	522	58.3	41.7	2.93	2.09
2020-21	648	562	53.6	46.4	2.71	2.35
2021-22	854	622	57.9	42.1	3.07	2.24
2022-23	1102	1028	51.7	48.3	3.7	3.45
2023-24	1183	902	56.7	43.3	3.7	2.82
CAGR %	16.38	14.02				

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

One may observe that both OTR and ONTR are increasing at a sustained rate except for the pandemic year, which is understandable. OTR was 223 Crore in 2012-13 and ONTR was 213 Crore in the same year. OTR and ONTR reached 731 Crore and 522 Crore, respectively by 2020. By 2023-24, which is based on the revised estimates, OTR and ONTR in Mizoram reached 1183 Crore and 902

Creore, respectively. The CAGRs of OTR and ONTR are about 16.4% and 14.0% respectively. As stated earlier the aggregate of OTR and ONTR is growing at a rate of about 15.3%. Last year (2023-24) values are based on estimated figures.

2.3. Composition and Trend of State’s OTR

Prior to GST regime, the sources of OTR of the state government are classified into three broad categories as follows:

- a. Taxes on Income & Expenditure – Profession tax,
- b. Taxes on Property & Capital Transaction – Land revenue, and Stamp & Registration, and
- c. Taxes on Commodities & Services – State Excise, Sales Tax, Taxes on Vehicles, Other taxes on Goods & Passengers, other taxes & duties

After 2016-17, multiple goods and services under the head (c) came under GST regime. The tables below (Tables 2.4 & 2.5) present the OTR composition (both in absolute and in and percentage terms) and trend.

Year	Taxes on Income & Expenditure	Taxes on Property & Capital Transaction	Taxes on Commodities & Services	State GST	Total Own Tax Revenue
2012-13	13.7	3.7	205.8	NA	223.1
2013-14	14.7	6.1	209	NA	229.8
2014-15	14	14.8	237.7	NA	266.5
2015-16	15.4	12.4	330.6	NA	358.4
2016-17	15.4	11.8	414.5	NA	441.8
2017-18	15.8	11.5	348.9	169.8	545.9
2018-19	14.5	13.1	244.4	454.7	726.7
2019-20	15.4	14.9	168.5	532.2	731
2020-21	15.6	25.5	148.5	457.9	647.6
2021-22	15.2	20.5	185.9	632.3	853.9
2022-23	16	17.4	164.3	904.2	1101.8
2023-24	15	34	182.3	951.5	1182.8
CAGR (%)	0.83	22.34	-1.1	33.27	16.37

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

Taxes on Income & Expenditure	Taxes on Property & Capital Transaction	Taxes on Commodities & Services	State GST
6.14	1.66	92.25	NA
6.4	2.65	90.95	NA
5.25	5.55	89.19	NA
4.3	3.46	92.24	NA
3.49	2.67	93.82	NA
2.89	2.11	63.91	31.1
2	1.8	33.63	62.57
2.11	2.04	23.05	72.8
2.41	3.94	22.93	70.71
1.78	2.4	21.77	74.05
1.45	1.58	14.91	82.07
1.27	2.87	15.41	80.44

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

Brief details regarding the nature and institutional provisions for collecting different components of own tax revenue are as follows:

1. **Professional Tax:** Levied under The Mizoram Professions, Trades, Callings, and Employment Taxation Act 1995, which defines the tax rates for various professions and income slabs, with a maximum limit of ₹2500 per annum. In 2011, the government revised the rates for different professions without altering the ceiling rate.
2. **Land Revenue:** Collected under the Mizoram (Taxes on Land, Building, and Assessment of Revenue) Act 2005 by the Department of Land Revenue and Settlement (DLRS). This includes land tax, building and house taxes, taxes on farms, shops, stalls, mutation fees, and fees for property ownership transfers.
3. **Stamp and Registration:** The Mizoram Government collects stamp duties and registration fees on various instruments as per the rates specified in The Indian Stamp (Mizoram Amendment) Act, 2005, which was last amended in 2016.

4. **Value Added Tax (VAT) and Sales Taxes:** Introduced on 1st April 2005 under The Mizoram Value Added Taxes (VAT) Act, 2005, with rates determined based on recommendations from the Empowered Committee of State Finances. An amendment in December 2012 set standard rates at 13.5%, 5%, and 1% for different goods categories. The Taxation Department enforces this tax. Additionally, the government levies taxes on the sale of petroleum and petroleum products under The Mizoram (Sale of Petroleum and Petroleum Products, including Motor and Lubricants) Act, 1973.

GST has replaced the VAT and Sales Taxes for most of the goods and services with few exceptions such as petroleum.

5. **State Excise:** Under the Mizoram Liquor Total Prohibition Act of 1995, the production, sale, import, and consumption of liquor were banned, with exceptions for the army and paramilitary forces. The Excise and Narcotics Department imposed duties on the import of Indian-Made Foreign Liquor (IMFL) for these personnel. In 2015, the prohibition was lifted, and the Act was replaced by the Mizoram Liquor (Prohibition & Control) Act of 2014 (MLPC Act). This new Act permits the sale of IMFL, making state excise a significant revenue source.

6. **Taxes on Motor Vehicles:** Mizoram enforces a dual taxation system under The Mizoram Vehicle (Taxation) Act of 1996 and The Mizoram Passengers and Goods Taxation Act of 1988. Road tax is collected under the former, while passenger and goods tax is collected under the latter. The state Transport Department administers the collection of these taxes, which are governed by rules that are periodically amended.

7. **Entertainment Tax:** Initially, the State Government used The Assam Amusement and Betting Act of 1939 to levy taxes on entertainment and

other amusements such as exhibitions, performances, cable TV, and cinematographic shows. This was replaced by The Mizoram Entertainment Tax Act of 2013. Despite the introduction of this Act, revenue collection from this tax remains minimal.

The following tables (Tables 2.6 through 2.8) show the details. The first shows the absolute values, second the shows the percentage composition, and the third shows growth rates. One important point to be noted within the OTR is the inconsistency in the revenue realization under Land Revenue. This points to inefficiency in the management and state government may look into the matter.

<i>Year</i>	<i>GST</i>	<i>Profession Taxes</i>	<i>Land Revenue</i>	<i>Stamp & Registration</i>	<i>State Excise</i>	<i>Sales Tax/VAT</i>	<i>Taxes on Vehicles</i>	<i>Taxes on Goods & Passengers</i>	<i>Other Taxes & Duties</i>	<i>Total Own Tax Revenue</i>
2012-13	0	13.7	3	0.6	2.8	175.9	22.8	3.8	0.5	223.1
2013-14	0	14.7	4.5	1.5	3.1	183.3	19.4	2.6	0.5	229.8
2014-15	0	14	11.1	3.7	4.9	211.9	17	2.6	1.3	266.5
2015-16	0	15.4	8.9	3.6	60.6	247	19.4	2.7	0.8	358.4
2016-17	0	15.4	8.6	3.3	72.3	307.8	25.8	7.9	0.8	441.8
2017-18	169.8	15.8	8.3	3.2	65.8	242.8	31.6	7.8	0.8	545.9
2018-19	454.7	14.5	8.6	4.4	65.3	135.9	38.4	4.7	0.1	726.7
2019-20	532.2	15.4	9.1	5.8	2.7	117.6	40.7	7.4	0	731.0
2020-21	457.9	15.6	20.7	4.7	1	113.7	29	4.9	0.1	647.6
2021-22	632.3	15.2	13	7.5	1.8	150.8	27.9	5.4	0.1	853.9
2022-23	904.2	16	9.6	7.8	1.9	112.9	41.3	8	0.1	1101.8
2023-24	951.5	15	19.5	14.5	1.8	132	42.6	6	0	1182.8
<i>CAGR (%)</i>	33.27	0.83	18.55	33.58	-3.94	-2.58	5.85	4.24	-100	16.37

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

Goods & Service Taxes (GST) was implemented throughout the country from 1st July 2017. Since the start of GST regime, it is the major component of State's Own Tax Revenue. Professional Taxes, Land Revenue and Stamps and Registration are relatively smaller components of OTR and even in the most recent years together they bring about 50 Crore of revenue. The state government may aim to increase these components as they bring less than 5% of tax revenue (OTR). This could be achieved either through increased rates and/or improving the collection efficiency.

Another important observation from Table 2.6 is that various components are very fluctuating in nature. State Excise and Sales Tax / VAT have given way to GST. The state must focus on increasing State Excise and Sales Tax / VAT, as they are somewhat in control of State Government. As noted earlier, this could be achieved either through increased rates and/or improving the collection efficiency. As an illustration, the Sales Tax/VAT on Petrol is 18% whereas, in Nagaland it is 21.75% and the same is 20% in Sikkim⁴.

Other Taxes & Duties are insignificant in the overall composition of OTR. Taxes on Vehicles are dwindling and states must look into how to increase the same. Whereas, the contribution of Taxes on Vehicles in the FY 2012-13 was in double digits at 10.2%, the same dropped to just 3.6% in 2023-24. Similarly, the Taxes on Goods and Passengers fell from 1.7% to 0.5%.

Further, the growth in GST collection has dropped to 5.2% which is a matter of concern as far as long-term fiscal viability is concerned. The CAGR in Total OTR is 16.37% and the CAGR in GST (in five-year period) is 33.27% and is stabilizing. One may not expect a substantial growth in GST from now onwards. This is possibly because of the base effect. The growth was high in the initial

⁴ <https://ppac.gov.in/prices/vat-sales-tax-gst-rates>

years then the growth has stabilized and likely to continue the consistent moderate growth.

Table 2.7: Major Components of OTR of the State Government [As Percentage of Total OTR]

Year	GST	Profession Taxes	Land Revenue	Stamp & Registration	State Excise	Sales Tax/VAT	Taxes on Vehicles	Taxes on Goods & Passengers	Other Taxes & Duties	Total Own Tax Revenue
2012-13	0	6.1	1.3	0.3	1.3	78.8	10.2	1.7	0.2	100
2013-14	0	6.4	2	0.7	1.3	79.8	8.4	1.1	0.2	100
2014-15	0	5.3	4.2	1.4	1.8	79.5	6.4	1	0.5	100
2015-16	0	4.3	2.5	1	16.9	68.9	5.4	0.8	0.2	100
2016-17	0	3.5	1.9	0.7	16.4	69.7	5.8	1.8	0.2	100
2017-18	31.1	2.9	1.5	0.6	12.1	44.5	5.8	1.4	0.1	100
2018-19	62.6	2	1.2	0.6	9	18.7	5.3	0.6	0	100
2019-20	72.8	2.1	1.2	0.8	0.4	16.1	5.6	1	0	100
2020-21	70.7	2.4	3.2	0.7	0.2	17.6	4.5	0.8	0	100
2021-22	74	1.8	1.5	0.9	0.2	17.7	3.3	0.6	0	100
2022-23	82.1	1.5	0.9	0.7	0.2	10.2	3.7	0.7	0	100
2023-24	80.4	1.3	1.6	1.2	0.2	11.2	3.6	0.5	0	100

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

As the VAT which used to contribute more than two-thirds of the OTR is now subsumed under GST, substantial change in the revenue collection is anticipated. We now look into the extent of the success of GST regime through Table 2.9.

A steady rise in GST collection is evident. State Goods and Services Tax (SGST) is the most important component of collected GST followed by Central Goods and Services Tax (CGST). Integrated Goods and Services Tax (IGST) and Cess are relatively smaller components. More goods and services may be brought in

the ambit of GST and the rates must be harmonized and optimized for maximum collection without being highly stringent on the consumers. Of course, this is not in the purview of state government and the onus is on the central government.

Table 2.8 Major Components of Own Tax Revenue of the State Government [Annual Growth %]

Year	GST	Profession Taxes	Land Revenue	Stamp & Registration	State Excise	Sales Tax/VAT	Taxes on Vehicles	Taxes on Goods & Passengers	Other Taxes & Duties	Total Own Tax Revenue
2013-14		7.3	50	150	10.7	4.2	-14.9	-31.6	0	3
2014-15		-4.8	146.7	146.7	58.1	15.6	-12.4	0	160	16
2015-16		10	-19.8	-2.7	1136.7	16.6	14.1	3.8	-38.5	34.5
2016-17		0	-3.4	-8.3	19.3	24.6	33	192.6	0	23.3
2017-18		2.6	-3.5	-3	-9	-21.1	22.5	-1.3	0	23.6
2018-19	167.8	-8.2	3.6	37.5	-0.8	-44	21.5	-39.7	-87.5	33.1
2019-20	17	6.2	5.8	31.8	-95.9	-13.5	6	57.4	-100	0.6
2020-21	-14	1.3	127.5	-19	-63	-3.3	-28.7	-33.8		-11.4
2021-22	38.1	-2.6	-37.2	59.6	80	32.6	-3.8	10.2		31.9
2022-23	43	5.3	-26.2	4	5.6	-25.1	48	48.1		29
2023-24	5.2	-6.3	103.1	85.9	-5.3	16.9	3.1	-25		7.4

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

Table 2.9: Collection Under GST in Mizoram (₹ Crore)

	CGST	SGST	IGST	CESS	TOTAL
2024-25	86.8	124.8	15.9	0.6	228.2
2023-24	180.7	273.4	45	0.6	499.8
2022-23	150.7	229.8	37.6	0.6	418.6
2021-22	117.9	163.2	34.5	0.5	316.1
2020-21	79.7	122.6	53.6	0.6	256.5
2019-20	81.8	135.3	77.9	0.8	295.8
2018-19	64.4	107.6	40.5	0.6	213.1
2017-18	20.1	38.3	8	0.4	66.6

2024-25 data is till July 2024 only

<https://www.gst.gov.in/download/gststatistics> [GST Data, Government of India]

2.4. Composition and Trend of State's ONTR

Table 2.10 shows the composition of Own Non-Tax Revenue for Mizoram. Under ONTR four sub-heads are considered. Interest Receipts, Economic Services, Social Services and General Services. The biggest component is Economic Services which constitute three-fourth of the total ONTR. After Economic Service comes the Social Service which is followed by Interest Receipt and General Services. Interest Receipt and General Services constitute about 15% of the Total ONTR. The main sources of interest received in Mizoram are from the investment of the state's cash balances in the Reserve Bank of India.

The CAGR of Interest Receipt is 13.31% and of General Services is 17.8%. Similarly, CAGRs of Social Service and Economic Services are 14.94% and 13.67% respectively. The data shows nearly balanced growth in the various ONTR components. In absolute terms, Economic Services brought more than 803 Crores as revenue in the year 2022-23, which shows the available potential in the revenue sources. In the tables which follow, we present disaggregated figures for different components of ONTR for Mizoram. In Figure 2.11, the disaggregation of Economic Services is presented. Later, in Table 2.12, the disaggregation of Social Services is presented. Finally, in Table 2.13, the disaggregation of General Services is presented.

The most important component of Economic Services is the Power. Almost entire Revenue realized under Economic Services comes from Power. This is precisely the reason why we are going to analyse the Power Sector separately in a dedicated chapter. Agriculture and allied services are important because Mizoram's economy has agrarian features and the policymakers should try to make the sector growth oriented with business perspective. Similarly, a large part of state is covered with forests and economic but sustainable use of the forestry sector is called for. The revenue realization from Economic Services was increasing

steadily except for the last year. We may note that the last year figures are based on revised estimates only and actuals may vary.

Water and Sanitation is the most important component of Social Services area. Very little revenue realization from Urban Development should be explored. The revenue realization from Urban development is, in most cases, less than 20 lakhs which is too small a figure. Medical & Public Health and Family Welfare constitute yet another important component of ONTR under Social Services. Without adversely affecting the population in need the same may be increased. Housing should also contribute reasonably to ONTR in Social Services but it is also very low, the last three-year average is less than 2.0 crore.

Table 2.10: Composition of ONTR through the years in Mizoram's Revenue

	₹ Cr					% of Total ONTR			
	Interest Receipt	General Services	Social Services	Economic Services	Total	Interest Receipt	General Services	Social Services	Economic Services
2012-13	16.9	11.5	19.5	165.0	212.8	7.9	5.4	9.2	77.5
2013-14	17.9	19.0	23.7	133.7	194.3	9.2	9.8	12.2	68.8
2014-15	19.9	22.1	27.6	172.3	242.0	8.2	9.1	11.4	71.2
2015-16	30.7	26.0	42.5	198.4	297.6	10.3	8.7	14.3	66.7
2016-17	48.3	26.8	43.7	246.4	365.2	13.2	7.3	12	67.5
2017-18	51.1	32.1	46.8	260.6	390.6	13.1	8.2	12	66.7
2018-19	57.7	19.3	50.7	322.3	450.0	12.8	4.3	11.3	71.6
2019-20	34.9	27.6	54.9	404.9	522.3	6.7	5.3	10.5	77.5
2020-21	31.2	34.5	65.2	430.9	561.8	5.6	6.1	11.6	76.7
2021-22	60.7	47.9	64.5	449.0	622.1	9.8	7.7	10.4	72.2
2022-23	55.2	94.4	74.4	803.7	1027.8	5.4	9.2	7.2	78.2
2023-24	66.8	69.7	90.2	675.3	902.0	7.4	7.7	10	74.9
CAGR %	13.31	17.8	14.94	13.67	14.03				

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

Table 2.11: Trends and Components of ONTR in Economic Services of Mizoram (in ₹ Cr)

	Crop Husbandry, Animal Husbandry, Dairy Development and Other Agricultural Programmes	Forestry & Wildlife	Food Storage & Warehousing, Co-operation and Fisheries	Land Reforms, Minor Irrigation, Village & Small Industries and Other Rural Development Programs	Power	Non-Ferrous Mining and Metallurgical Industries	Civil Aviation, Road Transport and Roads & Bridges	Tourism	Others	Total Economic Services
2012-13	3.03	2.39	0.22	1.78	111.3	5.28	39.15	1.72	0.15	164.98
2013-14	3.11	2.98	0.61	1.67	109.1	4.51	9.17	2.39	0.16	133.66
2014-15	3.64	5.20	4.15	1.62	144.4	3.73	7.26	2.23	0.16	172.34
2015-16	3.71	3.10	3.32	2.11	166.4	4.82	12.25	2.22	0.47	198.36
2016-17	4.13	2.82	4.95	2.66	200.1	3.09	25.50	2.36	0.82	246.44
2017-18	4.29	3.67	1.35	2.25	213.1	6.33	26.13	2.50	0.93	260.55
2018-19	3.63	3.30	2.37	2.26	270.2	5.61	31.08	2.94	0.85	322.26
2019-20	3.74	4.93	1.54	2.57	373.6	5.23	9.39	3.07	0.86	404.94
2020-21	3.99	3.74	12.33	2.00	398.0	5.03	3.30	1.80	0.69	430.88
2021-22	2.66	5.40	21.04	2.03	401.9	6.52	7.44	1.50	0.57	449.04
2022-23	2.70	7.67	19.88	4.00	741.3	12.84	11.47	3.00	0.81	803.71
2023-24	5.12	6.00	7.68	6.43	620.0	12.00	13.79	3.50	0.82	675.33

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

Table 2.12: Trends and Components of ONTR in Social Services of Mizoram (in ₹ Cr)

	Education, Sports, Art & Culture	Medical & Public Health and Family Welfare	Water Supply & Sanitation	Housing	Urban Development	Information & Publicity	Labour & Employment	Social Security & Welfare	TOTAL Social Services
2012-13	1.5	0.4	14.5	0.8	0.1	0.2	0.1	2.0	19.5
2013-14	1.3	0.2	19.5	1.0	0.1	0.2	0.1	1.3	23.7
2014-15	1.6	0.3	23.5	1.0	0.1	0.2	0.0	0.9	27.6
2015-16	2.0	1.0	34.2	1.7	0.1	0.2	0.1	3.3	42.5
2016-17	3.5	0.3	37.5	1.2	0.2	0.2	0.2	0.5	43.7
2017-18	2.3	0.4	39.5	1.4	0.1	0.2	0.1	2.9	46.8
2018-19	2.5	0.3	44.6	1.2	0.4	0.2	0.6	0.9	50.7
2019-20	2.6	0.3	48.3	1.8	0.1	0.1	0.7	1.0	54.9
2020-21	3.7	5.2	54.7	1.1	0.2	0.1	0.4	0.0	65.2
2021-22	3.4	4.1	54.8	1.4	0.1	0.1	0.4	0.0	64.5
2022-23	3.5	1.3	65.1	2.1	0.2	0.1	0.4	1.6	74.4
2023-24	4.2	6.2	77.0	1.6	0.6	0.1	0.6	0.0	90.2

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

Table 2.13: Trends and Components of ONTR in General Services of Mizoram (in ₹ Cr)

	Public Service Commission	Police	Jails	Supplies & Disposals	Stationery & Printing	Public Works	Other Administrative Services	Pension & Other Retirement Benefits	Miscellaneous General Services	TOTAL General Services
2012-13	0.1	0.4	0	0	0.6	0.3	4.7	1.4	3.9	11.5
2013-14	0.1	0.3	0	0	1.3	0.2	5.3	2.1	9.5	19
2014-15	0.3	0.4	0	0	1.2	0.3	6.6	1.5	11.7	22.1
2015-16	0.3	0.7	0	0	2.2	1.6	6.3	2.3	12.5	26
2016-17	0.2	0.6	0	0.1	1.9	0.5	7.8	1.9	13.7	26.8
2017-18	1.4	0.6	0	0	6.8	0.1	6.9	2.5	13.9	32.1
2018-19	0.4	0.6	0	0	1.8	0.2	9.7	0.8	5.7	19.3
2019-20	0.1	0.8	0.1	0	1.4	1.1	12.1	5.2	6.8	27.6
2020-21	0	2.4	0	0	1.5	0.4	11.4	12.4	6.5	34.5
2021-22	0.1	2.4	0.1	0	0.8	14.9	13.4	11	5.4	47.9
2022-23	0.1	4.6	0.1	0	0.6	0.2	19.9	56.1	13	94.4
2023-24	0.1	1.8	0.1	0	1.3	0.2	17.3	12.8	36	69.7

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

Under General Services, the revenue realization is small with Miscellaneous General Services being the most important which constitute more than 50% of ONTR under General Services.

2.5. Devolution and Revenue Transfer

We now evaluate the revenue received from Devolution and Revenue Transfer from the Union Government. In this component, as noted earlier the dynamics has changed completely because of abolition of plan-based transfers. Table 2.14 shows the Devolution and Revenue Transfers from Central Government in the planning era, i.e. till the year 2016-17.

Table 2.15 shows the Devolution and Revenue Transfers from Central Government in the post-planning era, i.e. after the year 2016-17. Figure 2.4 illustrates the total transfers and devolutions during the entire period of interest

2012-13 to 2023-24. Figure 2.5 shows trend in devolution and central transfer in post-planning era and Figure 2.6 shows the same as percentage of GSDP.

	2012-13	2013-14	2014-15	2015-16	2016-17
Non-Plan Grants [Art.275(1) of Constitution]	988 (11.8)	1016 (9.9)	990 (7.3)	2139 (14.1)	2294 (13.3)
Non-Plan Grants [Calamity Relief]	9 (0.1)	14 (0.1)	10 (0.1)	15 (0.1)	16 (0.1)
Other Non-Plan Grants	60 (0.7)	111 (1.1)	95 (0.7)	36 (0.2)	46 (0.3)
Non-Plan Grants for Local Bodies	33 (0.4)	51 (0.5)	50 (0.4)	12 (0.1)	21 (0.1)
Minor Non-Plan Grants	20 (0.2)	46 (0.4)	13 (0.1)	6 (0)	10 (0.1)
Plan Grants [Block Grants]	1834 (21.9)	1828 (17.8)	1772 (13.1)	158 (1)	NA
Plan Grants [Art.275(1) of Constitution]	8 (0.1)	11 (0.1)	19 (0.1)	214 (1.4)	NA
Other Plan Grants	24 (0.3)	66 (0.6)	474 (3.5)	630 (4.2)	NA
Total Plan	1110 (13.3)	1238 (12)	1158 (8.6)	2208 (14.6)	2387 (13.9)
Total Non-Plan	1866 (22.3)	1905 (18.5)	2265 (16.8)	1002 (6.6)	NA
Grants for Central Plan Schemes	15 (0.2)	12 (0.1)	25 (0.2)	40 (0.3)	NA
Grants for Centrally Sponsored Plan Schemes	294 (3.5)	369 (3.6)	663 (4.9)	342 (2.3)	NA
Grants for Special Plan Schemes	83 (1)	55 (0.5)	45 (0.3)	97 (0.6)	NA

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents> Figures in parenthesis presents the data as percentage of GSDP [Budget Documents, Government of Mizoram]

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Grants for Centrally Sponsored Scheme	1465 (7.56)	1255 (5.73)	2104 (8.42)	1330 (5.56)	1366 (5.12)	1600 (5.21)	3424 (9.54)
Finance Commission Grant	2536 (13.08)	2617 (11.94)	2779 (11.12)	1725 (7.21)	1910 (7.15)	1722 (5.61)	1635 (4.55)
Other Transfers and Grants	546 (2.82)	489 (2.23)	504 (2.02)	465 (1.94)	216 (0.81)	85 (0.28)	100 (0.28)

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents> Figures in parenthesis presents the data as percentage of GSDP [Budget Documents, Government of Mizoram]

It is quite clear from the graph above that except for the transition years and pandemic induced issues, the Total Revenue and Grants-In-Aid are increasing with widening gap. The widening gap could be interpreted in two different ways. First, the state is moving towards self-sufficiency, which is a positive sign. Second, there is a relative reduction in central grants. Given the economic situation of the state, Mizoram still requires hand holding from the Union.

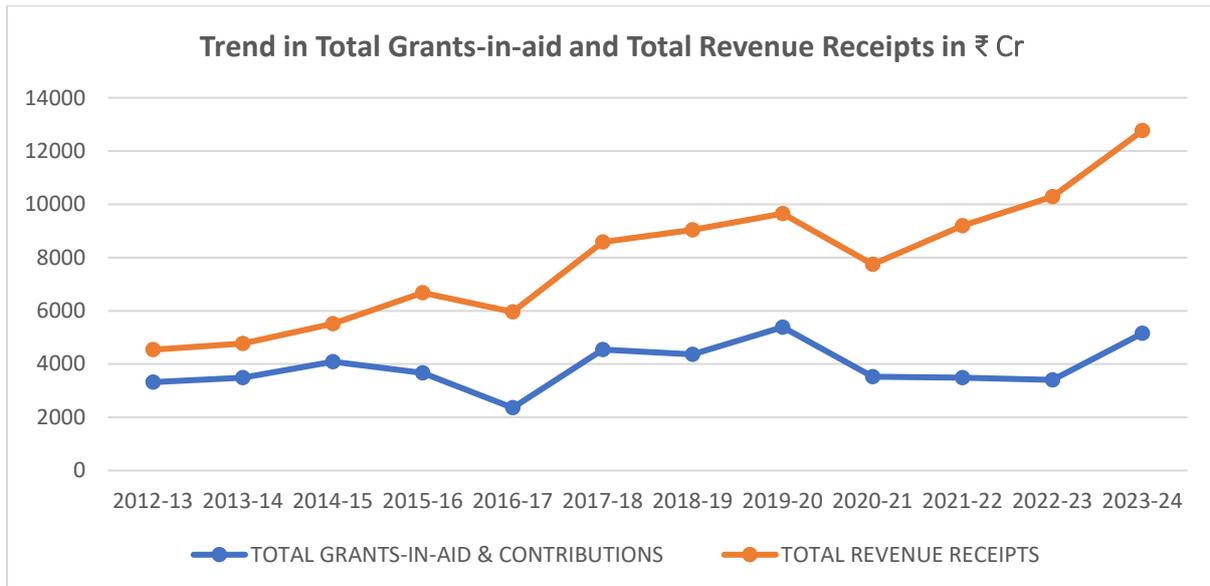


Figure 2.4: Trend in Total Grants-in-aid and Total Revenue Receipts in ₹ Cr

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

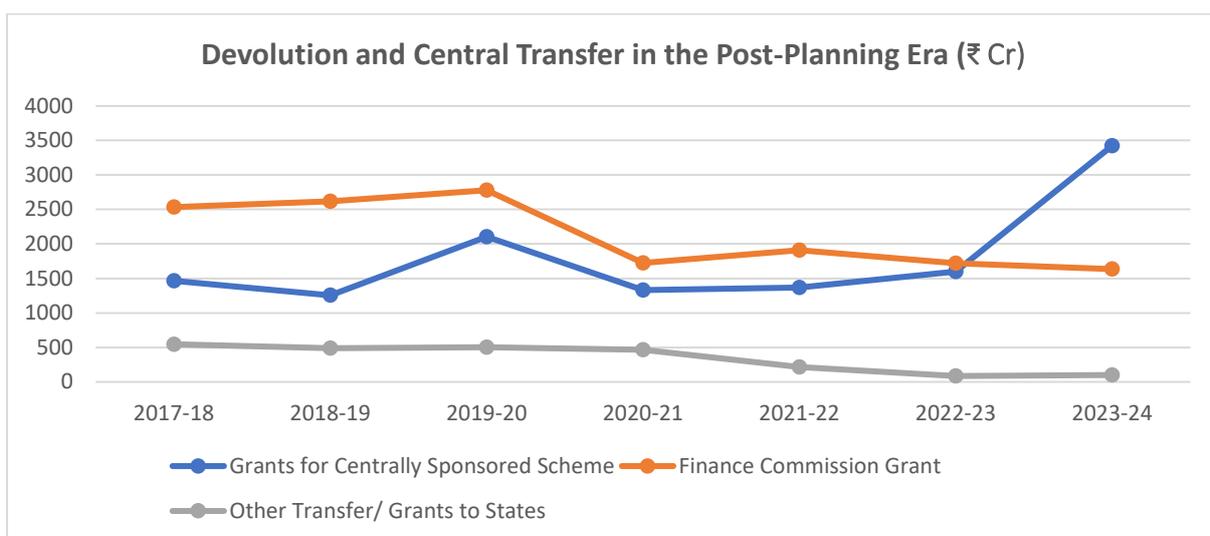


Figure 2.5: Trend in devolution and central transfer in post-planning era

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

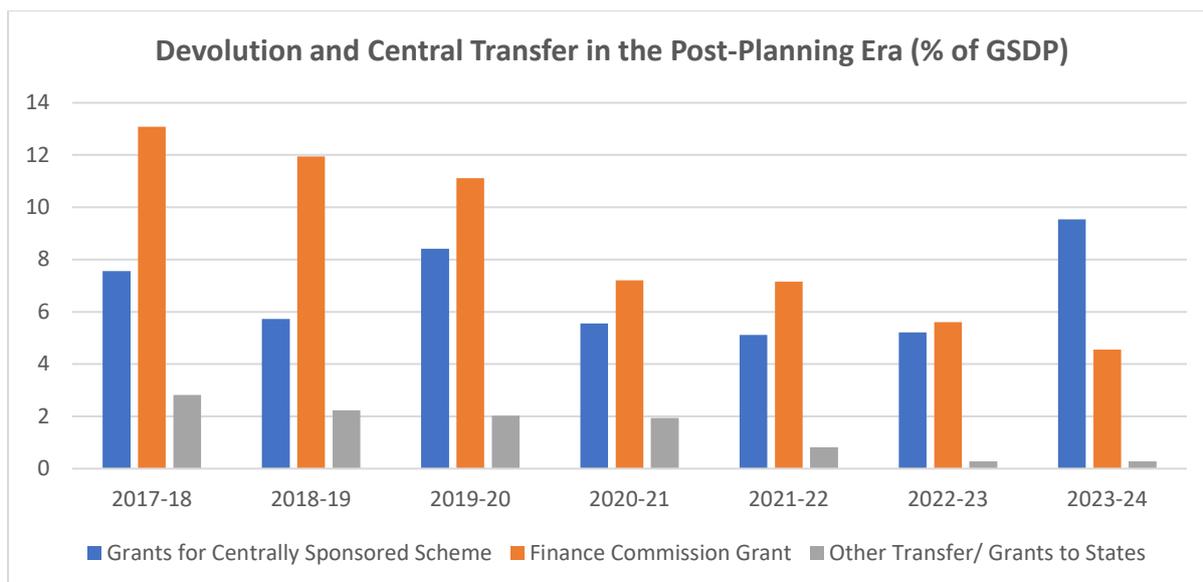


Figure 2.6: Devolution and Central Transfer in the Post-Planning Era (% of GSDP)

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>

[Budget Documents, Government of Mizoram]

2.6 Tax Buoyancy

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 (2012-13 to 2023-24), this study adopted the following log-linear regression model (double log model)

$$\log(R_t) = a + b \log(GSDP_t) + u_t \quad Eq (2.1)$$

where R_t is the revenue receipt in the 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. The results are presented in the Table 2.16. The results show that there is a significant relationship between various tax components and GSDP. A couple of exceptions are State Excise and Sales Tax/VAT (though, this is significant at 10% level). In addition, Other Taxes and Duties, which has unexpected sign, is not very useful as this component is too small to be of any practical significance. Many Buoyancy estimates are above one (Buoyancy estimate for GST is 3.079). This shows that one percent increase in GSDP leads to a 3% rise in GST collection. Profession Tax is not responding reasonably to increase in GSDP, possibly because of inefficiency in tax collection. Tax and Non-Tax revenues have similar relationship with the GSDP.

	Buoyancy	t-value	p-value	R-Sq	Adj.R-Sq	F-Stat
GST	3.079	6.45	0.001	1	0.871	41.601
Profession Taxes	0.074	2.811	0.018	0.441	0.386	7.904
Land Revenue	1.011	4.272	0.002	0.646	0.611	18.251
Stamp & Registration	1.793	8.504	0	0.879	0.866	72.32
State Excise	-0.759	-0.613	0.554	0.036	-0.06	0.375
Sales Tax/VAT	-0.438	-2.088	0.063	0.304	0.234	4.358
Taxes on Vehicles	0.604	4.179	0.002	0.636	0.6	17.466
Taxes on Goods & Passengers	0.691	2.855	0.017	0.449	0.394	8.153
Other Taxes & Duties	-3.726	-2.679	0.023	0.418	0.36	7.175
Total Own Tax Revenue	1.338	14.355	0	0.954	0.949	206.069
General Services	1.153	4.988	0.001	0.713	0.685	24.877
Social Services	1.075	15.449	0	0.96	0.956	238.672
of which, Water Supply & Sanitation	1.157	19.513	0	0.974	0.972	380.776
Economic Services	1.244	8.172	0	0.87	0.857	66.787
of which, Power	1.426	9.884	0	0.907	0.898	97.684
Total Own Non-Tax Revenue	1.215	9.068	0	0.892	0.881	82.232
Authors' Own Calculation using data from Budget Documents, Government of Mizoram https://finance.mizoram.gov.in/page/list-of-budget-documents						

2.7. 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. 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.

Mizoram may be compared with the other North-Eastern and Himalayan states for Revenue related parameters. This may give additional insights. Some comparisons are provided in Annexures (see Annexures V and VI). One may note that the Mizoram appears somewhere in between the two extremes.

Chapter 3

STATE'S EXPENDITURE

3.1. Introduction

In a welfare state, which is also stressed on endowed economic resources, the economic growth is primarily driven by public expenditure. In India, this is true for many states of the North-East and Mizoram is no exception. The causal connection between public expenditure and gross domestic product – both at the central and provincial government levels – is a well-established stylized fact in economics and public finance literatures.

The Keynesian model of macroeconomics is built upon the government's role in driving the economy through public expenditure. Fiscal policy, according to Keynes, is the fundamental driver of economy. One cannot ignore the role of fiscal policy (through public expenditure) in making an economy follow the growth path. Public expenditure is needed in achieving the goals of growth, development, equity, and stability. In the context of developing economies like India, public expenditure is most critical in order to ensure an equitable distribution of resources and the same is equally applicable for the sub-national economies at the state level. This is even more important if the state lacks in economic resources and lags in the development ladder.

Public expenditure is important, yet long term viability of expenditure relies on fiscal health of the country or the state. Increasing public expenditure driven by the growth of revenue expenditure set alarm to the fiscal prudence 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. Still, it is the responsibility of the state government to make the provision of social and economic services for sustained, inclusive and equitable development through public expenditure. The previous chapter

explored the revenue aspects. The present chapter explores the trend, patterns, and composition of government expenditures. Optimally managing an economy is all about the balance between revenue and expenditure. We now present the trends and dimensions of the expenditure of Government of Mizoram.

3.2. Analysis of Expenditure Pattern

The total expenditure of the Government of Mizoram could be classified in three categories – Revenue Expenditure, Capital Expenditure and Outflow of Funds for Loans and Advances. Table 3.1 presents the detail. The expenditure through the years 2012-13 to 2023-24 is shown in ₹ Crore and also through percent composition. Revenue Expenditure is the most important component with almost three-fourths of the total expenditure. For long term growth, capital outlay is very critical but this matter is of some concern for the state of Mizoram. The CAGR for both Revenue and Capital Expenditure is just under 10%, and the Total Expenditure is just above 10% and appear to be manageable, at least in the short-run.

Year	₹ Crore				% Composition		
	Revenue Expenditure	Capital Outlay	Loans & Advances	Total Exp.	Revenue Expenditure	Capital Outlay	Loans & Advances
2012-13	4509	748	316	5573	80.9	13.4	5.7
2013-14	4531	498	963	5992	75.6	8.3	16.1
2014-15	5652	928	1192	7772	72.7	11.9	15.3
2015-16	5571	711	557	6839	81.5	10.4	8.1
2016-17	6230	911	340	7481	83.3	12.2	4.5
2017-18	6901	1948	499	9348	73.8	20.8	5.3
2018-19	7506	1868	285	9659	77.7	19.3	3
2019-20	9454	1373	436	11263	83.9	12.2	3.9
2020-21	8515	1126	1621	11262	75.6	10	14.4
2021-22	8557	1004	3801	13362	64	7.5	28.4
2022-23	10092	1322	2605	14019	72	9.4	18.6
2023-24	12509	2128	1467	16104	77.7	13.2	9.1
CAGR %	9.72	9.97	14.98	10.13			

Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

Figure 3.1 represents the growth trend for different major expenditure heads for Mizoram. Revenue expenditure shows a growing trend. This is on expected lines but the nearly static capital outlay is not the best situation for long-run sustained growth. There are periods of overshooting loans and advances, but in last couple of years it is showing downward trajectory.

Table 3.2 presents the expenditure as a percentage of GSDP. Total Expenditure is nearly half the size of GSDP. The Capital Expenditure including Loans and Advances is about 10% of GSDP. The rest of the expenditure, about two-fifths, is going on Revenue Expenses. Revenue Expenditure was almost 54% in the FY 2012-13. The state has made reasonable progress in bringing fiscal consolidation and since FY 2015-16, it has never breached 40% mark. The highest Capital Expenditure (as a percentage of GSDP) took place in 2017-18. Mizoram needs a few spells of large Capital Outlay in productive sectors to put the growth engine on higher gear. One must keep an eye on Loans and Advances, thankfully this component is under control. Except for 2021-22 (possibly due to COVID), it is indeed under control and never breached double digit mark.

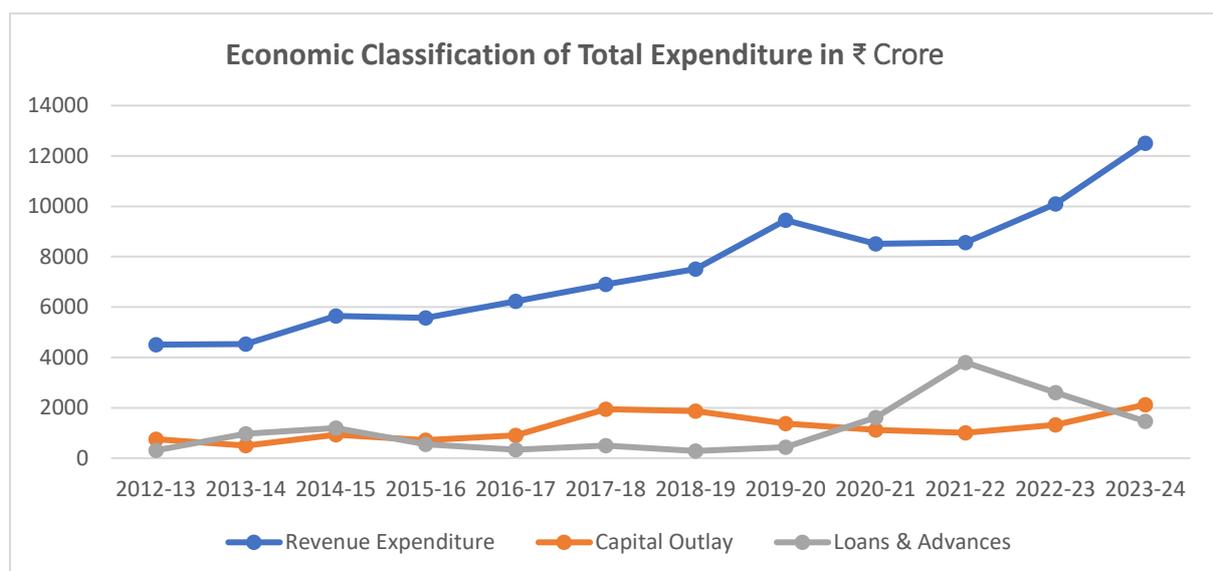


Figure 3.1: Economic Classification of Total Expenditure in ₹ Crore

Source: Plotted using data from Mizoram’s Budget Document

Year	Revenue Expenditure	Capital Expenditure (Outlay)	Loans & Advances	Capital Expenditure Total	Total Expenditure
2012-13	53.9	8.9	3.8	12.7	66.6
2013-14	44	4.8	9.4	14.2	58.2
2014-15	41.8	6.9	8.8	15.7	57.5
2015-16	36.8	4.7	3.7	8.4	45.2
2016-17	36.2	5.3	2.0	7.3	43.5
2017-18	35.6	10.0	2.6	12.6	48.2
2018-19	34.3	8.5	1.3	9.8	44.1
2019-20	37.8	5.5	1.7	7.2	45.1
2020-21	35.6	4.7	6.8	11.5	47.1
2021-22	30.8	3.6	13.7	17.3	48.0
2022-23	33.9	4.4	8.7	13.2	47.0
2023-24	39.1	6.6	4.6	11.2	50.3

Source: Computed from the data obtained from Mizoram's Budget Document and RBI Data on State GSDP

Table 3.3 presents the composition of Revenue Expenditure under broad heads – General Services, Social Services, and Economic Services. The final column shows the aggregate and it is an adjusted figure as it takes into account certain stock recoveries (hence, NET). Similarly, Table 3.4 presents the composition of Capital Expenditure under the similar broad heads – General Services, Social Services, and Economic Services (the final column is the Gross Capital Outlay – for the period considered, the Gross Capital Outlay and the Net Capital Outlay are same for Mizoram).

One may infer from the Table 3.3 that revenue expenditure on General Services is growing at a compounded annual rate of almost 11%, revenue expenditure on Social Services is growing at a compounded annual rate of about 10.8%, and revenue expenditure on Economic Services is growing with a CAGR of just about 7%. Expenditure on Economic Services should be increased as it will boost the productive sector of the economy. Nevertheless, Social Service must not be neglected. Overall, the Net Revenue Disbursement is growing at 9.72 % (in CAGR terms).

Year	GENERAL SERVICES	SOCIAL SERVICES	ECONOMIC SERVICES	Revenue Disbursement NET
2012-13	1431 (32)	1652 (37)	1436 (32)	4519
2013-14	1676 (37)	1535 (34)	1320 (29)	4531
2014-15	1750 (31)	2161 (38)	1742 (31)	5652
2015-16	1917 (34)	2220 (40)	1434 (26)	5571
2016-17	2097 (34)	2301 (37)	1832 (29)	6230
2017-18	2239 (32)	2627 (38)	2035 (29)	6901
2018-19	2695 (36)	2934 (39)	1876 (25)	7506
2019-20	3161 (33)	3393 (36)	2900 (31)	9454
2020-21	3231 (38)	3178 (37)	2106 (25)	8515
2021-22	3142 (37)	3248 (38)	2078 (25)	8467
2022-23	3831 (38)	3674 (36)	2587 (26)	10092
2023-24 (RE)	4498 (36)	5108 (41)	3037 (24)	12509
CAGR %	10.97	10.81	7.05	9.72

Source: Budget Document Mizoram (Figures in parenthesis shows the data as % of total)

Further, one may infer from the Table 3.4 that capital expenditure on General Services is growing at a compounded annual rate of almost 14.13%, capital expenditure on Social Services is growing at a compounded annual rate of about 11.1%, and capital expenditure on Economic Services is growing with a CAGR of just under 9%. From Capital Account perspective too, expenditure on Economic Services should be increased as it will boost the productive sector of the economy. Nevertheless, Social Service and General Services must not be neglected. Overall, the Gross Capita Outlay is growing at a rate of over 12% (in CAGR terms). There are periods of boost in Capital Outlay in Economic Services (2017 to 2019 and 2023-24) but it is not sustained for longer time periods. Capital Outlay (CO), more so for Economic Services, is essential for the long-term growth of Mizoram. The major boost in capital outlay for economic services for the years 2017-18 and 2023-24 are in the area of energy.

Year	GENERAL SERVICES	SOCIAL SERVICES	ECONOMIC SERVICES	Capital Outlay GROSS
2012-13	43	222	483	608
2013-14	31	98	369	319
2014-15	74	314	539	928
2015-16	34	212	465	711
2016-17	49	313	549	911
2017-18	112	577	1259	1948
2018-19	99	762	1007	1868
2019-20	95	601	676	1373
2020-21	43	560	523	1126
2021-22	39	458	507	1004
2022-23	83	306	933	1322
2023-24	184	708	1236	2128
CAGR %	14.13	11.12	8.92	12.06

Source: Budget Document Mizoram

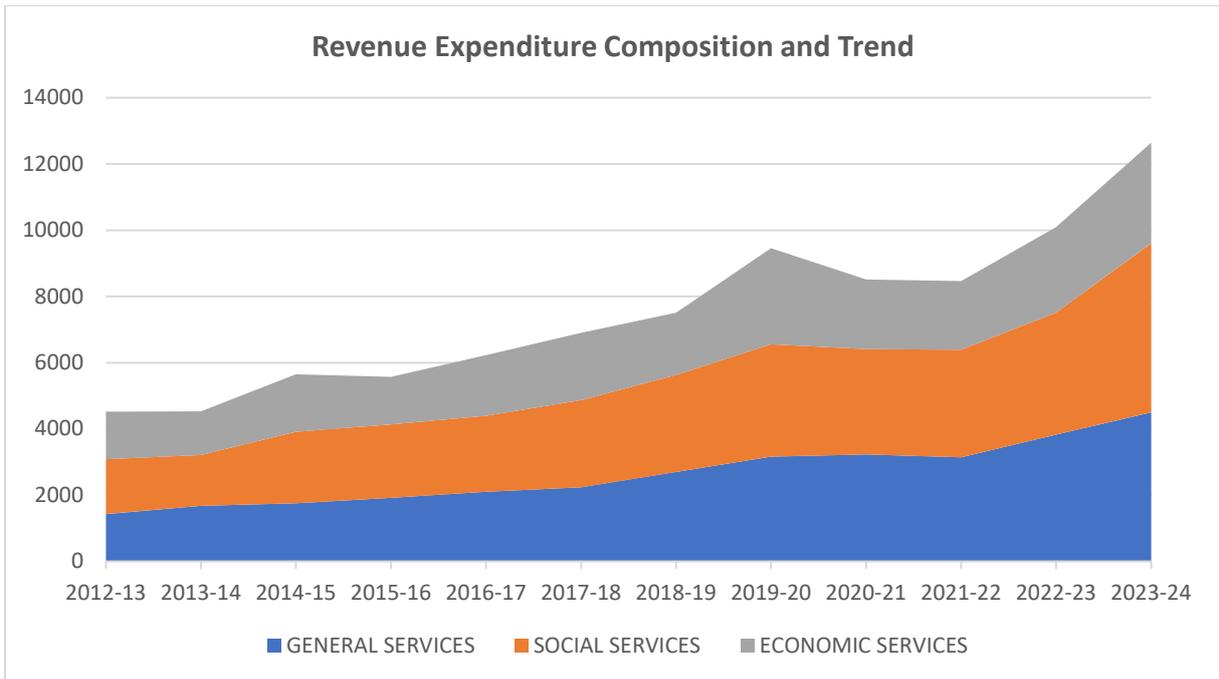


Figure 3.2: Revenue Expenditure Composition and Trend

Source: Plotted using data from Mizoram’s Budget Document

Figure 3.2 simultaneously represents revenue expenditure growth and the growth pattern in its composition. Similar information could be obtained from the Figure 3.3, albeit for capital expenditure growth. It is clear from the figure

that capital expenditure growth is not realized in a smooth manner and there are multiple troughs and peaks. This must be addressed by the policymakers.

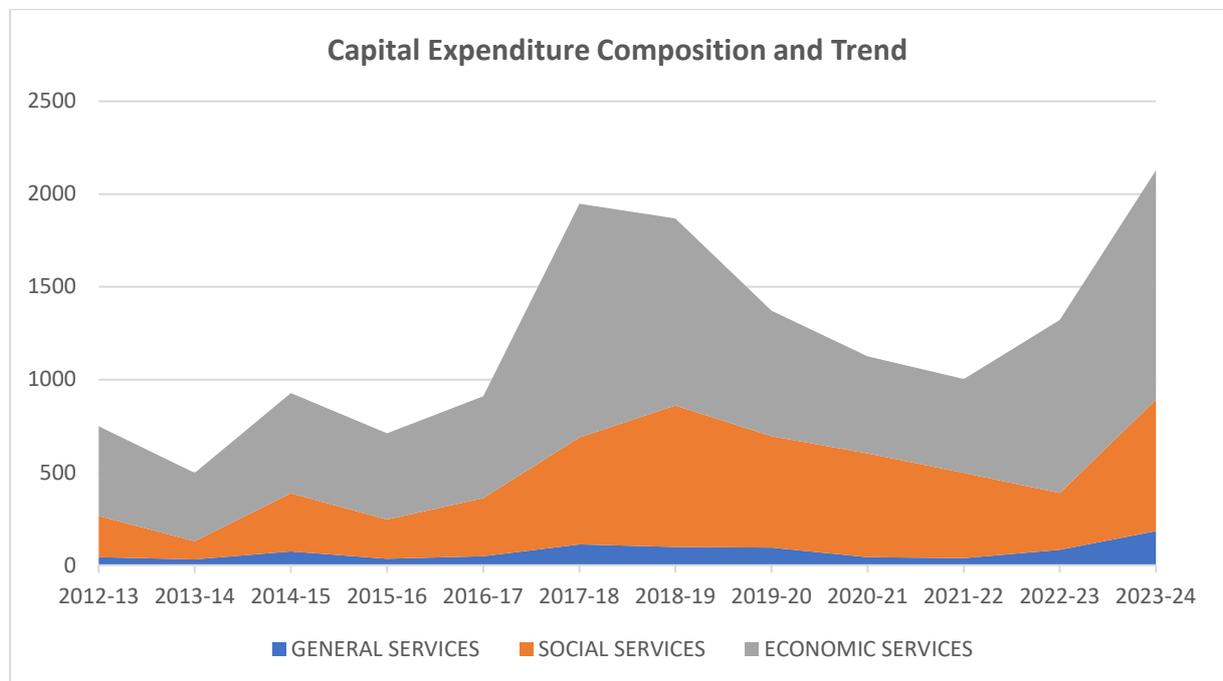


Figure 3.3: Capital Expenditure Composition and Trend

Source: Plotted using data from Mizoram’s Budget Document

We now turn to the analysis of various components of revenue and capital expenditure at a deeper and disaggregated level. Table 3.5 depicts the details of Revenue Expenditure in General Services in Mizoram for the period 2012-13 to 2023-24.

From the Table 3.5, we observe that revenue expenditure on Organs of State is growing at a compounded annual rate of 13.77%. The CAGR of all other sub-components are reasonable except for the Pension expenditure and this is to be addressed. Pension may not be denied but state should be ready to look into the ballooning expense in this regard.

Table 3.5: Breakdown of Revenue Expenditure in General Services (₹ Cr)

Year	Organs of State	Fiscal Services	Interest Payment & Debt Servicing	Administrative Services	Pension & Miscellaneous General
2012-13	52	53	308	646	372
2013-14	93	60	307	690	527
2014-15	63	69	325	746	547
2015-16	66	69	400	764	618
2016-17	66	73	375	819	764
2017-18	76	79	386	857	840
2018-19	161	84	412	1065	973
2019-20	117	99	350	1160	1436
2020-21	91	95	445	1114	1485
2021-22	100	103	498	1108	1333
2022-23	121	113	555	1206	1836
2023-24	215	131	755	1437	1959
CAGR %	13.77	8.57	8.49	7.54	16.3

Source: Budget Document Mizoram

Table 3.6: Breakdown of Revenue Expenditure in Social Services (₹ Cr)

Year	Education, Sports, Art & Culture	Health & Family Welfare	Water Supply, Sanitation, Housing & Urban Development	Information & Broadcasting	Welfare of SC/ST & OBCs	Labour & Employment	Social Welfare & Nutrition	Others
2012-13	831	220	189	8	266	7	129	2
2013-14	813	189	209	10	247	12	54	2
2014-15	1142	328	255	9	284	11	129	2
2015-16	1128	367	243	10	287	15	167	2
2016-17	1162	371	285	11	301	15	155	2
2017-18	1257	469	318	12	371	13	186	2
2018-19	1398	491	428	15	424	22	155	2
2019-20	1619	552	482	14	466	37	219	3
2020-21	1508	550	408	12	460	25	214	3
2021-22	1517	629	494	11	407	17	169	3
2022-23	1703	600	544	12	550	20	240	4
2023-24	2060	801	1267	13	573	37	354	3
CAGR %	8.6	12.47	18.88	4.51	7.23	16.34	9.61	3.75

Source: Budget Document Mizoram

It may be inferred from the Table 3.6 that the revenue expenditure on Health & Family Welfare is growing with a CAGR of 12.47% and the revenue expenditure on Water Supply, Sanitation, Housing & Urban Development is galloping at a

high CAGR of 18.88%. The CAGR in other sub-components are within manageable limits. Hence, expenditure on Health & Family Welfare, Water Supply, Sanitation, Housing & Urban Development needs better management for longer viability. Nevertheless, health sector and water & sanitation cannot be less prioritized because it will adversely affect the overall development.

In the following table (Table 3.7), the breakdown of revenue expenditure on Economic Services is considered. Revenue expenditure in Rural Development is increasing at a whopping 19.13% and similarly, revenue expenditure in Transport is increasing at an annual (compounded) rate of 15.77%. It is expected that it will add to the economic wellbeing of the state, provided that sufficient funds are available in coming years. It is somewhat counterintuitive that Communication has a negative CAGR. Revenue expenditure in Energy is increasing with a CAGR of 9.67%. We should see whether the revenue inflow is sustainable for the same. Negative CAGR for Industry and Minerals is not a good indicator. In 2019-20 the revenue expenditure on Transport was a mammoth figure (₹1028 Cr). This figure was almost 200% higher than the previous year. Such huge differentials put tremendous burden on the exchequer. It is imperative that the growth should be more consistent.

The most important sub-sectors within Economic Services are Agriculture & Allied Activities, Rural Development, Energy and Transport. The revenue expenditure in both Agriculture & Allied Activities and Energy is nearing thousand crore and attention is required to reduce the pilferage, if any. We may also note that in certain sectors such as Science, Technology & Environment and Irrigation, the capital expenditure is relatively low and may be boosted further to give the state some additional push towards these niche areas.

Table 3.7: Breakdown of Revenue Expenditure in Economic Services (₹ Cr)

Year	Agriculture & Allied Activities	Rural Development	Special Areas Programme	Irrigation & Flood Control	ENERGY	Industry and Minerals	Transport	Communication	Science, Technology & Environment	Other General Economic Services
2012-13	722	64	32	10	302	128	118	8	3	50
2013-14	582	55	38	10	318	124	137	7	4	47
2014-15	722	228	36	11	338	149	190	11	4	52
2015-16	386	296	20	11	362	87	196	10	5	61
2016-17	509	345	41	11	465	100	289	8	8	58
2017-18	544	356	40	11	511	86	398	8	14	65
2018-19	569	182	40	15	583	76	303	4	21	83
2019-20	592	258	94	13	739	79	1028	10	9	78
2020-21	550	276	82	12	806	77	222	4	10	67
2021-22	626	237	74	13	701	78	267	5	9	69
2022-23	570	310	74	14	945	75	502	9	10	77
2023-24	912	439	74	15	834	78	591	5	11	77
CAGR %	2.15	19.13	7.92	3.75	9.67	-4.4	15.77	-4.18	12.54	4.0

Source: Budget Document Mizoram

Table 3.8: Breakdown of Capital Outlay in General Services (₹ Cr)

Year	Other Fiscal Services	Police	Stationery & Printing	Public Works	Public Works (L&J)	MPSC Land Revenue & Settlement	Other Administrative Services
2012-13	1	10	0	25	1	0	6
2013-14	2	8	3	5	7	0	6
2014-15	0	24	0	45	0	0	5
2015-16	0	15	1	3	12	1	2
2016-17	0	27	0	6	16	0	0
2017-18	18	23	0	28	22	0	22
2018-19	10	9	0	47	9	0	25
2019-20	0	6	0	87	0	0	2
2020-21	6	0	0	36	0	0	0
2021-22	0	9	0	31	0	0	0
2022-23	6	10	0	42	0	0	24
2023-24	21	50	0	112	0	0	2
CAGR %	31.89	15.76	--	14.61	--	--	-9.50

Source: Budget Document Mizoram

In Tables 3.8 through 3.10, we study the capital expenditure pattern at much granular level – General Services, Social Services and Economic Services. First, we look into the CO in General Services.

Capital outlay in General Services is a relatively smaller component. Police and Public Works are, nevertheless, important in this category as the capital expenditure in those areas are growing at about 15% CAGR. Most other sub-components are miniscule.

Under Social Services category of capital expenditure, Health & Family Welfare; Water Supply & Sanitation, Housing Development stands out. This sub-component is indeed very important from a welfare state perspective.

The CAGR of Health & Family Welfare; Water Supply & Sanitation Housing Development is a little less than 12% but the size of this sub-component is relatively high. Information & Broadcasting has a negative CAGR. Education, Sports, Art & Culture is growing with 15.52% CAGR but the component is small in size. The highest capital outlay in Health & Family Welfare; Water Supply & Sanitation Housing Development occurred in the FY 2018-19 where the capital outlay was more than ₹650 Cr. Capital expenditure on Information & Broadcasting is rarely above ₹50 Cr, except for 2019 to 2022. The growth in these sub-components is not very uniform and there are multiple peaks and troughs This pattern may adversely affect the planning in advance.

Under Economic Services the capital expenditure for Communication, Science, Technology and Tourism was growing at a CAGR of 68.16%. This is clearly because of the base effect. Energy, Industry and Transport is an important area under Economic Services and is growing with a CAGR of 13.04%. Agriculture & Allied Activities has a negative CAGR. During the year 2017 and 2019 huge capital expenditures were made in Energy, Industry and Transport sub-sectors.

The only sizeable expenditure under Communication, Science, Technology and Tourism occurred in the post-pandemic era, i.e. after 2022.

Table 3.9: Breakdown of Capital Outlay in Social Services (₹ Cr)

Year	Education, Sports, Art & Culture	Health & Family Welfare; Water Supply & Sanitation, Housing Development	Information & Broadcasting
2012-13	9	185	29
2013-14	1	67	30
2014-15	22	247	45
2015-16	29	149	33
2016-17	21	264	29
2017-18	57	493	26
2018-19	71	651	41
2019-20	27	504	61
2020-21	40	373	148
2021-22	28	307	123
2022-23	25	263	18
2023-24	44	639	26
CAGR %	15.52	11.93	-0.99

Source: Budget Document Mizoram

Table 3.10: Breakdown of Capital Outlay in Economic Services

Year	Agriculture & Allied Activities	Communication, Science, Technology and Tourism	Energy, Industry and Transport	Rural Development, Special Areas, Irrigation and Flood Control
2012-13	257	1	176	48
2013-14	270	0	55	44
2014-15	155	6	325	53
2015-16	127	21	268	48
2016-17	45	29	417	58
2017-18	260	75	843	81
2018-19	182	24	739	62
2019-20	127	2	521	26
2020-21	60	4	430	30
2021-22	64	7	419	17
2022-23	148	315	371	26
2023-24	169	304	678	85
CAGR %	-3.74	68.16	13.04	5.33

Source: Budget Document Mizoram

3.3. Critical Analysis of Expenditure vis-à-vis Cost Recovery

We now analyse the expenditure pattern of Mizoram with respect to the cost recovery through tax and/or non-tax collections. In the Table 3.11, we explore what percentage of aggregate expenditure and revenue expenditure is being met by own resources – both OTR (Own Tax Revenue) and ONTR (Own Non-Tax Revenue). In the Table 3.11, various ratios (shown in percentage terms) of OTR and/or ONTR are computed with Aggregate Expenditure (AE) and/or Revenue Expenditure (RE).

We may note that OTR to AE ratio was never higher than 8%. The interpretation is that the taxes may not recover more than 90% of the expenditure. ONTR to AE ratio is even lower. It is observed that more than 85%, or almost 90%, of the expenses are financed through central assistance.

State Government should slowly move towards higher OTR and ONTR. This will be required for long-term viability and it will give higher flexibility to the states. One may observe that the situation is slowly improving. Whereas, these ratios were much less than 5% in 2012-13 and 2013-14, the ratios improved to more than 7% in recent couple of years. This is a positive indication.

Table 3.12 shows Cost Recovery (through ONTR/RE ratio) at disaggregated levels -- for Social, General and Economic Services (expressed as %). Cost recovery is highest in Economic Services and very low in Social and General Services. While, low cost recovery in the latter two components are understandable, the low-cost recovery in Economic Services should be looked into by the policymakers and the government. Last couple of years noticed significant improvements. In the Economic Services component, in the year 2022-23, 31% of the cost was recovered, which is commendable. Yet, it again fell to 22% in the following year.

Year	OTR/AE	ONTR/AE	OTR/RE	ONTR/RE	OR/AE
2012-13	4.1	3.9	4.9	4.7	8
2013-14	4	3.3	5.1	4.3	7.3
2014-15	3.4	3.1	4.7	4.3	6.5
2015-16	5.2	4.4	6.4	5.3	9.6
2016-17	5.9	4.9	7.1	5.9	10.8
2017-18	5.8	4.2	7.9	5.7	10
2018-19	7.5	4.7	9.7	6	12.2
2019-20	6.5	4.6	7.7	5.5	11.1
2020-21	5.8	5	7.6	6.6	10.7
2021-22	6.4	4.7	10	7.3	11
2022-23	7.9	7.3	10.9	10.2	15.2
2023-24	7.3	5.6	9.5	7.2	12.9

Computed based on Budget Document of Mizoram

Year	Social Services (ONTR/RE)	General Services (ONTR/RE)	Economic Services (ONTR/RE)
2012-13	1.18	0.8	11.48
2013-14	1.54	1.13	10.11
2014-15	1.28	1.26	9.9
2015-16	1.92	1.36	13.83
2016-17	1.9	1.28	13.44
2017-18	1.78	1.43	12.82
2018-19	1.73	0.72	17.18
2019-20	1.62	0.87	13.96
2020-21	2.05	1.07	20.46
2021-22	1.99	1.52	21.6
2022-23	2.03	2.46	31.08
2023-24	1.77	1.55	22.24

Computed based on Budget Document of Mizoram

The Government of Mizoram has taken various efficiency enhancing measures on expenditure front. As one notable example, due to the of reduction in proxy employees and cost-cutting measures the expenditure on salary as a percentage of GSDP is substantially reduced from 46% in 2012-13 to under 30% in recent years leading to sizeable cost savings (see Table 1.6).

Annexure VII presents a quick comparison of Mizoram with other North-Eastern & Himalayan states for select expenditure parameters. One may note that Mizoram is showing moderate performance.

Chapter 4

DEFICITS AND LIABILITIES

4.1. Introduction

Deficit per se is not bad in fiscal policy but it should not affect long-term sustainability. Also, the deficits must comply with limits dictated by FRBM Act. It will be discussed separately in one of the chapters to come. In short, deficit in the government account indicates the difference 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. Deficits are more common but, the key is, it should remain manageable. The nature of the deficit and the way it is financed are the indicators of the financial health and fiscal stability and prudence 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.

1. Revenue deficit is the difference between revenue receipt and expenditure;
2. Fiscal deficit is the difference between total expenditure and total receipt net of borrowing; and
3. Primary deficit is the difference between fiscal deficit and interest payment on previous borrowings.

The present chapter examines the trends and magnitude of the deficits, and the outstanding debt of the Government of Mizoram during the period of 2012-13 to 2023-24, both included.

4.2. Trends in Deficits/Surpluses

Table 4.1 and Figure 4.1 present the trends in deficits/surpluses in Mizoram during the period 2012-13 to 2023-24. 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.

The Table 4.1 not only presents the deficits in absolute terms but also as percentage of GSDP. The deficits are more commonly expressed as percentage of GSDP. Figure 4.1 is just the same information, albeit pictorially.

Year	in ₹ Crore			AS % of GSDP		
	Revenue Deficit	Fiscal Deficit	Primary Deficit	Revenue Deficit	Fiscal Deficit	Primary Deficit
2012-13	27.83	-580.49	-292.33	0.33	-6.94	-3.50
2013-14	233.47	-59.18	225.32	2.27	-0.57	2.19
2014-15	-141.33	-1039.65	-733.82	-1.05	-7.70	-5.43
2015-16	1105.54	413.29	782.57	7.30	2.73	5.17
2016-17	1167.96	251.95	593.21	6.79	1.47	3.45
2017-18	1678.79	-273.7	65.5	8.66	-1.41	0.34
2018-19	1533.91	-352.93	15.75	7.00	-1.61	0.07
2019-20	204.3	-1223.63	-880.51	0.82	-4.90	-3.52
2020-21	-774.13	-1869.31	-1468.33	-3.24	-7.81	-6.14
2021-22	602.25	-372.53	78.11	2.16	-1.34	0.28
2022-23	189.89	-1107.67	-613.79	0.64	-3.72	-2.06
2023-24	256.72	-1862.73	-1199.03	0.80	-5.82	-3.75

Deficit (-) / Surplus (+)
Source: <https://finance.mizoram.gov.in/page/list-of-budget-documents>
[Budget Documents, Government of Mizoram]

The primary deficit in Mizoram's budget varies widely due to the combined effects of revenue and expenditure patterns, capital investments, and broader economic conditions. These factors collectively influence the fiscal health of the state, leading to fluctuations in the primary deficit. Fiscal deficit is high in certain years (FY 2012-13, FY 2014-15, FYs 2019-21, and FYs 2022-24). The audit report acknowledges the high fiscal deficit in some years, such as the FY 2012-13 and high revenue expenditure is the reason assigned. High revenue surplus is possibly because of a combination of judicious and over-cautious revenue disbursement. The budget provides for revenue surplus but the numbers in the

budget provisions and actuals vary. High revenue surplus is possibly because of a combination of judicious and over-cautious revenue disbursement. The budget provides for revenue surplus but the numbers in the budget provisions and actuals vary.

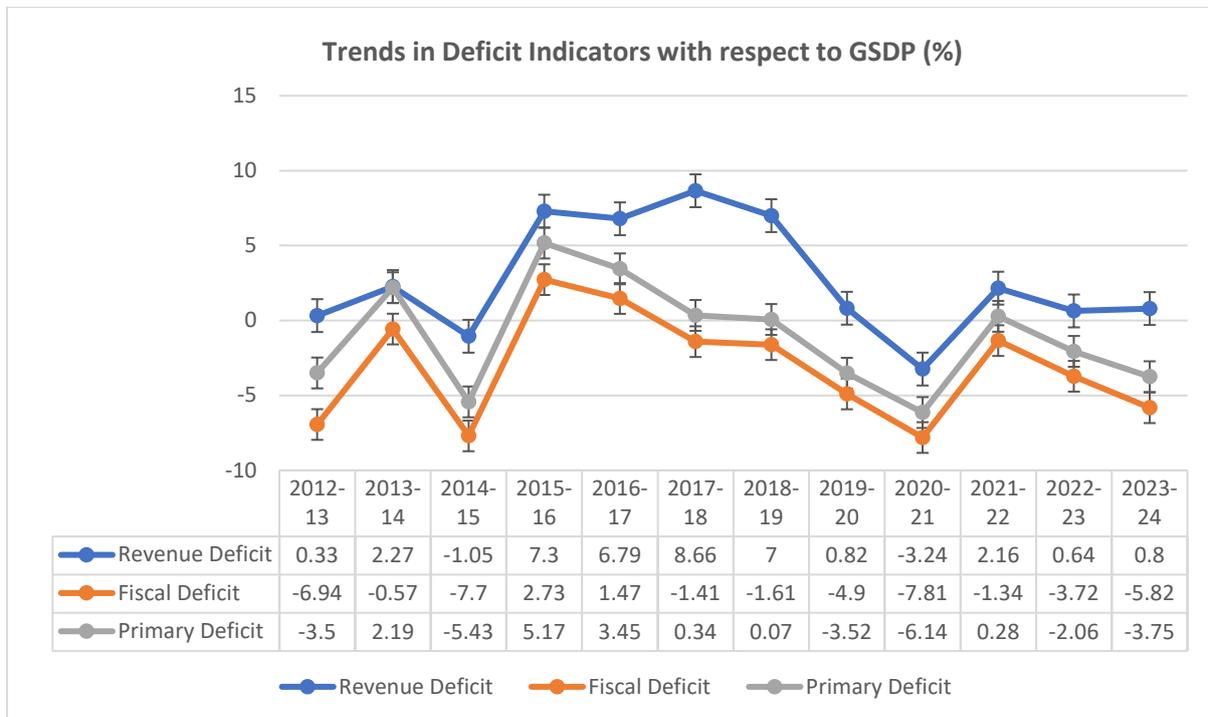


Figure 4.1: Trends in Deficit Indicators with respect to GSDP (%)

Source: Plotted using data from Mizoram’s Budget Document

Revenue deficit was highest in 2020-21 (most probably because of the pandemic). The period between 2015-16 to 2018-19 were the years of high revenue surplus. Fiscal deficit was very high in 2012-13 but was successfully managed after initial hiccups. The fiscal deficit was then within the three percent limit for few years. It then briefly breached 5%, possibly because of pandemic and inflationary pressure, but was later tamed. Primary deficit followed almost similar pattern with fiscal deficit. The only difference between the latter two is the interest payment for loans taken previously. We notice that there are years of consolidation indicating that the deficit measures are under control. The most recent available fiscal deficit estimate is ₹1863 Cr. In the peak pandemic period,

it increased to ₹1869 Cr. The highest revenue surplus was ₹1679 Cr. In most of the years, Mizoram witnessed revenue surplus. Figure 4.2 shows the ratio between revenue deficit and fiscal deficit. The ratio was highest in the year 2016-17 and lowest in 2017-18. Table 4.2 shows the financing of Revenue Expenditure by Revenue Surplus.

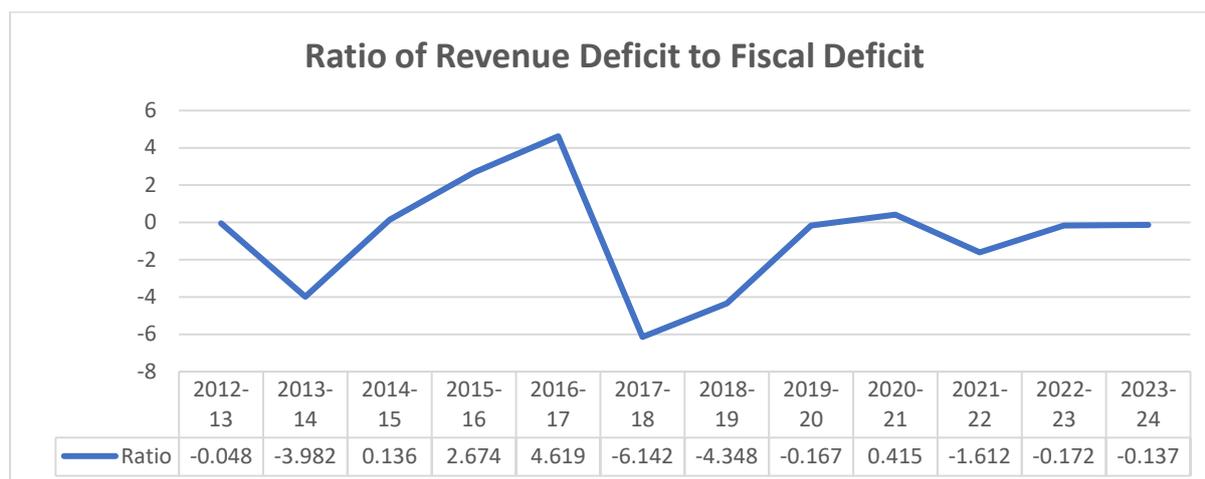


Figure 4.2: Ratio of Revenue Deficit to Fiscal Deficit

Source: Plotted using data from Mizoram’s Budget Document

Table 4.2: Financing of Revenue Expenditure by Revenue Surplus (₹ Cr)

	Revenue Expenditure	Revenue Deficit (-) / Surplus (+)	Ratio of Revenue Surplus to Expenditure (as %)
2012-13	4509	28	0.62
2013-14	4531	233	5.14
2014-15	5652	-141	
2015-16	5571	1106	19.85
2016-17	6230	1168	18.75
2017-18	6901	1679	24.33
2018-19	7506	1534	20.44
2019-20	9454	204	2.16
2020-21	8515	-774	
2021-22	8557	602	7.04
2022-23	10092	190	1.88
2023-24	12509	257	2.05

Source: Mizoram’s Budget Document

It seems reasonable, at this point, to present the trend in deficit indicators – revenue deficit and fiscal deficit – for last five years as per FC mandate and also as per actual. One may notice that the fiscal deficit needs to be contained.

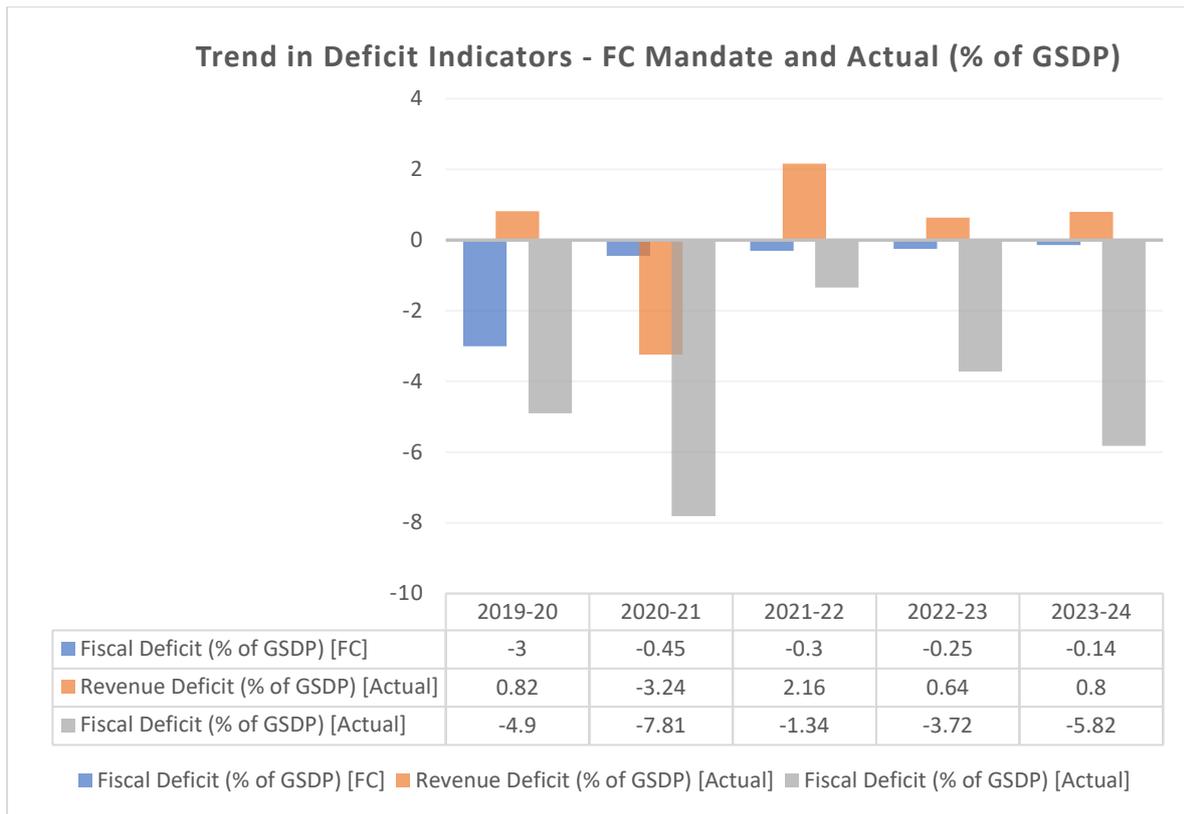


Figure 4.3: Deficit Indicator Trends (Finance Commission Roadmap and Actual)

Source: Plotted using data from Mizoram’s Budget Document and FC Reports

Note: Mandate for revenue deficit is zero

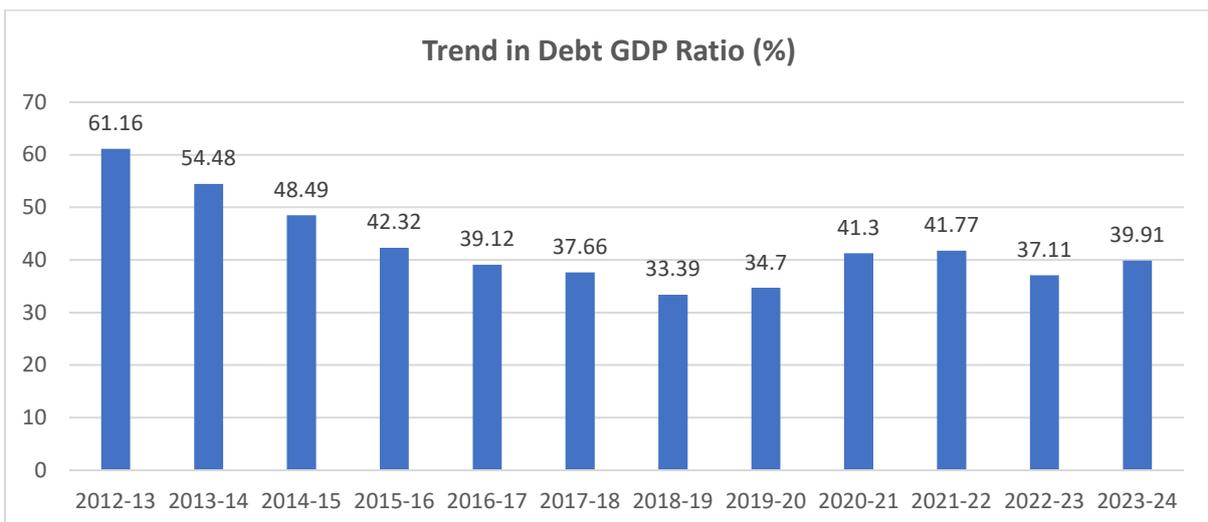
4.3. Trends in Outstanding Debts

Table 4.3 presents the status and the trend in Total Outstanding Liabilities of Mizoram. Debt structure gives a very good indication of long-term fiscal health of the government. The Total Outstanding Liability of Mizoram is growing at Compounded Annual Growth Rate of 8.68%. This is within reasonable limits, given the overall economic growth rate of the state. There were periods of very high increase in Total Outstanding Debt, e.g. FY 2019-20 & 2021-22 (18.53% and 17.63%). Debt-GSDP Ratio was unfavourable in 2012 to 2015. The same is brought under control. Debt-GSDP ratio is now a little less than 40%. For easy comprehension, Debt-GSDP Ratio is also presented as a plot in Figure 4.4.

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

Year	Total Outstanding Liability	Annual Growth	Debt GDP Ratio (%)
2012-13	5114		61.16
2013-14	5608	9.66	54.48
2014-15	6550	16.8	48.49
2015-16	6407	-2.18	42.32
2016-17	6725	4.96	39.12
2017-18	7300	8.55	37.66
2018-19	7316	0.22	33.39
2019-20	8672	18.53	34.7
2020-21	9881	13.94	41.3
2021-22	11623	17.63	41.77
2022-23	11062	-4.83	37.11
2023-24	12778	15.51	39.91
CAGR %	8.68		

Source: Yearly Medium-Term Fiscal Policy Statements, Government of Mizoram

**Figure 4.4: Trend in Debt GDP Ratio (%)**

Source: Plotted using data from Mizoram's Budget Document

4.3. Debt Composition

Table 4.4 presents a snapshot of the debt exposure. The table shows the composition of Internal Debt. Table 4.5 shows the composition of Public Debt on yearly basis. One may notice that the internal debts are high but recent years brought some rationality.

Table 4.4: Composition of Internal Debt (₹ Cr)

Year	Market Loans	Loans from NABARD	Loans from NCDC	Loans from Other Institutions (REC, PFC)	W&MA from the RBI	Others	Yearly Total Internal Debt of the State Govt.
2012-13	186	42	0	0	167	25	420
2013-14	260	51	1	5	735	72	1123
2014-15	230	28	8	15	1067	30	1378
2015-16	200	65	7	2	263	22	559
2016-17	672	62	14	0	0	0	749
2017-18	424	107	0	120	235	0	886
2018-19	0	72	4	47	0	0	123
2019-20	901	160	0	0	72	0	1133
2020-21	945	196	1	2	1220	0	2364
2021-22	747	150	1	0	3352	0	4250
2022-23	1316	142	3	4	2254	0	3719
2023-24	1200	270	5	4	1000	0	2479

Source: Mizoram's Budget Document

Table 4.5: Composition of Public Debt (₹ Cr / %)

Year	Internal Debt of the State Govt.	Loans & Advances from the Central Govt	Public Debt	Internal Debt of the State Govt. (%)	Loans & Advances from Central Govt (%)
2012-13	420	0.1	420.1	99.98	0.02
2013-14	1123	0.2	1123.2	99.98	0.02
2014-15	1378	4.9	1382.9	99.65	0.35
2015-16	559	3.8	562.8	99.32	0.68
2016-17	749	6.8	755.8	99.1	0.9
2017-18	886	7.9	893.9	99.12	0.88
2018-19	123	11.4	134.4	91.52	8.48
2019-20	1133	14.9	1147.9	98.7	1.3
2020-21	2364	247.6	2611.6	90.52	9.48
2021-22	4250	309.8 (300)	4559.8	93.21	6.79
2022-23	3719	300.4 (298)	4019.4	92.53	7.47
2023-24	2479	767.7 (757)	3246.7	76.35	23.65

Source: Mizoram's Budget Document [Figures in parentheses represent Special Assistance]

Ways and means advances are sometimes higher than market borrowings. This is acknowledged in some of the audit reports. Yet, the state repaid the advances with stipulated interest (see the CAG report for the year ended 31st March 2021).⁵

⁵ <https://cag.gov.in/ag/aizawl/en/audit-report/details/117580>

We see that state receives significant amounts in loans and advances from the central government. The loans and advances received by Mizoram from the central government are primarily utilized for various developmental projects and financial activities which includes infrastructure, health & education and debt repayment.

4.4. Projection of Budgetary Deficits

In Table 4.1, the trend in deficit indicators was presented. The expected extent and trend of various budgetary deficits are estimated in the following table (Table 4.6). The projections are made using ARIMA (Auto-Regressive Integrated Moving Average) forecasting model. The series are first tested for stationarity using Augmented Dickey-Fuller (ADF) test. The ADF test result are presented in Annexure IV. Ljung-Box test results are also presented in Annexure IV. The series in question are stationary and the tests fail to reject no autocorrelation.

Year	Revenue Deficit	Fiscal Deficit	Primary Deficit
2024-25	5.22	-2.87	-0.88
2025-26	7.02	-3.20	-1.11
2026-27	7.18	-3.03	-1.02
2027-28	5.76	-3.12	-1.06
2028-29	3.44	-3.07	-1.04
2029-30	1.22	-3.09	-1.05
2030-31	0	-3.08	-1.04

Source: Authors' Calculations using ARIMA [Positive values indicate the surplus and negatives the deficit]

Year	GSDP Constant 2011 Prices	GSDP Current Prices
2023-24	21403	32014
2024-25	22577	34133
2025-26	23752	36251
2026-27	24927	38369
2027-28	26102	40488
2028-29	27277	42606
2029-30	28451	44725
2030-31	29626	46843

Source: Authors' Calculations using Regression

Table 4.7 shows predicted GSDP for the years 2023-24 to 2030-31 using simple regression. Table 4.8 shows the projections for public debt for the years from 2024-25 to 2030-31.

Table 4.8: Projected Public Debt (₹ Cr)			
Year	GSDP Current Prices	Public Debt	Debt as % of GSDP
2023-24	32014	3247	10.14
2024-25	34133	3785	11.09
2025-26	36251	4100	11.31
2026-27	38369	4415	11.51
2027-28	40488	4730	11.68
2028-29	42606	5045	11.84
2029-30	44725	5359	11.98
2030-31	46843	5674	12.11
Source: Authors' Calculations & Budget Document, Government of Mizoram			

Government of Mizoram receives loans at different interest rates. The weighted average interest rates of the loans being availed by the state stands at about 7.7% for fresh borrowings and the figure for outstanding liabilities was 10.15% for the FY 2020-21⁶.

The financial projections for the next five years, focusing on Gross State Domestic Product (GSDP) and deficit indicators, clearly demonstrate that there will be no revenue deficit. Instead, the projections suggest a revenue surplus, which is anticipated to fall within the range of 3% to 7% of GSDP. This optimistic outlook aligns with the Mizoram government's strategic approach to fiscal consolidation, aiming to strengthen the state's financial health and stability.

In terms of fiscal deficit, it is expected to hover around 3%, generally on the higher side. This indicates that the state will maintain a level of deficit spending but within a manageable range. Additionally, the primary deficit, which excludes interest payments on previous debts, is projected to hover around 1%. These

⁶ <https://finance.mizoram.gov.in/uploads/attachments/2023/02/7a17bd4d7253a8e8e52747fc6431c643/frbm-statement-2023-24.pdf>

figures collectively point to a well-managed fiscal position for the state over the coming years.

However, it is important to note that the current debt pattern of the state is not very favourable. Ideally, the debt levels should be in single digits, but the projections show that they are in the range of 10% to 12%. While this is not immediately alarming, it does call for better debt management practices to keep the debt within reasonable limits. If left unchecked, the debt could potentially escalate beyond manageable levels, posing a risk to the state's financial stability.

Overall, while the fiscal projections indicate a positive trend with no revenue deficit and manageable fiscal and primary deficits, careful attention must be paid to the debt levels to ensure long-term financial health and sustainability for the state.

One may note that the central government provides guarantees to state governments to help them service their debts, primarily to ensure the viability of projects and lower borrowing costs. As per the Rules under FRBM Act (2003) and subsequent amendments therein, the Central Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 per cent of GDP for the financial year 2004-2005 and in each subsequent financial year, the limit of 9% of GDP shall be progressively reduced by at least one percentage point of GDP. Hence, state governments must not rely on the central guaranty in debt servicing.

Chapter 5

Implementation of FRBM Act

5.1 Introduction

Fiscal discipline is of utmost importance when it comes to manage the finances of the economy. Fiscal discipline and monetary discipline both are equally important. Whereas, the monetary policy is taken care of the monetary authorities (the Central Bank – Reserve Bank of India, in case of India), the government is solely responsible for the fiscal policy. Central Bank independence more or less ensures monetary policy prudence. The prudence and discipline in fiscal policy is directed and governed in India by the rule based Fiscal Responsibility and Budget Management Act (FRBMA) 2003.

The states have their own versions of FRBM Act. In line with the recommendations of the Twelfth Finance Commission (FC-XII), Mizoram enacted the fiscal responsibility legislation, “Mizoram Fiscal Responsibility and Budget Management Act, 2006 (hereinafter, FRBM Act 2006). In this context, Fiscal Policy Rule is defined as a permanent constraint on fiscal policy through numerical limits on budgetary aggregates⁷.

The FRBM Act 2003 (at the centre aimed at the elimination of revenue deficit by 2008-09 and the reduction of Fiscal Deficit to 3% of GSDP in the same year. 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

⁷ Kopits, Mr George, and Mr Steven A. Symansky. *Fiscal policy rules*. International monetary fund, 1998.

lowering of interest rate. The Union Government amended the FRBM Act through the Finance Act 2018.

5.2 FRBM Act of Mizoram

The Act of the State of Mizoram, the FRBM Act 2006 (and its precursor at the centre, FRBMA 2003) focuses at the principle of intergenerational equity in fiscal management and fiscal sustainability for long term macroeconomic stability⁸. Many countries and provincial governments have attempted to counter the prevailing deficit bias by adopting fiscal rules that typically set a limit to their annual budget deficits. Unfortunately, the rules are either too lax or too tight and mostly ignored. The present chapter explores the status of FRBM Act 2006 in countering the deficit bias. The idea behind the FRBM Act 2006 is to allow the State Government discretion in the short run while delivering sustainability of debt in the long run. Further, this Act required the state government to take measures to ensure greater transparency in its fiscal. In line the central act, 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. As we shall see, the progress in this respect is slow but more or less in the right direction.

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

⁸ The section draws insights from previous Finance Commission Report for Mizoram

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 2006 also stipulated that Medium-Term Fiscal Policy (MTFP) Statement and Fiscal Policy Strategy Statement should be laid before the State Legislature along with the Annual Budget in each financial year. The MTFP is all about the fiscal objectives and strategic priorities of the state government.

MTFP deals with the following

- (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

- (a) the fiscal policy of the state government for the ensuing financial year relating to revenue receipts, expenditure, borrowing and other liabilities, user charges on public goods/utilities;
- (b) the strategic priorities of the state government in the fiscal area for the ensuing year;
- (c) key financial measures and the rationale for any major deviation in fiscal measures pertaining to revenue receipts, subsidy, expenditure, administered pricing, borrowings, and other liabilities including guarantees; and

(d) evaluation of current policies of the state government vis-à-vis fiscal management principles set out.

5.3 Suggestions from 14th and 15th Finance Commission State Reports

To study the status of FRBM Act 2006, we first see the previous recommendations. The table below (Table 5.1) highlights the recommendations of the 15th and 14th Finance Commission. The stipulated requirement by 14th Finance Commission, was in-line with the FRBM Act. The 15th Finance Commission guidance was more realistic based on progress made till 2020. The chapter evaluates the success and presents further roadmap⁹.

Fiscal Parameters	Finance Commission	2020-21	2021-22	2022-23	2023-24	2024-25
<i>Outstanding Debt (% of GSDP)</i>	<i>FC-XV</i>	42.0	39.5	35.5	32.0	30.0
<i>Revenue Deficit (% of GSDP)</i>	<i>FC-XV</i>	0	0	0	0	0
<i>Fiscal Deficit (% of GSDP)</i>	<i>FC-XV</i>	-0.45	-0.30	-0.25	-0.14	0.00
	Finance Commission	2015-16	2016-17	2017-18	2018-19	2019-20
<i>Outstanding Debt (% of GSDP)</i>	<i>FC-XIV</i>	25	25	25	25	25
<i>Revenue Deficit (% of GSDP)</i>	<i>FC-XIV</i>	0	0	0	0	0
<i>Fiscal Deficit (% of GSDP)</i>	<i>FC-XIV</i>	-3	-3	-3	-3	-3

Source: 14th & 15th Finance Commission Report (State Reports of Mizoram)

The 15th Finance Commission made the following state specific recommendations:

1. the normal net borrowing limit of State Governments for the year 2021-22 may be fixed at 4 per cent of GSDP.

⁹ This section draws heavily from previous Finance Commission Reports

2. the normal net borrowing limit of State Governments for the year 2022-23 may be fixed at 3.5 per cent of GSDP.
3. the normal net borrowing limit to the State Governments for the three-year period of 2023-24 to 2025-26 may be fixed at 3 per cent of GSDP.

Table 5.2 summarizes the recommendations of the 15th Finance Commission (FC-XV) for the states in general and also specific to Mizoram.

Table 5.2: Indicative Deficit and Debt Path for State Governments recommended by FC-XV						
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Revenue Deficit	-0.1	-0.5	-0.8	-1.2	-1.7	-2.5
Fiscal Deficit	4.5	4	3.5	3	3	3
Total Liabilities	33.1	32.6	33.3	33.1	32.8	32.5
Indicative Debt Path (Mizoram Specific)	37	35.8	35.6	34.8	34	33.2
Source: 15th Finance Commission Report (State of Mizoram) and State FRBM Document Negative values indicate surplus for deficit figures						

5.4 Outcome Evaluation of Fiscal Correction

The evaluation of outcome (state's fiscal performance) is presented in the table below (Table 5.3).

It may be noted that the state started on a prudent path but later there was some deviation from the path of consolidation in terms of increasing fiscal deficit. Mizoram is not running into continuous fiscal deficit but in the year 2019-20 there was a sharp rise in the deficit which is much beyond the limits put by the FRBM Act. This is possibly because of the onslaught of COVID in the last quarter of 2019-20.

One may note that the total liabilities as a percentage of state's own revenue receipt was very high in the initial years but later decreased. Pension expenditure is a matter of concern. It is increasing steadily (except for 2017-18)

in absolute terms and also in percentage term. Non-tax revenue is hovering around 5% of Total Revenue Receipt. The same may be increased.

Table 5.4 presents the various outcome indicators of the state finance during 2020-21 and 2023-24. This is based on actuals and the data is in absolute terms. Later, we will analyse the trend using the recent statements and projections. The dismal figures in 2020-21 is clearly because of the pandemic and may be discounted in understanding the general trend.

	2015-16	2016-17	2017-18	2018-19	2019-20
Gross Fiscal Deficit (% of GSDP)	2.7	1.5	-1.4	-1.6	-4.9
Revenue Deficit/Surplus (% of GSDP) [-/+]	7.3	6.8	8.7	7	0.8
Revenue Deficit/Surplus (% of TRR) [-/+]	16.6	15.8	19.6	17	2.1
Total Liabilities to GSDP Ratio (%)	48.0	47.6	49.0	42.0	43.3
Total Liabilities to TRR (%)	108.8	110.5	110.7	101.7	112.2
Total Liabilities to State's Own RR (%)	1107.4	1013.1	1013.9	781.5	864.3
State's Own Revenue Receipts to RE (%)	11.8	13	13.6	15.7	13.3
Capital Outlay as % of Gross Fiscal Deficit	172	361.7	-711.6	-529.4	-112.2
Interest Payment as % of TRR	5.5	4.6	4	4.1	3.6
Pension Expenditure as % TRR	9.2	10.3	9.8	10.7	14.8
Gross Transfer from the Centre as % of AD	53.7	31.5	48.6	45.1	47.8
Non-Tax Revenue as % of TRR	4.5	4.9	4.6	5	5.4
TRR: Total Revenue Receipt; AD: Aggregate Disbursement; RR: Revenue Receipt; RE: Revenue Expenditure Source: 14th Finance Commission Report (State of Mizoram)					

	2020-21	2021-22	2022-23
Revenue Receipt	7741	9160	10282
Revenue Expenditure	8515	8557	10092
Revenue Deficit	-774	602	190
Gross Fiscal Deficit	-1869	-373	-1108
Outstanding Debt	993	762	1416
Interest Payment	343	401	451
GSDP	23923	27824	NA
Source: Budget Document, Government of Mizoram			

Table 5.5 presents the projections for total outstanding debt. The total outstanding debt is decreasing but at a slow rate. Total outstanding debt is always above 36% in next few years.

As per the recommendations of previous finance commission reports and suggested roadmap, the total outstanding debt should be under 30% or better not more than 25% of GSDP.

The projections are deviating from the roadmap. This should be a matter of concern for state government. Capital expenditure is necessary for putting the state on high growth trajectory. Nevertheless, high debt for longer period is not a sustainable policy option for accelerating the engine of growth.

The annual borrowing is also in double digit and growing (Table 4.8). Hence, it is observed that state must work on making the debt structure sustainable.

Year	GSDP Current Prices	Outstanding Debt	Debt as % of GSDP
2023-24	32014	12778	39.91
2024-25	34133	12620	36.97
2025-26	36251	13291	36.66
2026-27	38369	13963	36.39
2027-28	40488	14635	36.15
2028-29	42606	15307	35.93
2029-30	44725	15978	35.72
2030-31	46843	16650	35.54

Source: Authors' Calculations & Budget Document, Government of Mizoram

Chapter 6

Analysis of Subsidies

6.1. Introduction

Transfers and Subsidies are part of government policy to address the needs of poor and disadvantaged sections of the society. Subsidy is a well-known approach adopted by welfare states. It has obvious advantages, though it has to be sustainable from fiscal point-of-view. Further, it brings certain inefficiencies in the system but many a times subsidy program is indispensable.

Subsidy can be given in two forms - explicit (direct) and implicit (indirect) subsidies.

1. Direct or Explicit Subsidy: If the government clarifies the actual amount that would go to the beneficiaries through budgetary outlays, it is called explicit or direct subsidy. At the same time,
2. Indirect or Implicit Subsidy: Poor recovery of user charges from social and economic services provided by the government may be considered as implicit or indirect subsidy.

The government spends high amounts of expenditure in the provision of public services but receive less amount in return course, the users are benefited by the public expenditure through lower user charges, fees, etc.

One important aspect of subsidy management is that the subsidy must reach the intended target. If subsidy is not reaching the poor and the not-so-poor are exploiting and enjoying the benefits then it is clearly inefficient. As substantial amount of public fund is expended for the provision of subsidies (implicit or

explicit), it is always crucial for a responsible government to ensure that the target groups benefit from it while non-target groups are excluded.

In general, 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. Electricity sector is a case in point here and is discussed separately.

Table 6.1 gives a quick summary of Subsidy expenditure in Mizoram. One may note that the total subsidy granted in Mizoram has crossed the ₹100 Cr mark. Yet, as a percentage of Revenue Receipts and Revenue Expenditure, the total subsidy is just above 1%. As long as it is under one percent of Revenue Expenditure, it is considered to be manageable. Hence, recent expenditure on subsidies is slightly on the higher side and the government must bring it below one percent and should be kept under one percent. This is based on the analysis of historical data.

The subsidies increased in the FYs 2021-22 and 2022-23. One may speculate that the same may be due to political reasons as assembly elections were scheduled for November 2023.

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Subsidies (₹ in crore)	2.48	0.74	2.08	4.91	2.17	13	12.43	21.76	0.22	83.8	109.28
Subsidies as % of Revenue Receipts	0.05	0.02	0.04	0.07	0.03	0.15	0.14	0.23	0.003	0.91	1.06
Subsidies as % of Revenue Expenditure	0.06	0.02	0.04	0.09	0.03	0.19	0.17	0.23	0.003	0.98	1.08

Source: CAG Reports for Government of Mizoram

6.2. Major Subsidies Provided

As discussed in the previous section, the subsidy provided by Mizoram Government has been relatively low and hardly crossed one percent of revenue expenditure. Government of Mizoram has provided various subsidies in agriculture and industrial sectors.

- Two Refrigerated Vans, amounting to 52 lakhs, have been given to private entrepreneurs to facilitate post-harvest management in recent years amounting to 52 lakh.
- A sum of 12.64 lakh was released to Forty-six industrial units under Interest Subvention (IS) in 2023.
- State Incentive Subsidy Scheme: The main objective is to compensate/subsidize a huge amount of expenditure incurred by the

nascent Industrial Units in plant & machineries, power & electricity, etc. with a view to accelerate the growth of industrial development within Mizoram. a sum of ₹ 60.83 lakh was released to Thirty-Eight industry units under State Incentive Subsidy (SIS) in the year 2023. The project contains grant of subsidy for the following:

- 1) Subsidy on cost of project report
- 2) Land development subsidy
- 3) Factory rent subsidy
- 4) Manpower development subsidy
- 5) Interest subsidy
- 6) Power subsidy
- 7) Subsidy on power line
- 8) Subsidy on power generating set
- 9) Subsidy on transportation of plants and machineries

- In the FY 2022-23, Government of Mizoram provided a subsidy of ₹58.42 Cr towards fair price shops and distributions.

Certain subsidies are provided by the central government and a couple of examples are:

- PM's Street Vendors Atmanirbhar Nidhi (PM SVA Nidhi): An interest subsidy loan fully funded by the Ministry of Housing & Urban Affairs (MoHUA). The Scheme provides capital loan of ₹ 80,000 in three tranches for identified street vendors under Deen Dayal Upadhyaya Antyodaya Yojana – National Urban Livelihood Mission (DAY-NULM). A total of 1616 loans have been disbursed in Mizoram.
- A Helicopter Service within Mizoram has greatly benefitted the public especially those residing in rural areas and works with 75% subsidy from the Ministry of Home Affairs.

In Mizoram, there is some dearth of data in the area of subsidies and Public Sector Undertakings. Nevertheless, the analysis of the available data on subsidy trend and various anecdotal evidence show that food subsidy is the largest proportion of subsidy in Mizoram covering more than half of the total subsidies provided. The subsidy expenditure is within the financial bounds and is largely beneficial to the intended stakeholders.

Chapter 7

Power Sector and Public Sector Undertakings

7.1 Mizoram's Power Sector: An Introduction

The Power & Electricity Department (hereinafter, The Department) in the Mizoram was created in the year 1975 with the Superintending Engineer under the State Public Works Department. A separate department was created in the early 1980. Earlier, till March, 1975, all the activities related to power development and its distribution within Mizoram were looked after by the Assam State Electricity Board (ASEB). The Department attained its directorate level (full-fledged) status in 1983 with the creation of Chief Engineer post. In 2008, the post of Engineer-in-Chief was created as the Head of the Department. Mizoram is one of the few states in India which is yet to be unbundled.

The Department is functioning as an integrated utility and responsible for all the activities related to electricity generation, transmission, and distribution of electric power within the state of Mizoram. The Department is also responsible for the promotion, development and maintenance of Power Distribution Network (PDN) including provision of adequate and reliable electricity supply in Mizoram.

The administrative head of the Department is the Secretary (Power) and the technical head of the Department is Engineer-in-Chief who is assisted by 4 Chief Engineers. Currently, there are 9 Circles (including Electrical Inspectorate and ZEDA-Zoram Energy Development Agency), 20 Divisions and 51 Sub-Divisions.

The per capita consumption of the state as per 2011 Census is 219 kWh and the Department serves more than 2 lakhs consumers under various categories. The total installed capacity of state-owned generating system from Small Hydro

Power is 29.35 MW and the capacity of Thermal Plant at Bairabi is 22.92 MW which is typically kept as standby supply. Mizoram is a hilly state with substantial potential of hydroelectricity generation. The state is yet to fully utilize the potential and dependent on power purchase from sources external to the state. As per a report published in The Economic Times, the Mizoram has the potential of generating about 4000 MW hydroelectricity; whereas, the state produces only about 10 MW and has a demand of about 144 MW which is, of course, mostly met by sources outside the state of Mizoram¹⁰.

The State is dependent on the outside sources for its energy requirement and mainly through Central Sector Generating Stations (CSGS) from North Eastern Power Corporation Limited (NEEPCO), National Hydroelectric Power Corporation Limited (NHPC), National Thermal Power Corporation Limited (NTPC), ONGC Tripura Power Company Limited (ONGC) and a combined project from Baramura IV&V (Tripura, Manipur & Mizoram).

The daily withdrawal power requirement of 24 hrs in 15 minutes block based on actual demand of Mizoram is sent daily by State Load Dispatch Centre (SLDC), Mizoram to North Eastern Regional Load Dispatch Centre (NERLDC), Shillong¹¹.

The state power sector is marred with high Aggregate Technical & Commercial (AT&C) Losses and this brings a substantial burden on state finances. Reforms in power sector should be a matter of top priority in the state for the strengthening of the Mizoram's finances.

¹⁰ <https://economictimes.indiatimes.com/industry/energy/power/mizoram-has-potential-of-generating-4000-mw-hydroelectricity-minister/articleshow/90402993.cms?from=mdr>

¹¹ <https://power.mizoram.gov.in/uploads/attachments/a1e268b9cf88231587ea20dabfe04a0d/web-pdf.pdf>

7.2 Status of Power Infrastructure

The state is making slow progress towards self-sufficiency in power generation. Table 7.1 shows the present status and the trend with regard to installed capacity. Progress in Renewable Energy Sources (RES) is noteworthy Progress in Private Sector is also a step towards the right direction.

Month-Year	By Sector			By Source		Total
	Central Sector	Private Sector	State Sector	Hydro	Renewable Energy Sources	Total Installed Capacity
Mar-2019	60.00	0.50	36.47	60.00	36.97	96.97
Mar-2020	60.00	1.52	36.47	60.00	37.99	97.99
Mar-2021	60.00	1.53	36.47	60.00	38.00	98.00
Mar-2022	60.00	7.90	36.47	60.00	44.37	104.37
Mar-2023	60.00	28.02	45.47	60.00	73.49	133.49
Mar-2024	60.00	30.31	45.47	60.00	75.78	135.78

Source: Central Electricity Authority

The trend in power generation and per capita consumption is shown in Table 7.2. One could easily infer that the per capita consumption is much lower in state than the national average.

The CAGR in total energy consumption is about 5.50% which is much larger than the annual population growth which is otherwise good but likely to put further stress on state finances. Similarly, the CAGR in per capita electricity consumption is 3.15% and the state must plan for the same.

Table 7.2: Power Consumption Trend in Mizoram				
Year	Population at the end of FY	Mid-Year Population	Energy Consumption (MU)	Per Capita Consumption (kWh)
2012-13	1141286	1128577	286.59	253.94
2013-14	1167284	1154285	302.42	262.00
2014-15	1193875	1180580	327.21	277.16
2015-16	1221071	1207473	339.20	280.92
2016-17	1248887	1234979	353.55	286.28
2017-18	1277337	1263112	371.65	294.23
2018-19	1306435	1291886	387.74	300.13
2019-20	1336196	1321316	486.42	368.13
2020-21	1366635	1351416	444.93	329.23
2021-22	1397767	1382201	464.26	335.88
2022-23	1429608	1413688	494.94	350.11
2023-24	1462174	1445891	516.50	357.22
Source: CEA [Population estimated through decadal growth rate of 22.78% (Census 2011)]				
Energy consumption in the last couple of years are estimated figures				
CAGR Energy Consumption: 5.50% & CAGR Per Capita Consumption: 3.15%				

7.3 Analysis of Finances of Power & Electricity Department of Mizoram

A quick snapshot of revenue and expenditure of Power & Electricity Department of Mizoram is presented in Table 7.3. The Department is a loss-making entity. The extent of loss is troublesome. Power purchase is the single largest cost component. The lack of revenue realization is the major lacunae. Table 7.4 shows the extent of Aggregate Technical & Commercial losses. This is much higher than the national average. In the FY 2020-21 and FY 2021-22 the AT&C Losses at national level stood at 22.32% and 17.00% (Provisional)¹² respectively. The same figures for Mizoram stood at 29.05% and 36.23% respectively.

¹² <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1906745>

Mizoram was the 27th state to join Ujjwal DISCOM Assurance Yojana (UDAY). UDAY scheme is meant for revival of debt-stressed discoms (distribution companies) which will help Mizoram get overall benefits of Rs 198 crore during the period of turnaround¹³. Some of the key objectives of UDAY scheme are like reducing the technical and commercial (AT&C) losses and closing the gap between average cost of supply (ACS) and average revenue realized (ARR). In the FY 2017-18 the AT&C loss in Mizoram was 16.16% which worsened to 20.66% by FY 2019-20. Nevertheless, the ACS-ARR gap improved in the same period 2.13% to 0.57% - this is as per a report on implementation of UDAY scheme¹⁴.

Billing inefficiency is the major problem in the revenue realization. One may notice that there are periods of decent revenue realization (and therefore, low AT&C Losses). Nevertheless, the losses tend to reoccur. The losses are primarily handled by government through revenue expenses which is the major component under economic services. The steady growth in Net Input Energy and Net Energy Sold is likely to further increase the AT&C Losses in absolute terms. The tariff structure of the power sector in Mizoram is set by a statutory commission. The Commission is a Joint Commission setup under Article 83 of the Electricity Act, 2003. The Joint Commission is a two Member Commission, one member each from the participating States from Manipur and Mizoram. As stipulated in the Memorandum of Agreement, the headquarters of the Joint Commission is Aizawl. Annexure III shows the most recent tariffs, we see some anomalies in tariff structure – in some cases, the actual tariff is much higher than the cost and, in some cases, it is the opposite – which is a result of cross-subsidizing the social service sector from industrial sector. The same should be

¹³ https://www.business-standard.com/article/current-affairs/mizoram-becomes-27th-state-to-join-uday-scheme-117040200189_1.html

¹⁴ <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1945216>

harmonized in coming years. Normally, the tariff is revised yearly. EV charging infrastructure is a new emerging sector for which preparedness is required. Free power is not given for agriculture but it is highly subsidized.

Table 7.3: Snapshot of Expenditure & Revenue of Power & Electricity Department (₹ Cr)

	2022-23	2021-22	2020-21
Revenue from Sale of Power	541.53	370.04	282.27
Revenue from Subsidies & Grants	189.03	82.96	160.67
Other Income	10.7	7.58	10.02
Total Income	741.26	460.58	452.96
Purchase of Power	535.39	448.38	415.64
Generation of Power	0	0	0
Repairs and Maintenance	24.89	23.49	21.48
Employee Cost	197.06	188.37	188.82
Administration and General Expenses	3.67	2.73	2.81
Depreciation & Related Debit (Net)	48.54	43.83	44.9
Interest & Finance Charges	0.46	0.81	1.18
Total Cost	810.01	707.61	674.83
Profit Before Tax	-68.75	-247.03	-221.87
Profit After Tax	-68.75	-247.03	-221.87
Net Prior Period Credit	-89.14	-96.36	-135.43
Surplus (Deficit)	-157.89	-343.39	-357.3
Loss as % of Cost	19.49	48.53	52.95

Source: Power Finance Commission Reports

Table 7.4: AT&C Losses through the years in Mizoram

Year	Net Input Energy (MU)	Net Energy Sold (MU)	Billing Efficiency (%)	Collection Efficiency (%)	AT&C Loss (%)
2012-13	405	287	70.86	102.42	27.55
2013-14	436	303	69.51	97.20	32.53
2014-15	480	327	68.14	97.63	33.51
2015-16	483	339	70.19	92.40	35.18
2016-17	471	354	75.16	100.00	24.98
2017-18	472	396	83.84	92.51	22.44
2018-19	463	388	83.80	100.00	16.20
2019-20	613	486	79.34	100.00	20.66
2020-21	627	445	70.95	100.00	29.05
2021-22	658	464	70.55	90.39	36.23
2022-23	669	493	73.73	100.00	26.27
2023-24	683	518	75.84	96.57	26.76

Source: Power Finance Commission Report

7.4 Public Sector Undertaking in Mizoram

The State Public Sector Undertakings (PSUs) consist of the State Government Companies and Statutory Corporations. The PSUs are established to carry out activities of commercial nature keeping in view the welfare of people and the State economy. As on 31 March 2019, there were six PSUs (all working Government companies) in Mizoram.

In a developing country, like India, Public Sector Units or Enterprises/Undertakings (PSEs or PSUs) play a vital role not only in addressing market failures but also in providing stimulus to the economy in the form of capital investment, generation of employment and production of goods & services. A PSU may not necessarily be not-for-profit. While providing public service remains the priority of PSEs, it is nevertheless crucial that they do not become a burden on the public exchequer and thereby defeat the very purpose of their being. In this, our PSEs need to emulate the private sector and integrate corporate culture wherever required within the ambit of their mandate. Cooperatives are people-centred enterprises owned, controlled and run by and for their members to realize their common economic, social, and cultural needs and aspirations. PSUs are not very successful in Mizoram. Status of a few PSU are presented as a snapshot of their activities it will be followed by a quick status check of cooperatives and state government's financial exposure in them.

- **Zoram Industrial Development Corporation Limited (ZIDCO)¹⁵**: ZIDCO was set up in 1978 under the Companies Act, 1956. It was set up as a twin function Corporation. It is a Private Company owned jointly by

¹⁵ zidco.mizoram.gov.in/page/status-report

Government of Mizoram and Industrial Development Bank of India (IDBI). The percentage of share capital contribution by the Government of Mizoram is 73%. The activities of ZIDCO are to assist, finance, protect and promote the interests of Industries in Mizoram and to undertake procurement and distribution of raw materials, to facilitate licenses, establish export and marketing facilities, to acquire and develop plans, power supply and water supply, to co-ordinate between industries, to promote and operate schemes in collaboration with the Govt. of Mizoram, to enter into arrangement with the Govt. of India and Govt. of Mizoram for contracts and licenses. The authorized share capital of ZIDCO is ₹ 20 Cr. The total paid up capital is ₹15.78 Cr in which the share of state government is ₹11.50 Cr.

- **Aizawl Smart City Limited (ASCL)¹⁶**: The Special Purpose Vehicle (SPV) - Aizawl Smart City Limited (ASCL) is owned by the Government of Mizoram and the Aizawl Municipal Corporation (AMC) with the ownership ratio of 50:50. The ASCL is mandated to work with Aizawl Municipal Corporation and all other stakeholders for effective implementation of Aizawl Smart City Mission in a time-bound manner as per the rules and guidelines issued by the Government of India and Government of Mizoram. The authorized paid up capital of the ASCL is ₹5.00 Lakh only.
- **Zoram Handloom and Handicrafts Development Corporation Limited (ZOHANDCO)**: Owing to the importance of Handloom and handicrafts as the popular industrial activities in Mizoram, Zoram Handloom and Handicrafts Development Corporation Limited (ZOHANDCO) was established in the year 1988, which is a Government of Mizoram

¹⁶ <https://aizawlsmartcity.mizoram.gov.in/page/features>

Undertaking to develop, aid, advise, assist, finance, protect and promote interest of handloom and handicrafts unit in the State. The authorised capital of ZOHANDCO is ₹10 Cr with an equal amount as paid up capital.

- **Mizoram Food and Allied Industries Corporation Ltd. (MIFCO):** MIFCO was registered under the Companies Act, 1956 on the 19th December, 1989. The concept of a Food and Allied Industries Corporation emerged from the aspiration of the Government of Mizoram to harness the limited resources endowment of the State, and nurture its potential for the welfare and well-being of its people. Agro and allied food industries thus require priority due to their advantage over other sectors of industries as they provide high potential for employment generation per unit of investment, the backward and forward linkages that the development can lead to, the level of demands and capability to absorb and promote local resources, predominantly agricultural and horticultural produce and the benefits they can provide for the people. The authorised Share Capital of MIFCO at the time of its inception, was ₹10 crores which had been enhanced to ₹20 Cr and paid up in the 1st quarter of the financial year 2009-2010. Authorized capital was further enhanced to ₹50 Cr. While the Government of Mizoram has contributed ₹18.64 Cr, including fixed assets transferred from the Department of Industries, as equity contribution for MIFCO's projects viz. Food Processing Plant, Sairang; Fruit Juice Concentrate Plant, Chhingchhip and Pork & Poultry Processing Plant, Zemabawk, the Government of India has contributed ₹1.36 Cr¹⁷.

¹⁷ <https://industries.mizoram.gov.in/page/mifco>

A snapshot of financial status of co-operative societies is presented in the table below (Table 7.5).

District	Paid Up Share Capital		Working Capital	Business Turnover	
	Individual	Govt.		Purchase	Sales
Aizawl (East)	33.07	177.25	1.52	1.27	4.94
Aizawl (West)	0.12	0.31	1.13	0.34	0.45
Lunglei	0.04	0.16	0.40	0.09	0.12
Champhai	0.04	0.13	1.34	0.29	0.40
Kolasib	0.05	0.05	0.34	0.57	0.60
Sechip	0.04	0.15	0.21	0.31	0.39
Mamit	0.02	0.05	0.12	0.09	0.12
Total	33.38	178.09	5.08	2.96	7.01

Source: Economic Survey Mizoram (2022-23)

A quick look at the table above shows limited and manageable exposure of state government in cooperatives. Largely these cooperatives are beneficial to the people at large.

CHAPTER 8

State's Transfers to Local Bodies

8.1 Introduction

There are eleven districts in Mizoram: Aizawl, Lunglei, Kolasib, Champhai, Mamit, Serchhip, Saitual, Khawzawl, Hnahthial, Lawngtlai, and Siaha. Also, Mizoram has three Autonomous District Councils (ADCs): Mara Autonomous District Council (MADC – Siaha), Lai Autonomous District Council and Chakma Autonomous District Council (LADC and CADC – Lawngtlai). There are multiple Village Councils (VCs) under these eleven districts. In total, there are 533 VCs independent of ADCs and another 284 VCs under ADCs. Hence, there are a total of 817 VCs¹⁸.

VCs are responsible for limited administrative functions (such as maintenance of law and order and maintenance of village roads) and have certain community land related powers. The impact of VCs has remained relatively less significant. This is probably because of very limited financial capabilities. It may be noted that Mizoram is exempted from the provisions of the 73rd Constitutional Amendment. State government has taken multiple steps to make all the local bodies perform functions analogous to those of the local bodies existing in other parts of India, while enjoying the degree of autonomy to protect indigenous traditions customs, and culture. The acts and rules pertaining to VCs and ADCs are enacted to provide power and autonomy to these local bodies. The ADCs are established under the following Acts

1. Chakma Autonomous District Council (Village Council) Act, 2003
2. Lai Autonomous District Council (Village Council) Act, 2010
3. Mara Autonomous District Council (Village Council) Act, 1974

¹⁸ This chapter draws substantially from the 2nd State Finance Commission Report

In addition, the VCs derive their power and functions largely from the following Acts and connected rules:

1. The Lushai Hills District (Village Councils) Act, 1953
2. The Mizo District (Forest) Act, 1955
3. The Mizoram (Land Revenue) Act, 2013
4. The Mizoram Animal (Control & Taxation) Act, 2014
5. The Lushai Hills Autonomous District (Administration of Justice) Rules, 1953
6. The Mizoram (Prevention and Control of Fire in the Village Ram) Rules, 2001
7. The Mizoram Village (Sanitation) Rules, 2017

In the State of Mizoram, there are two urban local bodies: Aizawl Municipal Corporation and Lunglei Municipal Council. There are 22 notified urban towns in Mizoram and the urban population is about half the total population.

We present a comprehensive look at the Autonomous District Councils (ADCs) in Mizoram:

1. **Legislative Autonomy:** ADCs in Mizoram, such as Mara, Lai, and Chakma, have legislative powers under the Sixth Schedule of the India Constitution. This means they can create laws related to certain matters like land, forest management, and social customs, which are not typically within the legislative competence of ordinary district administrations.
2. **Administrative Authority:** These councils have administrative autonomy, allowing them to govern and manage local affairs, including education, healthcare, and public works, in their respective regions. The standard districts are governed by the state's administrative machinery without this degree of local control.

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3. **Judicial Powers:** ADCs can establish and manage their courts to handle minor criminal and civil cases. These judicial powers provide a localized justice system that's sensitive to the customs and traditions of the tribes in these areas, unlike the central or state-controlled judiciary in other districts.
 4. **Financial Independency:** ADCs receive direct grants from the central government and have the authority to generate and manage their financial resources. This includes the power to levy certain taxes and to manage funds separate from the state government budget.

In summary, ADCs in Mizoram enjoy greater legislative, administrative, judicial, and financial autonomy compared to other districts, allowing them to tailor governance to their unique cultural and socio-economic contexts. This enables them to preserve their cultural heritage and promote development in ways that align closely with the needs and aspirations of the local tribal communities.

We now present a brief outline of the election process and tenure in various local bodies in Mizoram. the process is mostly democratic and these democratic processes ensure that representatives at each level of governance are chosen by the people, reflecting their needs and aspirations.

Autonomous District Council: Members of the ADCs, such as the Chakma, Lai, and Mara Councils, are elected based on universal adult suffrage for a term of five years. These councils are under the Sixth Schedule of the Indian Constitution.

Rural Local Bodies / Village Councils: VCs are also elected through universal adult suffrage. They play a vital role in local governance, focusing on rural areas.

The term for VCs is generally five years, with elections organized by the State Election Commission.

Urban Local Bodies: ULBs like the Aizawl Municipal Council are elected through a transparent electoral process. ULBs are responsible for urban administration and development. ULBs consist of elected and nominated councillors. The Chairperson is elected by the majority of councillors.

Local Councils: Local Councils within municipal areas are elected by the local urban population. LCs work under the overall governance structure of the larger municipal body, such as the Aizawl Municipal Corporation.

8.2 State Finance Commissions of Mizoram

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'.

The main tasks of the State Finance Commission are governed by the provisions in articles 243-I and 243-Y of the Constitution. The same may be read with the provisions in Section 3 of the Mizoram Finance Commission Act, 2010.

Under MFC Act, 2010, the first State Finance Commission - "Mizoram Finance Commission" - was constituted on 30th September 2011 and the award period

of the Commission was 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 Second State Finance Commission of Mizoram was initially constituted by the State Government on the 18th April, 2021.

The approach of the Commission has been to understand in depth the finances of the local bodies, viz., the village councils, municipalities, and autonomous district councils, by undertaking a detailed assessment of their functions, their own source revenues, their revenue expenditure obligations and arriving at a revenue gap for all the local bodies. The revenue gaps are attempted to be filled by devising a transparent and predictable scheme of devolution from the State's own tax revenues. Grants-in-aid in the form of revenue deficit grants and performance grants from the Consolidated Fund of Mizoram are also built into the scheme of devolution. The criteria adopted by the Commission for horizontal distribution of funds between the different entities of the local bodies mostly follow the principles of need and equity, along with one performance criterion in the case of the district councils.

The Second State Finance Commission of Mizoram recommends a vertical devolution of 42 percent of the net proceeds of the State's own tax revenue for the award period of 2021-22 to 2025-26, taking into account the need to give local bodies financial autonomy to perform tasks similar to those of other local bodies created under Part IX (Panchayats) and Part IX-A (Municipalities) of the Constitution while, at the same time, understanding the State government's steadily growing committed expenditure requirements. The quantum of expected/proposed devolution is shown in Table 8.1.

After vertical devolution of 42% of State's Own Tax Revenue, the state needs to do horizontal devolution of this amount among ADCs, ULBs, and VCs (RLBs). First, the gap is assessed and shown in Table 8.2. Pre-devolution revenue gap of ADCs are much higher than the RLBs and ULBs. This is due to sub-optimal revenue collection at ADC level. In Mizoram's 2nd State Finance Commission Report this is referred as First Level Horizontal Devolution. The proposed tax devolution, for the period 2021-22 to 2025-26, to RLBs (VCs), ULBs, and ADCs are presented in Table 8.3.

	2021-22	2022-23	2023-24	2024-25	2025-26
Projections of State's OTR	853.93	971.8	1084.3	1193.13	1218.83
Projected Tax collection charges	75.32	76.76	78.21	79.7	81.21
Net proceeds of SOTR	778.61	895.04	1006.09	1113.43	1137.62
Vertical devolution @42% of net SOTR	327.01	375.92	422.56	467.64	477.8

Source: 2nd State Finance Commission, Mizoram

	2021-22	2022-23	2023-24	2024-25	2025-26
Pre-devolution revenue gap of RLBs	14.49	19.13	17.93	17.94	27.56
Pre-devolution revenue gap of ULBs	9.30	11.65	23.13	25.47	29.75
Pre-devolution revenue gap of ADCs	493.95	532.87	567.96	607.09	646.06
Total pre-devolution revenue gap	517.74	563.65	609.02	650.51	703.37

Source: 2nd State Finance Commission, Mizoram

It may be noted that the highest revenue gap exists at ADCs and the gap is steadily increasing. The same along with gap at RLBs/ULBs are to be addressed. The total gap may reach ₹703.37 Cr by 2025-26 and the quantum of devolution is expected to reach ₹477.80 Cr by 2025-26. The entire remaining post-devolution revenue gap exists at ADCs only. In percentage term about 35% gap is expected to persist.

	2021-22	2022-23	2023-24	2024-25	2025-26
Tax devolution to RLBs	14.49	19.13	17.93	17.94	27.56
Tax devolution to ULBs	9.30	11.65	23.13	25.47	29.75
Tax devolution to ADCs	303.23	345.13	381.50	424.22	420.49
Post-devolution revenue deficit	190.72	187.74	186.46	182.87	225.57
Source: 2 nd State Finance Commission, Mizoram					

8.3 Tax-Devolution to Village Councils

The 2nd level of horizontal devolution revolves around distribution of the tax devolution between the Village Councils across the 11 districts in two stages i.e., distribution of tax devolution district-wise in the 1st stage and distribution between Village Councils within a district in the 2nd stage of horizontal devolution on the basis of the principles of need and equity.

The weightage scheme used by the 2nd State Finance Commission of Mizoram for devolution to VCs is as follows: 60% weightage is given to non-municipal population; 30% weightage is given to non-municipal area; and 10% weightage is given to an index of deprivation. The total transfers to the village occur at two stages – first, at the district level as per the above formula devised by the 2nd State Finance Commission of Mizoram. The 15th Finance Commission recommended the distribution of RLB grants between the different entities on the basis of population and area in the ratio of 90:10 or as per the accepted recommendation of the latest State Finance Commission.

Table 8.4 shows the devolution to different districts. This is referred as the first stage devolution and the second stage devolution occurs at the final bottom-most level (i.e., at the VC level) – not discussed in the present study. A total of about ₹97.05 Cr to be transferred till 2025-26 through state finance commission

and ₹362.00 Cr to be transferred till 2025-26 through 15th finance commission. The following districts will receive the maximum transfers - Lawngtlai, Lunglei, and Mamit. Hnahthial, Khawzawl, and Saitual will receive the minimum transfers. Figure 8.1 shows the yearly devolution from 2nd State Finance Commission and from 15th Finance Commission. It may be noted that for Finance Commission grants the transfers varies from ₹69 Cr to ₹74 Cr for the given period (2021-22 to 2022-23) and the same for state finance commission devolution varies from ₹14.5 Cr to ₹27.6 Cr.

Table 8.4: Devolution to Districts (to be further transferred to VCs) in ₹ Cr till 2025-26		
Districts	2 nd State Finance Commission	15 th Finance Commission
Aizawl	9.14	34.03
Lunglei	12.79	48.32
Kolasib	9.22	34.33
Champhai	8.44	31.42
Mamit	11.86	44.15
Serchhip	7.81	29.07
Saitual	7.01	26.08
Khawzawl	5.22	19.44
Hnahthial	4.43	16.51
Siaha	7.42	27.61
Lawngtlai	13.71	51.04
Total	97.05	362.00
Source: 2 nd State Finance Commission, Mizoram		

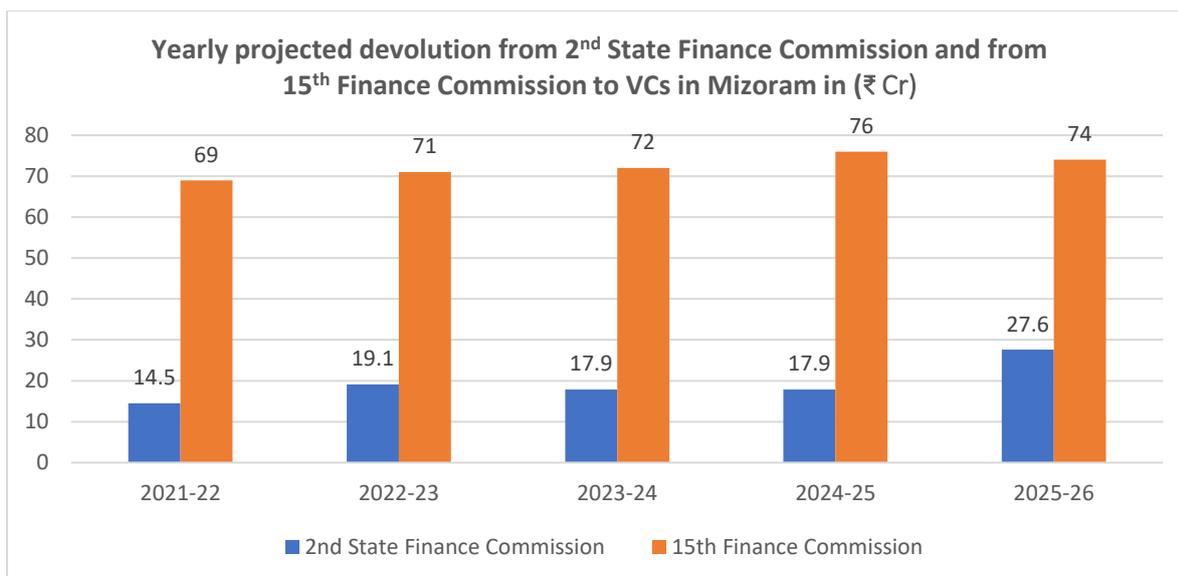


Figure 8.1: Yearly projected devolution from 2nd State Finance Commission and from 15th Finance Commission to VCs in Mizoram in (₹ Cr)

Source: 2nd State Finance Commission, Mizoram

8.4 Tax-Devolution to Urban Local Bodies

The 3rd level of horizontal devolution pertains to distribution of the tax devolution between the two urban local bodies (viz., Aizawl Municipal Corporation and Lunglei Municipal Council) in two stages i.e., distribution of tax devolution between the urban local bodies in the 1st stage and distribution between Local Councils within an urban local body in the 2nd stage of horizontal devolution on the basis of the principles of need and equity.

The formula used by the 2nd State Finance Commission for devolution is as follows: 60% and 30% weightage to population and area respectively, and 10 % weightage to BPL household. The share for Aizawl Municipal Corporation turns out to be 76.33% and for Lunglei Municipal Corporation turns out to be 23.67%. 15th Finance Commission also provides grants to ULBs and the formula used for bifurcation is based on 90:10 rule (population to area ratio) or as per State Finance Commission recommendations. Figures 8.2 and 8.3 show the devolution to ULBs (from 2nd SFC and from 15th FC respectively) across years. For first couple

of years there is zero devolution to Lunglei Municipal Corporation as the same is newly formed. The large chunk of the revenue is directed towards Aizawl Municipal Corporation. As per SFC, the transfers grow from ₹9.30 Cr to ₹29.75 Cr in five-year period (2021-22 to 2025-26). As per Finance Commission, the transfers grow from ₹34 Cr to ₹40 Cr in the same five-year period (2021-26). The transfers in the 2nd stage (to Local Councils) are not discussed in this report.

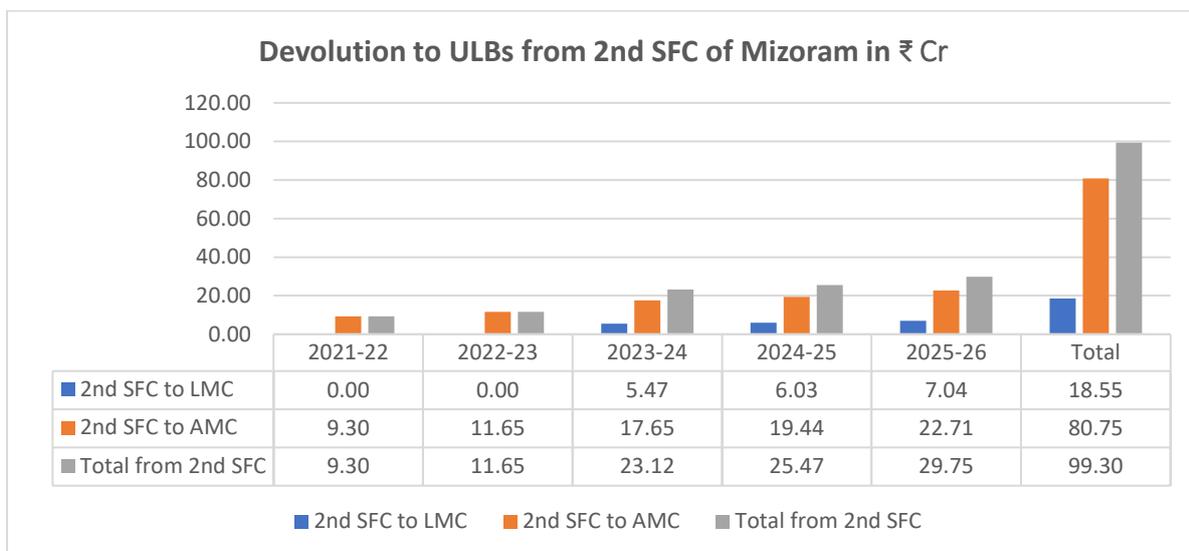


Figure 8.2: Devolution to ULBs from 2nd SFC of Mizoram in ₹ Cr

Source: 2nd State Finance Commission, Mizoram

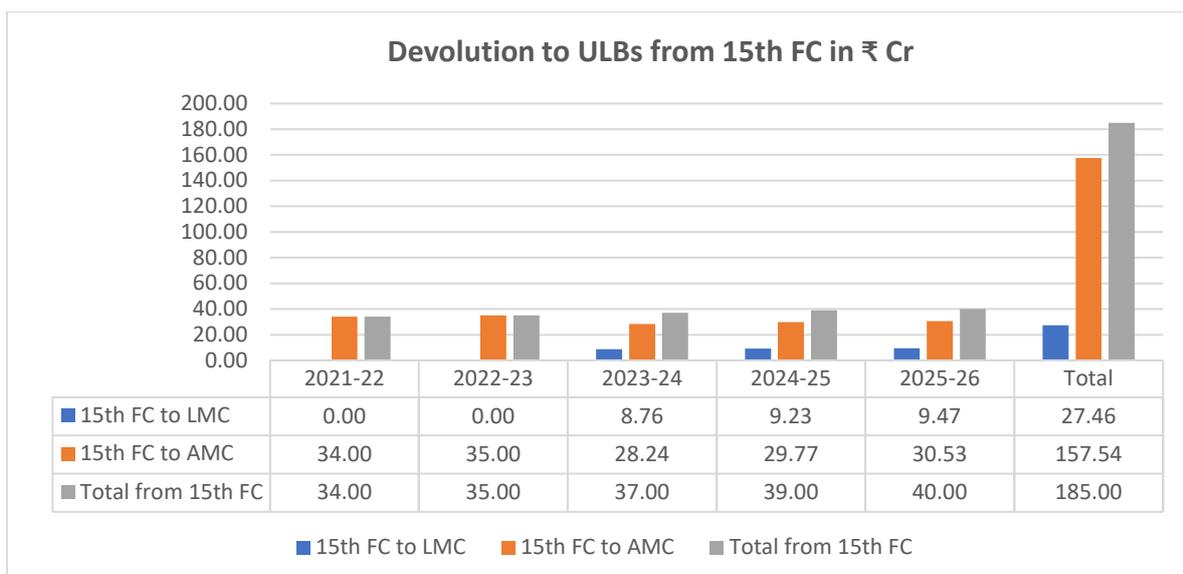


Figure 8.3: Devolution to ULBs from 15th FC in ₹ Cr

Source: 2nd State Finance Commission, Mizoram

8.5 Tax-Devolution to Autonomous District Councils

The 4th level of horizontal devolution revolves around distribution of the tax devolution between the three autonomous district councils on the basis of the principles of need, performance and equity. We have used four criteria, two of them representing the needs of the autonomous district councils (i.e., population and area), performance criteria (i.e., revenue efforts) and equity criteria (i.e., deprivation index) for horizontal distribution of tax devolution across the district councils.

The formula used by the 2nd State Finance Commission for devolution is as follows: 40% and 30% weightage to population and area respectively, and 15 % each weightage to revenue efforts and deprivation index respectively. The shares of the three ADCs are as follows: 25.04% to Chakma Autonomous District Council (CADC); 41.96% to Lai Autonomous District Council (LADC); and 33.01% to Mara Autonomous District Council (MADC). The trend and the distribution of tax devolution to ADC in the 4th level of horizontal devolution is shown in the following figure (Figure 8.4).

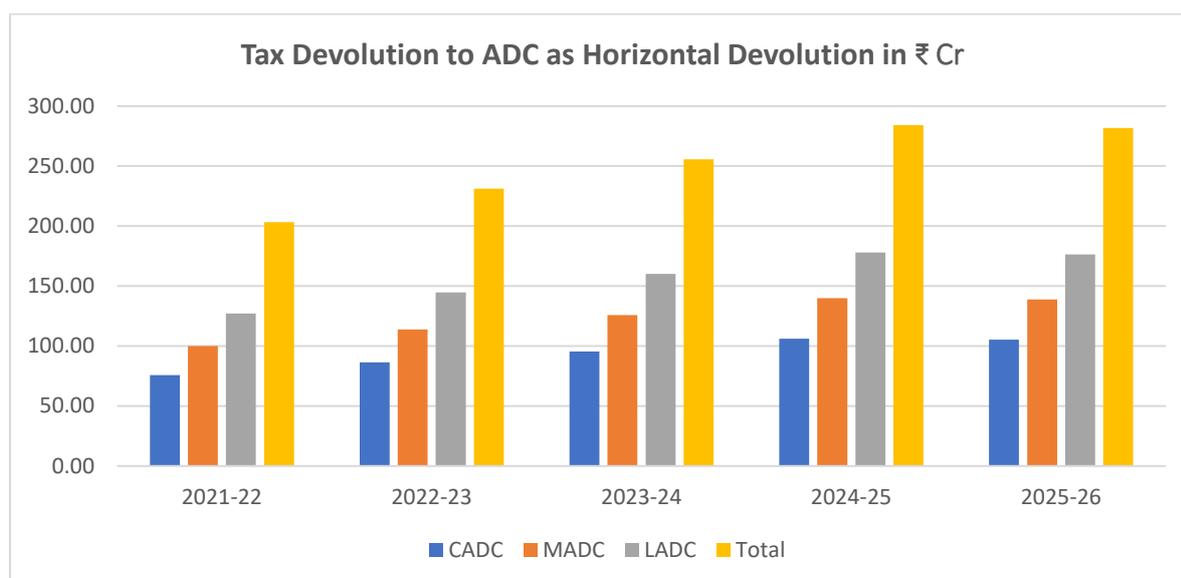


Table 8.4: Tax Devolution to ADC as Horizontal Devolution in ₹ Cr

Source: 2nd State Finance Commission, Mizoram

It is already noted that the proposed horizontal devolution will not be sufficient to cover the revenue deficit and therefore, additional grants (as shown in in the following table - Table 8.5) is necessary. This revenue grant is estimated to the tune of ₹191 Cr in 2021-22, the same should taper down for next few years and would again rise to about ₹226 Cr in 2025-26. One may observe that MADC has the highest share closely followed by LADC and then comes CADC.

Mizoram received ₹ 35.5 Crores in 2nd Instalment of XV FC Grants for FY 2022–23. Mizoram received ₹ 14.20 crore in untied grants and ₹ 21.30 crore in tied grants as the second instalment of the 15th Finance Commission (XV FC) grants for the 2022–23 financial year.

ADC	2021-22	2022-23	2023-24	2024-25	2025-26
CADC	41.73	42.18	44.85	44.09	55.32
MADC	74.68	72.53	73.48	73.18	89.17
LADC	74.31	73.03	68.13	65.59	81.08
Total	190.72	187.74	186.46	182.86	225.57

Source: 2nd State Finance Commission, Mizoram

8.6 Concluding Remarks

In view of the substantial deficits that persist at the local bodies, the necessity of increasing the tax base cannot be overstated. It is imperative for both the state and central governments to look for innovative ways to enhance tax collection. This could be achieved by broadening the scope of goods and services under the Goods and Services Tax (GST), thereby increasing the revenue generated. Additionally, there is a need for appropriate Constitutional Amendments to facilitate the collection of Professions Tax, and improving the efficiency of collecting the Passengers and Goods Tax.

Local bodies play a crucial role as the most important platform for grassroots development, and the deficits they face are a matter of concern. However, simply raising taxes to increase revenue is not a viable solution. It is important to consider the Laffer Curve Hypothesis, which suggests that increasing the tax rate beyond a certain point can be counterproductive and may actually reduce total tax revenue. Socio-economic conditions must be carefully considered, and any efforts to enhance the tax net should be implemented gradually and thoughtfully.

It is well known that the state of Mizoram is exempt from the provisions of the 73rd and 74th Constitutional Amendments, which means that the Panchayati Raj Institutions do not exist in the same form as they do in other states. This situation is similar in most of the North-Eastern states. Despite this, it is encouraging to note that the 15th Finance Commission and the 2nd State Finance Commission are addressing these issues to some extent.

To promote better fiscal performance at the local body level, the 2nd State Finance Commission of Mizoram has proposed certain performance-linked transfers. According to these proposals, local bodies must collect a certain minimum amount of revenue to be eligible for performance grants. This measure is designed to incentivize efficient tax collection and ensure that local bodies are motivated to improve their fiscal performance.

Overall, the approach to addressing fiscal deficits at the local body level must be multifaceted, involving efforts to broaden the tax base, careful consideration of economic theories like the Laffer Curve, and the implementation of performance-linked incentives to promote better fiscal management.

A couple of illustrations of the performance measurement for VCs to be eligible for grants are given below –

- Receipts from ONTR in the previous FY - including collection of user charges from assets created under Central or State Government schemes - to be not less than 15 times the population of the village, with population figures as reported in the Mission Antyodaya Survey, 2020.
- An increase in collection of ONTR from the village should be at least - 6% annually.

A couple of illustrations of the performance measurement for Aizawl Municipal Corporation to be eligible for grants are given below –

- Capital expenditure not less than 40% of the total expenditure in the previous financial year.
- Collection of property tax from at least 90% of the surveyed taxable units in a municipal area in the previous financial year.

Similarly, there are set rules for Lunglei Municipal Corporation and for the different Autonomous District Councils. The details are stated in the report of 2nd State Finance Commission of Mizoram.

The quantum of performance grants is shown below (Table 8.6).

Local Body	2021-22	2022-23	2023-24	2024-25	2025-26
VCs	0	0	7.5	8.0	8.5
ULBs	0	0	5.0	5.5	6.0
ADCs	0	0	10.0	12.5	15.0

Source: 2nd State Finance Commission, Mizoram

These rules of performance-based transfers and State Finance Commission recommended revenue transfer schemes should go a long way in the development of state and should also bring in financial prudence with higher

degree of self-governance. These measures in turn will drive the much-needed economic development of the state in sustainable manner.

As discussed above, the 15th FC imposed some conditionalities on the local bodies for availing the grants. The 15th Finance Commission, in its report in paragraph 7.67, recommended the distribution of rural local body grants between the different entities on the basis of population and area in the ratio of 90:10 or as per the accepted recommendation of the latest State Finance Commission – discussed above. On the basis of the above recommendation, the exact quantum of devolution is decided.

CHAPTER 9

Conclusion and Recommendations

In this study, the state of Mizoram's finances and the trends therein are thoroughly analysed in accordance with the Terms of Reference of the 16th Finance Commission. The report begins with a brief introduction to the state of Mizoram, outlining its geographical, demographic, and economic context. Following this, a detailed analysis of the state's revenue streams and expenditure patterns is conducted.

As of the current financial assessment, Mizoram's Gross State Domestic Product (GSDP) stands at approximately ₹30,690 crore in current prices. In real terms, adjusting for inflation and using 2011-12 as the base year, the GSDP is about ₹20,170 crore. The state's economy has demonstrated a growth rate exceeding 7.5%, which is commendable. However, for Mizoram to achieve substantial economic development and bridge gaps in various sectors, it is essential for the state's economy to grow at a double-digit rate. Achieving such a growth rate would enable significant progress and catch-up effect, ensuring that the state can meet its developmental goals and improve the overall standard of living for its residents.

Mizoram's relatively high Gross State Domestic Product (GSDP) figures arise from a blend of structural and policy-driven factors, such as substantial government spending funded by central transfers and development packages, urbanization fuelling the service sector, and infrastructure growth through national schemes like PMGSY. The state's small economy amplifies growth rates, while diversification in horticulture, bamboo production, and small-scale manufacturing, coupled with high literacy levels and a young population, further strengthens sectors like banking, education, and tourism. Additionally,

Mizoram's strategic location near international borders attracts investments that bolster both trade and security infrastructure, creating a dynamic where the GSDP reflects sectoral advancements and the influence of a low base effect.

In the fiscal year 2023-24, Mizoram's Own Tax Revenue is estimated to be ₹1200 crore. This revenue is generated from various taxes imposed by the state government, including state GST, excise duties, and other state-level taxes. In addition to this, the devolution of central taxes contributes significantly to the state's finances, amounting to approximately ₹5500 crore. This devolution is a part of the central government's fiscal transfer mechanism to ensure balanced economic development across states.

During the same period, Mizoram's Own Non-Tax Revenue, which includes income from sources such as fees, fines, and income from state-owned enterprises, stands at a little more than ₹900 crore. Furthermore, the state receives grants from the central government for Centrally Sponsored Schemes (CSS), which total around ₹3400 crore. These schemes are crucial for funding various developmental and welfare programs. Additionally, grants from the Finance Commission contribute another ₹1600 crore to the state's finances.

Summing up these various sources, the total revenue receipts for Mizoram amount to ₹12,600 crore. Out of this, the state's own receipts, combining both tax and non-tax revenues, stand at about ₹2080 crore. Consequently, it is evident that a substantial portion—approximately 85%—of Mizoram's expenditure is funded by transfers from the central government. While this represents a considerable reliance, it is noteworthy that there has been a slight improvement compared to previous years. Historically, more than 90% of the state's expenditure was dependent on central government transfers.

Despite this heavy reliance, Mizoram has managed to achieve a small revenue surplus in its budget for the year. However, the fiscal deficit remains slightly above the Fiscal Responsibility and Budget Management (FRBM) mandate of 3%. This indicates that the state is still facing challenges in balancing its budget while maintaining fiscal discipline.

In terms of the sectoral composition of the state's Gross State Domestic Product (GSDP), the primary sector (agriculture and allied activities), the secondary sector (industry), and the tertiary sector (services) are distributed in a rough ratio of 2:3:5. This indicates that the services sector is the largest contributor to the state's economy, followed by industry and agriculture.

Overall, while Mizoram has made some progress in improving its financial independence and managing its budget, there is still a significant dependence on central government transfers. Continued efforts are needed to enhance the state's own revenue generation and achieve a more balanced fiscal position.

The Compound Annual Growth Rate (CAGR) of Mizoram's State Own Tax Revenue (SOTR) is slightly more than 15%. In comparison, the CAGR of devolution of Central Taxes and Duties is over 19%. This disparity highlights Mizoram's significant dependence on central assistance for its financial needs. While this central assistance should ideally continue in the same manner to support the state's development, it is equally important for Mizoram to intensify its efforts to enhance revenue collection from both tax and non-tax sources. Such initiatives would help the state reduce its dependency on central transfers and strengthen its financial autonomy.

Currently, the total revenue receipt of the state constitutes nearly 40% of its Gross State Domestic Product (GSDP). Encouragingly, total revenue receipts are

growing at a CAGR of nearly 10%, which is higher than the GSDP growth rate of 7.5%. This indicates a positive trend in revenue generation. However, the state's Own Tax Revenue (OTR) and Own Non-Tax Revenue (ONTR) are only 3.7% and 2.8% of the state's GSDP, respectively. These figures are not particularly encouraging and point to the need for further improvement in revenue collection.

To address this, the state must make concerted efforts to expand the tax net. The introduction of performance-linked transfers to local bodies, as recommended by the state finance commission, is a commendable step in this direction. Such measures incentivize local bodies to improve their revenue collection capabilities. The Goods and Services Tax (GST) is currently the most important component of the state's tax collection, accounting for more than 80% of total tax revenue. However, the growth in GST revenue has stagnated, necessitating the exploration of other revenue sources or broadening the GST base to include more goods and services.

Additionally, the growth in tax collection from income and expenditure is not even reaching 1%, which is a cause for concern. It is imperative for the state to undertake necessary measures to boost this growth, ensuring that the tax system is more efficient and robust.

Taxes on Vehicles and on goods and passengers require further rationalization to ensure a more equitable and efficient tax system. Currently, the methods of tax collection in these areas may not be yielding optimal results, necessitating a review and possible restructuring to improve revenue. Similarly, land revenue remains highly unpredictable due to potential inefficiencies in assessment and collection processes. This unpredictability warrants a closer examination and

implementation of measures to streamline and enhance land revenue generation.

The state's Own Non-Tax Revenue (ONTR) is growing at a rate of about 14%, which is reasonable and indicates positive progress. However, there is considerable potential for further growth in the Economic Services component of non-tax revenue. This suggests that more proactive measures should be taken to boost revenue from these services. Power, being the single largest component of collections from Economic Services, stands out as an area needing urgent attention. The Electricity and Power Department must focus on enhancing efficiency in revenue collection. Despite the growing cost of power procurement, the state is currently underperforming in terms of revenue collection from this sector, performing significantly below the national average regarding Aggregate Technical & Commercial (AT&C) Losses.

Tourism holds immense potential in Mizoram, yet the revenue collection from this sector is currently just about ₹3.5 crore. There is a substantial opportunity to enhance this revenue stream by investing in tourist lodges and other tourism-related infrastructure. Such investments would not only improve the state's tourism offerings but also significantly boost revenue from this sector. To maximize this potential, financial assistance from the central government may be sought, given the substantial payback potential that tourism development offers.

Water and Sanitation constitute the most crucial components of the Social Services sector, given their direct impact on public health and quality of life. Despite their importance, the revenue realization from Urban Development remains minimal and should be explored more thoroughly to identify potential areas for improvement. Revenue generation from Social Services, in general,

tends to be low, which is expected, as these services primarily aim to provide essential support and welfare rather than generate income. The same holds true for General Services, which also focus on fundamental public services and administration.

In the post-planning era, the dynamics of fund transfers from the central government to the state have evolved. Beyond the devolution of taxes, the primary sources of grants include Centrally Sponsored Schemes (CSS) and Finance Commission Grants. For the fiscal year 2023-24, the state received slightly more than ₹3400 crore for Centrally Sponsored Schemes and a little over ₹1600 crore from Finance Commission Grants. This substantial financial assistance is crucial for Mizoram's development, and the long-term success of these funds depends on their proper utilization and disbursement.

The disbursement of these funds has two broad components. Firstly, there is a social welfare component, which is of immense importance for a resource-scarce state like Mizoram. These funds help address critical social needs and improve the living conditions of the population. Secondly, there is an economic component, which is equally vital for the state. Mizoram requires rapid and sustained economic growth, making it essential to invest these funds in a manner that stimulates economic development and infrastructure. It is crucial that these investments are economically productive to ensure that they yield long-term benefits and contribute to the state's overall progress.

In summary, while the Social Services sector, including Water and Sanitation, is essential and typically low in revenue generation, there are opportunities for improvement in revenue realization from Urban Development. The significant financial assistance from the central government must be carefully managed

and invested to ensure both social welfare and economic growth, fostering a balanced and sustainable development for Mizoram.

A good tax system is one which has a strong linkage with the growth of the economy. From buoyancy estimates, it is established that a one percent increase in GSDP leads to a 3% rise in GST collection. This demonstrates a favourable correlation between economic growth and GST revenue. However, for many other tax components, the buoyancy is not as favourable, indicating a less responsive relationship to changes in GSDP.

The Compound Annual Growth Rate (CAGR) for both Revenue and Capital Expenditure is just under 10%, while for Total Expenditure, it is slightly above 10%. These growth rates appear to be manageable, at least in the short run. It is notable that more than three-fourths of the expenditure is revenue expenditure. While it is expected that revenue expenditure will be high, it is advisable to pay significant attention to capital outlay for long-term benefits and sustainable development.

Revenue expenditure on General Services is growing at a compounded annual rate of almost 11%. Similarly, revenue expenditure on Social Services is growing at a compounded annual rate of about 10.8%. In contrast, revenue expenditure on Economic Services is growing with a CAGR of just about 7%. Overall, revenue disbursement is growing at a CAGR of 9.7%, which is relatively higher than the rate of economic growth. This situation underscores the need for efficient disbursement to ensure that the expenditure effectively contributes to the state's development objectives.

Pension constitutes a significant portion of the expenditure, followed by sectors such as Water Supply, Sanitation, Housing, and Urban Development. Revenue

expenditure in Rural Development is surging, increasing at an impressive annual compounded rate of 19.13%. Similarly, revenue expenditure in Transport is growing at a compounded annual rate of 15.77%.

As the analysis of funds allocated for Disaster Management and the utilization of those funds were not specified in the TOR, we have not analysed the same in detail but it may be noted that as per the Department of Disaster Management & Rehabilitation, Response & Relief should amount to 40% of State Disaster Risk Management Fund (SDRMF) i.e. equal to 50% of State Disaster Response Fund (SDRF) allocation for the year. Similarly, Recovery & Reconstruction should amount to 30% of SDRMF i.e. equal to 37.50% of SDRF allocation for the year. Finally, Preparedness & Capacity Building should amount to 10% of SDRMF i.e. equal to 12.50% of SDRF allocation for the year. The years in the discussion above are 2022-23 to 2025-26¹⁹.

In Mizoram, the ratio of Own Tax Revenue to Aggregate Expenditure (OTR to AE) has never exceeded 8%. This indicates that the state's tax revenues fall short of covering more than 90% of its expenditures. The ratio of Own Non-Tax Revenue to Aggregate Expenditure (ONTR to AE) is even lower. It has been observed that over 85%, or nearly 90%, of the state's expenses are financed through central assistance. The cost recovery rate for Social Services and General Services is exceptionally low, below 2%. While this isn't a major issue, the more pressing concern is the state's inability to recover even one-fourth of the costs associated with Economic Services, which include the power sector.

A fiscal deficit is not inherently negative, provided it does not compromise long-term sustainability. Deficits must adhere to the limits set by the FRBM Act.

¹⁹ <https://dmr.mizoram.gov.in/page/lists-of-sdrf-ndrf-2022-23-to-2025-26>

Projections for the next five years, considering GSDP and deficit indicators, indicate that there will be no revenue deficit. Instead, a surplus in the range of 3% to 7% of GSDP is expected, aligning with the Mizoram government's consolidation efforts. The fiscal deficit is anticipated to hover around 3%, generally on the higher side, while the primary deficit is projected to remain around 1%. These projections suggest that Mizoram's fiscal position is relatively well-managed.

However, debt management requires improvement. The current debt pattern is not ideal, with values ranging between 10% and 12%, whereas single-digit figures are preferred. Although not immediately alarming, better debt management is essential to keep it within reasonable limits, preventing it from escalating beyond control. According to recommendations from previous finance commission reports and suggested roadmaps, total outstanding debt should be below 30%, preferably not exceeding 25% of GSDP. Current analysis indicates that these limits are likely to be breached, emphasizing the need for prudent borrowing practices. In terms of subsidies, they represent just over 1% of Revenue Receipts and Revenue Expenditure. Although this is slightly higher than desirable, keeping it below 1% of Revenue Expenditure is considered manageable. Hence, recent subsidy expenditure, while slightly elevated, needs to be reduced to below 1% and maintained at that level. Overall, subsidies in Mizoram are managed reasonably well.

It is very clear from the analysis that the Power Sector and the Public Sector Undertakings (PSUs) in Mizoram require urgent attention. These sectors are major cost centres, and it is highly recommended that a comprehensive revamp be planned and implemented to manage them more effectively. By doing so,

these sectors can be transformed to operate more efficiently and contribute positively to the state's economy.

The study conducted by the 2nd State Finance Commission is very thorough, and its recommendations are highly relevant for the state's fiscal management. For optimal fiscal management, it is suggested that the recommendations of the State Finance Commission be followed diligently and to the fullest extent possible. Given the substantial deficits remaining at the local bodies, the necessity of expanding the tax base is critical and should not be underestimated. Local bodies serve as the most important platform for development, and the financial deficits they face are a significant concern. However, simply raising taxes to increase revenue is not a viable solution. One must consider the Laffer Curve Hypothesis, which suggests that increasing the tax rate beyond a certain point may become counterproductive. It is essential to keep the socioeconomic conditions in mind and to enhance the tax net gradually and thoughtfully.

Mizoram, being a Sixth Schedule state with its unique cultural and socio-economic fabric, may not be suited to a one-size-fits-all approach—commonly used in other Indian states. The fiscal policy for Mizoram should be tailored to meet its local needs and specific conditions. In summary, while Mizoram needs to enhance its revenue collection, it is equally important that the central government adopts a more liberal approach in terms of financial assistance to the state in the coming years. This dual approach will ensure the state's fiscal health and support its long-term development goals.

Mizoram – State at a Glance

Sl. No.	Particulars	Unit	Value
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'E
3	Length		
	North to South	Km	277
	East to West	Km	121
4	International Borders		
	With Myanmar	Km	404
	With Bangladesh	Km	318
5	Inter State Borders		
	With Assam	Km	123
	With Tripura	Km	66
	With Manipur	Km	95
6	Administrative Set Up		
	No. of Districts	No.	11
	No. of ADCs	No.	3
	No. of Sub-Divisions	No.	23
	No. of RD Blocks	No.	26
	No. of Villages (2011)	No.	830
	No. of UMCs	No.	2
7	Population		
	2011 (Census 2011)	No.	10,97,206
	Males (Census 2011)	No.	5,55,339
	Females (Census 2011)	No.	5,41,867
	Rural (Census 2011)	No.	5,25,435
	Urban (Census 2011)	No.	5,71,771
8	Decadal Population Growth		
	Absolute	No.	2,08,633
	Percentage	%	23.48%
9	Population Density	No. Per Sq. Km	52
10	Females Per 1000 Males	No.	976
11	0-6 Population		
	Person	No.	8,48,175
	Males	No.	4,38,529
	Females	No.	4,09,646
12	Worker Population		
	Main Workers	No.	4,15,030
	Marginal Workers	No.	71,675

13	Literacy		
	Person	No.	8,48,175
	Male	No.	4,38,529
	Female	No.	4,09,646
	Rate	%	91.33
14	Population: 2021 (Estimated) [Assuming 11.9% decadal growth – based on national average]	No.	12,21,000

Mizoram – State of the Economy

Sl. No.	Particulars	Unit	Year	
			2021-22 (P)	2022-23 (A)
1	State Income (2011-12 Series)			
	GSDP (Current Prices)	₹ Cr	27,824	32,829
	GSDP (Constant Prices: 2011-12)	₹ Cr	18,394	21,001
	Per Capita Income (Current Prices)	₹	1,98,962	2,32,126
2	Monthly Consumer Expenditure		NSS (66 th Round)	NSS (68 th Round)
	Rural (Per Capita)	₹	1128	1346
	Urban (Per Capita)	₹	1779	2219
3	Agriculture		2019-20	2020-21
	Gross Cropped Area	'000 Ha	202.52	200.84
	Net Sown Area	'000 Ha	206.10	204.47
	Gross Irrigated Area	'000 Ha	20.98	22.05
	Area Under Principal Crops		2020-21	2021-22
	Rice	Ha	62,182	3,60,881
	Maize	Ha	6,539	6,645
	Pulses	Ha	4,059	4,040
	Oilseeds	Ha	2,795	3,158
	Production of Principal Crops		2018-19	2019-20
	Rice	M Tonnes	60010	60239
	Maize	M Tonnes	11,788	11,316
	Pulses	M Tonnes	5,595	5,717
	Oilseeds	M Tonnes	2757	8087
	Agriculture Census		2010-11	2015-16
	No. of Operational Holdings	No.	91,880	89,774
	Total Operated Area	Ha	1,04,789	1,12,465
	Average Size of Holdings	Ha	1.14	1.25
4	Livestock Census		2012	2019
	Total Livestock	'000	384604	311856
	Total Poultry	'000	1260298	1271353
5	Forest Area (FSI Report)		2017	2019
	Area Under Dense Forest	Sq. Km	5,992	5,958
	Area Under Open Forest	Sq. Km	12,194	12,048
6	Electricity		2021-22	2022-23
	Installed Capacity	MW	52.77	59.52
	Total Generation + Import	MU	719.13	673.13
	Power Purchased	MU	688.28	613.61
	Total Consumption	MU	464.27	486.39
7	Industries		2021-22	2022-23
	Registered MSMEs	No.	3890	8213
8	Cooperation		2021-22	2022-23
	No. of Cooperative Society	No.	1296	1228
	Membership	No.	45,743	46,976
	Working Capital	₹ Cr	3891.31	5070.92
9	Banking		2021-22	2022-23
	No. of Banks/Branches	No.	239	239
	Total Deposits	₹ Cr	9,079.49	9,946.95

	Total Advances	₹ Cr	571.92	712.57
	Credit Deposit Ratio	%	27.76	30.63
10	Education		2021-22	2022-23
	No. of Primary Schools	No.	1933	1920
	Enrolment in Primary Schools	No.	1,32,438	1,39,740
	No. of Middle Schools	No.	1,549	1,552
	Enrolment in Middle Schools	No.	94,949	88,786
	No. of High Schools	No.	715	718
	Enrolment in High Schools	No.	40,605	39,313
	No. of Higher Secondary Schools	No.	205	204
	Enrolment in Higher Sec. Schools	No.	28,134	25,364
	No. of Colleges	No.	40	40
	Enrolment in Colleges	No.	28,134	19,144
	No. of Universities	No.	2	2
	Enrolment in Universities	No.	4,369	4,348
11	Health		2021-22	2022-23
	No. of Hospitals	No.	42	46
	Community Health Centres	No.	9	9
	Primary Health Centres	No.	70	66
	Sub-Centres	No.	379	373
	Birth Rate	Per '000	17.28	18.05
	Death Rate	Per '000	4.97	5.01
	Infant Mortality Rate	Per '000	16.47	13.31
12	Roads		2021-22	2022-23
	National Highways	Km	587	1470
	State Highways	Km	262.20	262.20
	District Roads	Km	708.89	2316
	Village Roads	Km	2236.67	4747
	Town Roads	Km	934.55	847
13	Transport		2021-22	2022-23
	Total Motor Vehicles	No.	3,19,124	3,46,286
14	Communication		2021-22	2022-23
	No. of Post Offices	No.	387	387
	Tele Density Per 100 Individuals	No.	113.73	113.29
15	Water Supply		2021-22	2022-23
	No. of Rural Localities Fully Covered	No.	965 (100%)	1010 (100%)
	No. of Urban Localities Fully Covered	No.	23 (100%)	23 (100%)
16	Public Finance		2021-22	2022-23
	Revenue Deficit/Surplus [-/+]	₹ Cr	-602.25	189.89
	Gross Fiscal Deficit [GFD]	₹ Cr	-372.53	-1247.20
	Internal Debt	₹ Cr	4250.46	3718.99
	Percent of GFD to GSDP	%	(-) 1.44	(-) 3.37
	Accumulated Debt	₹ Cr	10,571	12,479
	Accumulated Debt as Percent of GSDP	%	27.63	38.01

Mizoram – Electricity Tariff

Table III-1: Category-wise tariff approved by the Commission (in ₹)						
Consumer Category	Year 2024-25		Year 2022-23		Year 2020-21	
	<i>Subsidized Energy Charges</i>	<i>Full Cost Tariff</i>	<i>Subsidized Energy Charges</i>	<i>Full Cost Tariff</i>	<i>Subsidized Energy Charges</i>	<i>Full Cost Tariff</i>
Kutir Jyoti						
First 20 kWh	2.55	7.77	2.55	7.62	2.10	5.50
Above 20 kWh	3.55	10.81	3.55	8.89	3.00	5.60
Domestic						
LT: First 100 kWh	4.90	9.53	4.90	8.60	3.30	8.80
LT: Next 100 kWh	7.10	13.81	7.10	8.99	4.80	8.10
LT: Above 200 kWh	8.20	15.94	8.20	10.06	5.30	8.20
HT	8.65	10.60	8.65	8.48	5.10	8.20
Non-Profit Public Service						
LT: First 150 kWh	7.60	7.74	7.60	8.35	4.30	9.15
LT: Above 150 kWh	8.30	8.45	8.30	9.27	4.60	9.30
HT	8.75	9.23	8.75	7.94	4.70	9.20
Commercial						
LT: First 150 kWh	8.20	11.56	8.20	10.47	4.70	10.90
LT: Above 150 kWh	8.45	11.92	8.45	10.58	5.70	11.00
HT	8.90	9.83	8.90	9.48	5.80	10.50
Public Lighting	11.35	12.14	11.35	11.11	10.00	10.50
Irrigation and Agriculture						
LT	3.80	11.30	3.80	11.11	2.90	8.30
HT	3.85	8.21	3.85	9.29	2.80	8.90
Public Water Works						
LT	11.10	12.30	11.10	7.72	9.90	10.50
HT	9.85	10.03	9.85	7.50	9.80	10.10
Industrial						
First 400 kWh	7.10	10.21	7.10	8.90	4.60	9.00
Above 400 kWh	8.05	11.58	8.05	10.75	5.30	9.25
HT (Opt-1) #	9.05	10.09	9.05	8.52	5.30	10.00
HT (Opt-2) TOD [Peak]	11.55	10.71				
HT (Opt-2) TOD [Intermediate]	10.05	10.71				
HT (Opt-2) TOD [Off Peak]	8.55	10.71				
EV Charging Station (LT)	8.20	12.10				
EV Charging Station (HT)	8.65	10.70				
Bulk Supply	6.85	9.92	6.85	5.94	5.90	9.35
Note 1: - HT: High Tension (Billed as kVAh) & LT: Low Tension (Billed as kWh)						
Note 2: - EV Charging & Bulk Supply Billed as KVAh & Kutir Jyothi and LT Billed as kWh						
# Flat Rate for HT for the all the years except 2024-25						
As fixed by Joint Electricity Regulatory Commission for Manipur and Mizoram (referred as the Commission)						
Source: https://power.mizoram.gov.in/ [Tariff]						

Results of Augmented Dickey-Fuller Test

Variable	ADF Statistic	Lag	p-value	Conclusion
Revenue Deficit as % of GSDP	-3.318	2	0.089	Stationary Series
Fiscal Deficit as % of GSDP	-3.567	2	0.055	Stationary Series
Primary Deficit as % of GSDP	-3.451	2	0.071	Stationary Series

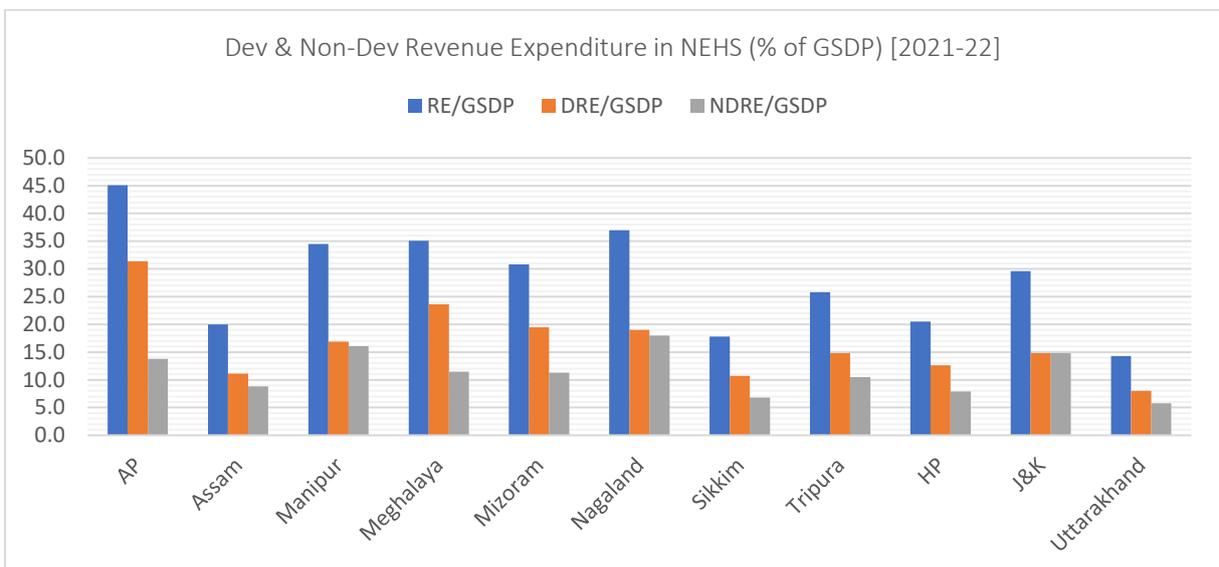
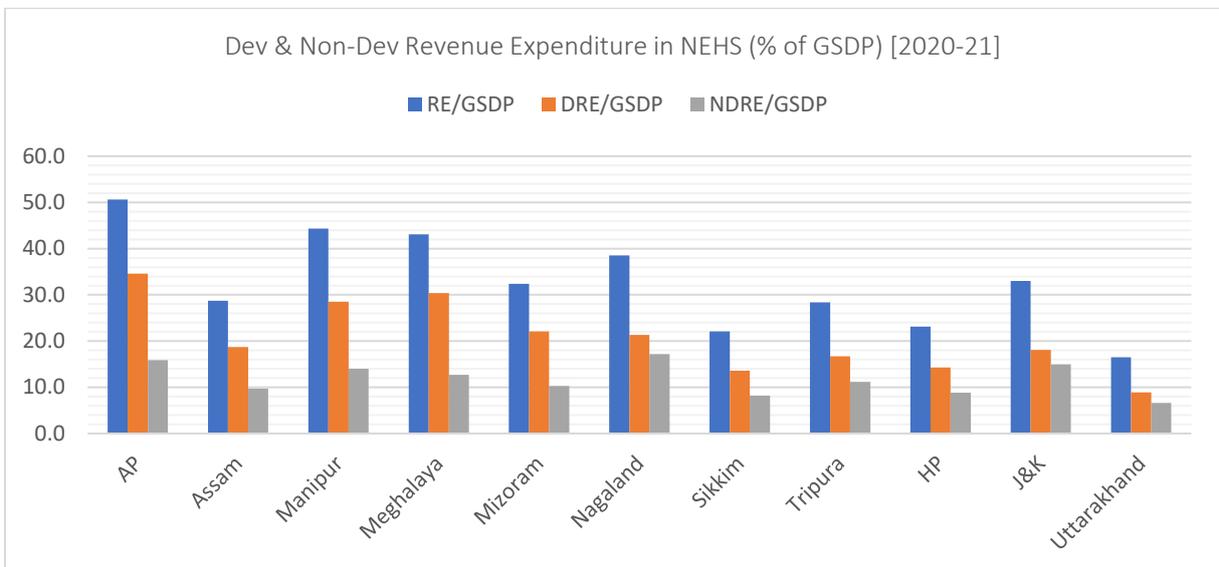
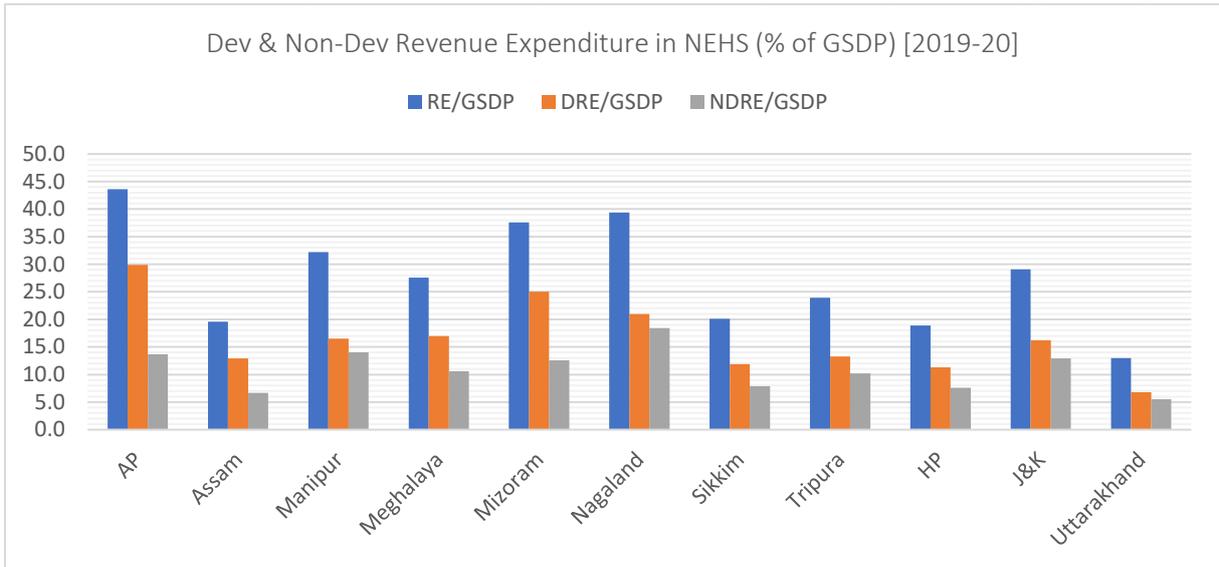
Results of Ljung-Box Test

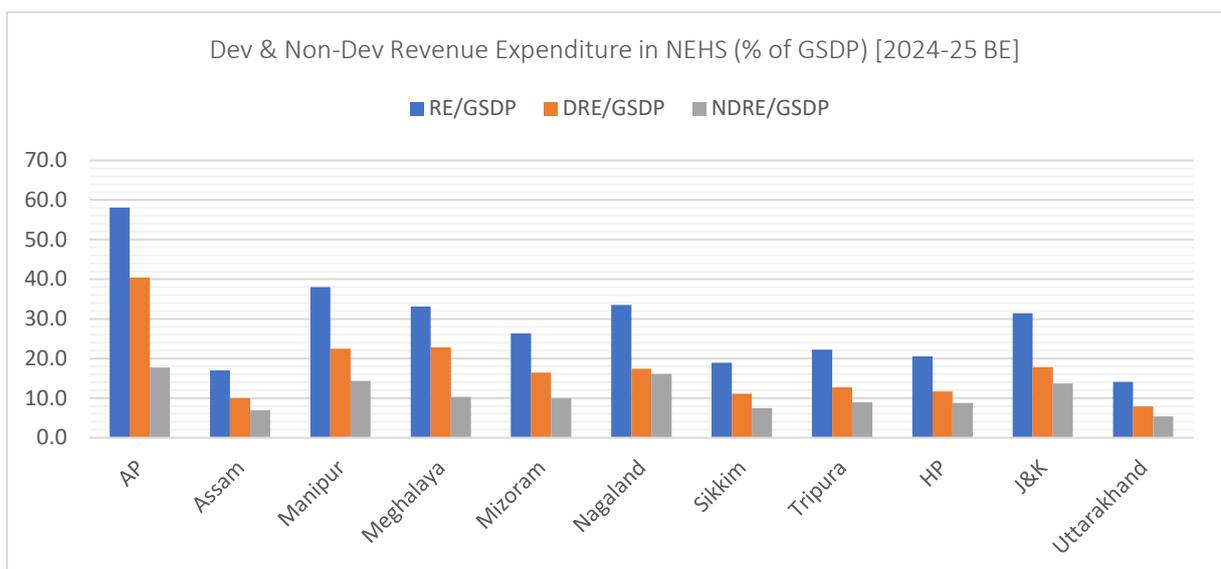
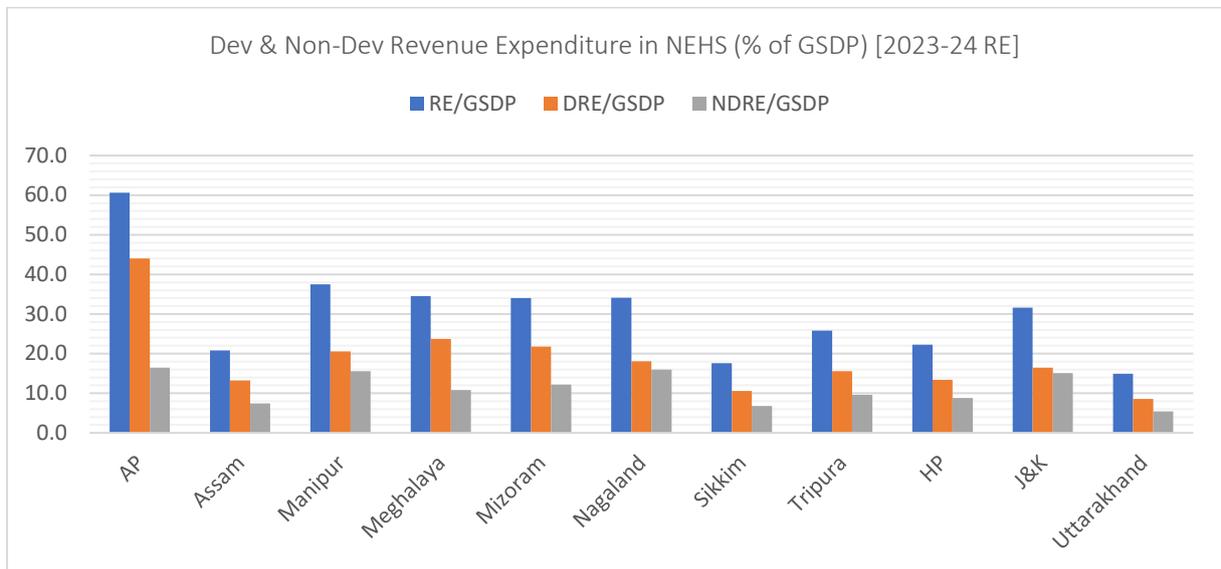
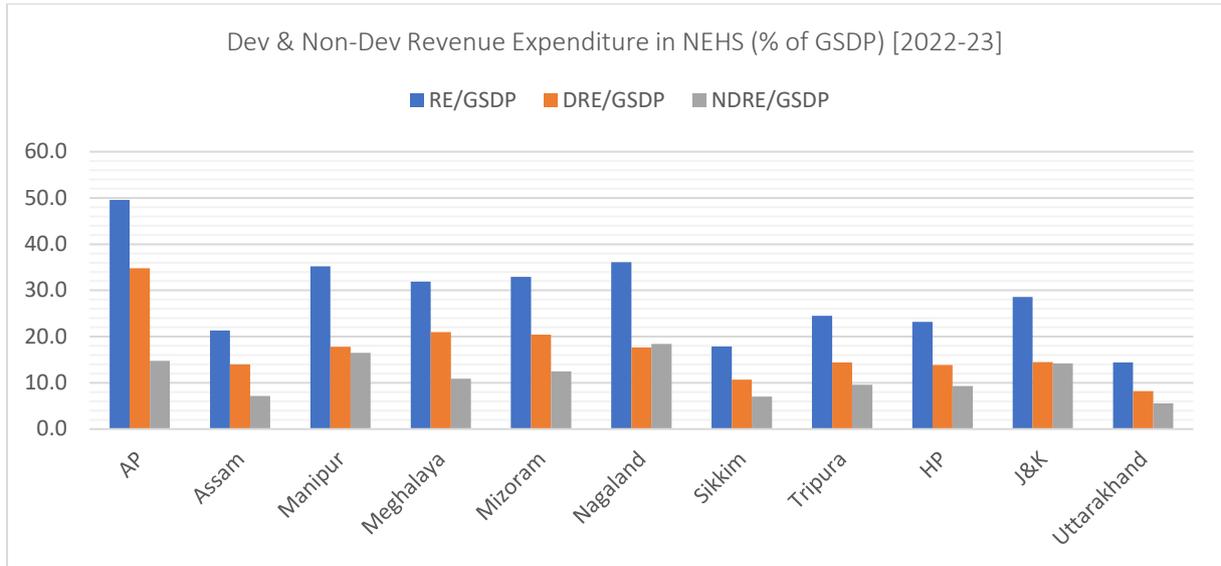
Variable	Lag 3	Lag 5	Lag 7	Conclusion
Revenue Deficit as % of GSDP	0.5432 (0.909)	1.9867 (0.851)	3.4832 (0.837)	No Autocorrelation in Residuals
Fiscal Deficit as % of GSDP	0.10674 (0.991)	3.7784 (0.582)	5.2625 (0.628)	No Autocorrelation in Residuals
Primary Deficit as % of GSDP	0.10112 (0.992)	2.9624 (0.706)	5.041 (0.655)	No Autocorrelation in Residuals

p-values are reported in parentheses

Annexure V (Source: Reserve Bank of India)

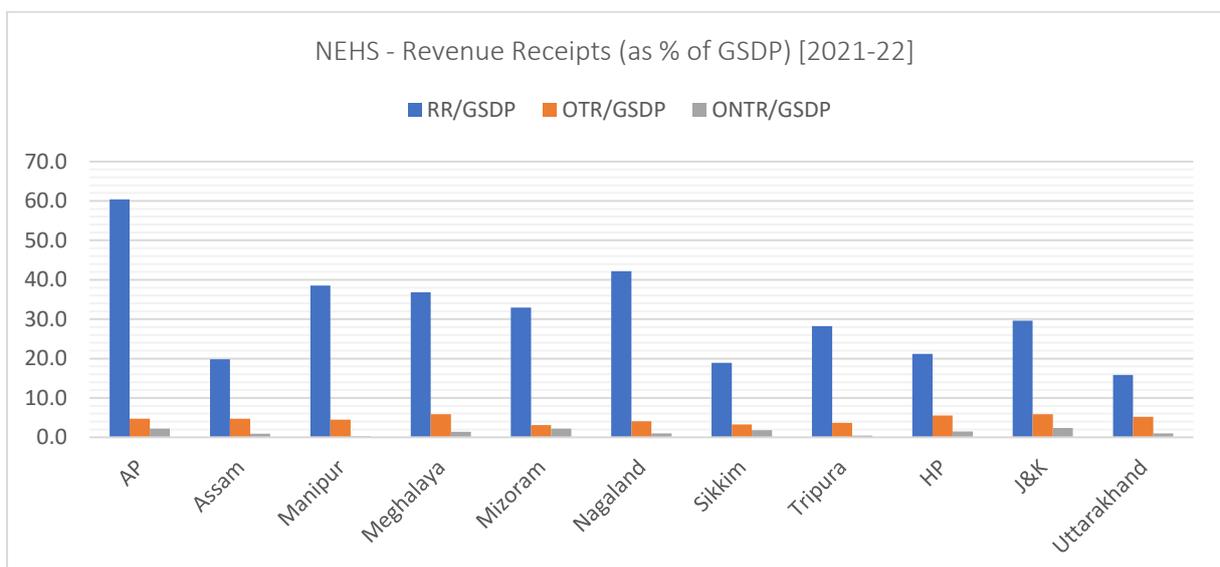
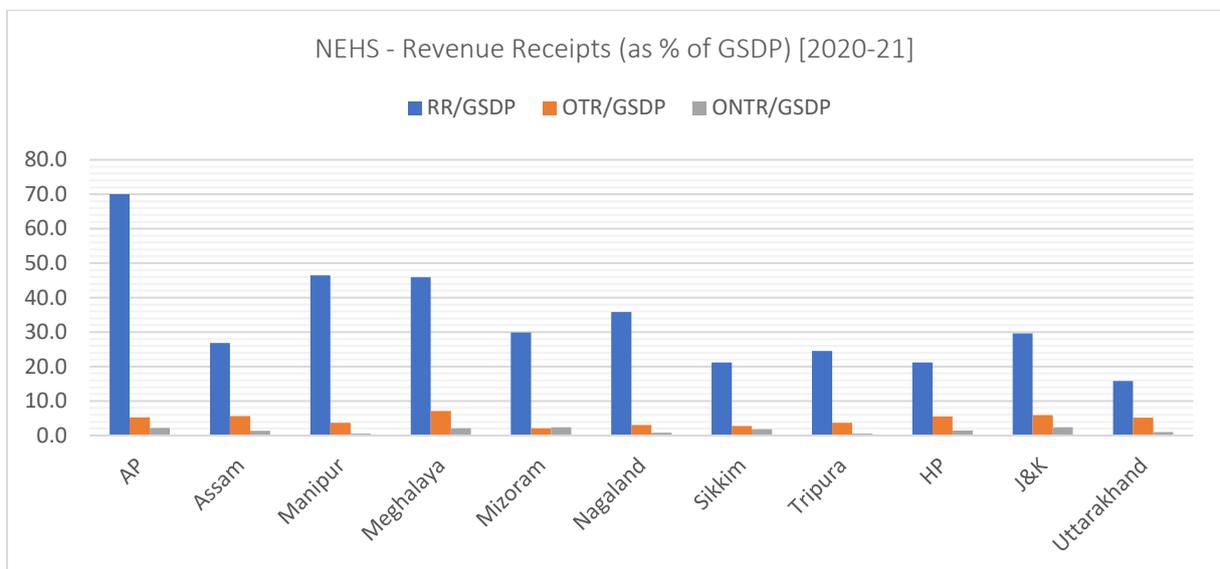
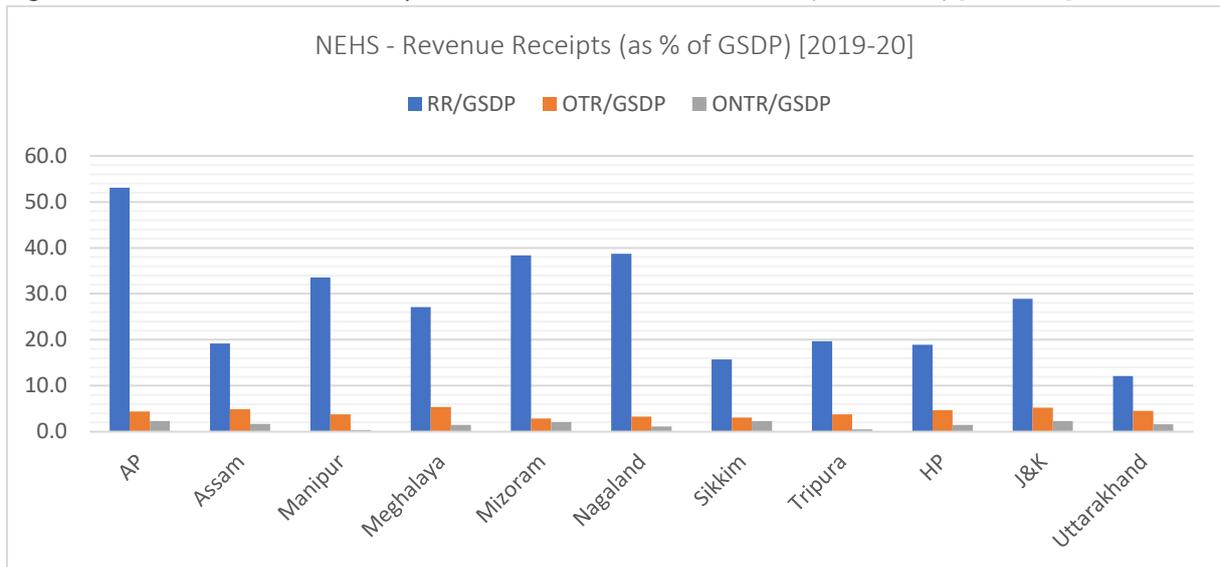
Figure A1: NEHS - Development/Non-Development Revenue Expenditure (% of GSDP) [2019-25]

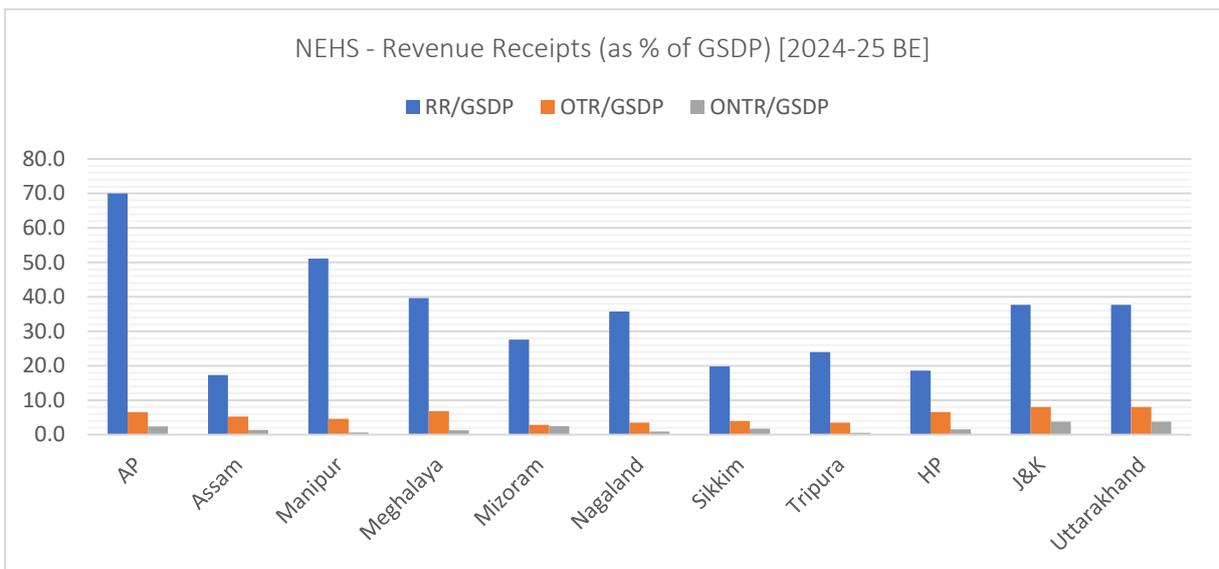
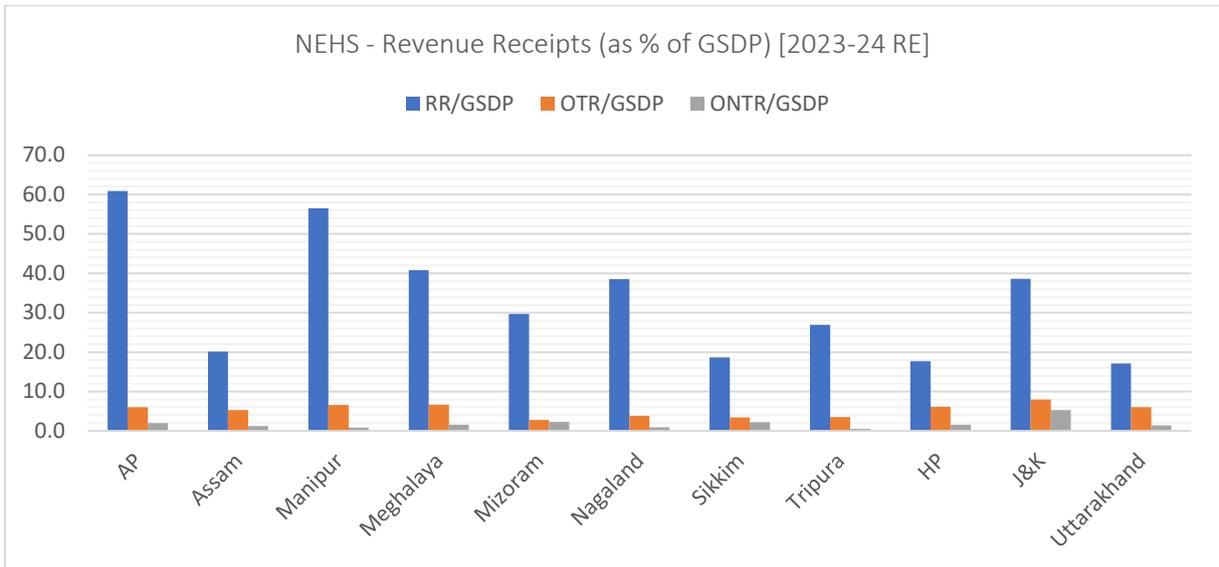
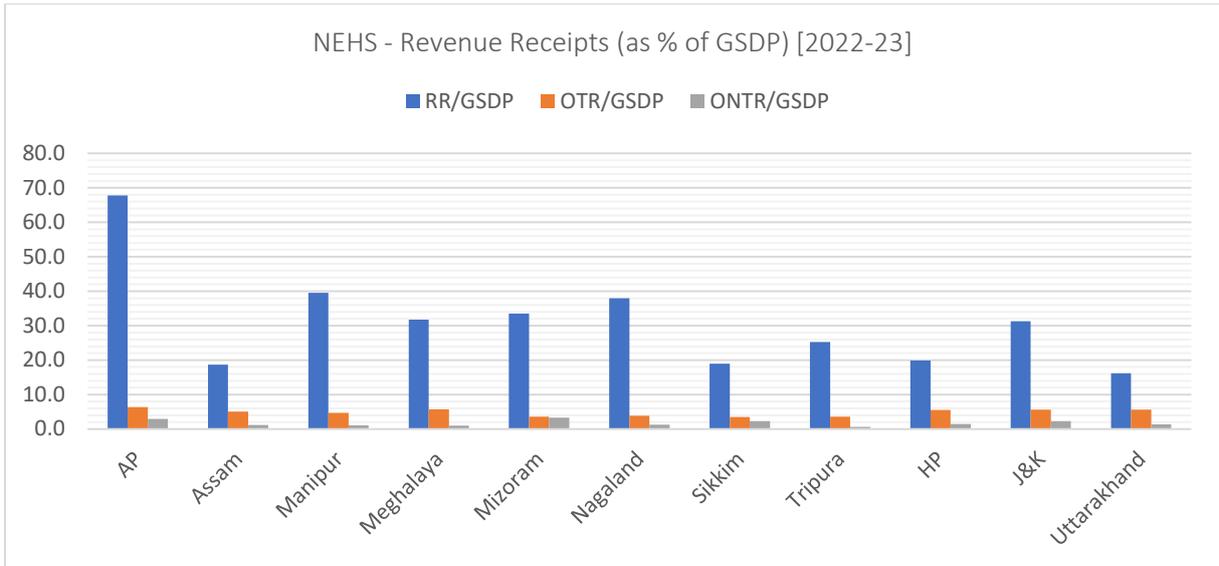




Annexure VI (Source: Reserve Bank of India)

Figure A2: NEHS – Revenue Receipts & Own Tax/Non-Tax Revenue (% of GSDP) [2019-25]





Annexure VII (Source: Reserve Bank of India)

Figure A3: NEHS – Development Expenditure (Select Indicators as % of GSDP) [2019-25]

