

## CHAPTER-I

### FINANCES OF THE STATE GOVERNMENT

#### In Summary

In 2004-05 Mizoram enjoyed a revenue surplus of Rs.106.35 crore for the second time during the five years period ending March 2005, and the fiscal deficit of the State also decreased substantially by Rs.139.97 crore during 2004-05 over that of 2000-2001.

Revenue of the State consists mainly of its own tax and non-tax revenue, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs.828.22 crore in 2000-01 to Rs.1501.86 crore in 2004-05 at an average trend rate of 13.58 *per cent*. During the current year the revenue receipts grew by 9.55 *per cent*. 7.67 *per cent* of the revenue came from the State's own resources. While central tax transfers had increased by 19.53 *per cent*, the grants-in-aid from Government of India increased by 7.15 *per cent* over the last year.

Total expenditure of the State increased from Rs.1215.90 crore in 2000-01 to Rs.1759.46 crore in 2004-05 at an average trend rate of 10.38 *per cent*. The rate of growth of expenditure in 2004-05 was 3.70 *per cent* which was lower than the average trend rate (10.38 *per cent*) for five years.

There was a decrease of 11.33 *per cent* in capital expenditure during 2004-05 over last year. The interest payment during 2004-05 was Rs.181.50 crore and the same grew by 8.93 *per cent* over the last year. The average growth rate of interest payments during the period 2000-2005 was 9.90 *per cent*. Debt burden (fiscal liabilities) of the State at the end of 2004-05 was Rs.2288.35 crore, up by 11.98 *per cent* over the previous year.

The State Government has not yet passed any Fiscal Responsibility Act but entered into a Memorandum of Understanding with Government of India in April 1999. Mention was made in para 1.10 of the Comptroller and Auditor of India for the year ended March 2004 regarding implementation of Fiscal Reforms measures in the State where in it was mentioned that no positive effect at the ground level had been noticed. However, during the current year, no information has been received, although the same was called for.

Though it is not uncommon for a State to borrow for widening its infrastructure and for creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP could lead the State into a debt trap. The State Government proposes to achieve fiscal sustainability in accordance with the Mizoram Fiscal Reforms Programme in the coming years.

## **1.1 Introduction**

The Finance Accounts of the Government of Mizoram are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in the Box 1.1

### **Box 1.1**

#### **Lay out of Finance Accounts**

*Statement No. 1 presents the summary of transactions of the State Government - receipts and expenditure, revenue and capital, public debt receipts and disbursements etc., in the Consolidated Fund, Contingency Fund and Public Account of the State.*

*Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.*

*Statement No. 3 the State Government had not declared any Irrigation Project as commercial/productive.*

*Statement No. 4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.*

*Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.*

*Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the statutory corporations, local bodies and other institutions.*

*Statement No. 7 gives the summary of cash balances and investments made out of such balances.*

*Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.*

*Statement No. 9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.*

*Statement No. 10 indicates the distribution between the charged and voted expenditure incurred during the year.*

*Statement No. 11 indicates the detailed account of revenue receipts by minor heads.*

*Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and centrally sponsored schemes separately and capital expenditure major head wise.*

*Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of the current year.*

*Statement No. 14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc., up to the end of March 2005.*

*Statement No. 15 depicts the capital and other expenditure (other than revenue account) to the end of the current year and the principal sources from which the funds were provided for that expenditure.*

*Statement No. 16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.*

*Statement No. 17 presents the detailed account of debt and other interest bearing obligations of the Government.*

*Statement No. 18 provides the detailed account of loans and advances given by the Government of Mizoram, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.*

*Statement No. 19 gives the details of balances of earmarked funds.*

## **1.2 Trend of Finances with reference to previous year**

Finances of the State Government during the current year compared to previous year were as under:

*(Rupees in crore)*

<b>2003-04</b>	<b>Sl. No.</b>	<b>Major Aggregates</b>	<b>2004-05</b>
1370.95	1	Revenue Receipts (2+3+4)	1501.86
33.85	2	Tax Revenue	39.55
58.01	3	Non-tax Revenue	75.60
1279.09	4	Other Receipts	1386.71
20.05	5	Non-Debt Capital Receipts	22.30
20.05	6	Of which recovery of loans	22.30
1391.00	7	Total Non Debt Receipts (1+5)	1524.16
929.44	8	Non-Plan Expenditure (9+11+12)	986.03
917.24	9	On Revenue Account	976.38
166.62	10	Of which interest payments	181.50
12.20	11	On Capital Account	9.65
---	12	On Loans disbursed	---
767.24	13	Plan expenditure (14+15+16)	773.43
370.53	14	On Revenue Account	419.13
359.48	15	On Capital Account	319.89
37.23	16	On Loan disbursed	34.41
1696.68	17	Total Expenditure (8+13)	1759.46
(-) 305.68	18	Fiscal Deficit (7-17)	(-) 235.30
83.18	19	Revenue Deficit/Surplus (9+14-1)	106.35
(-) 139.06	20	Primary Deficit (-)/Surplus (+) (18-10)	(-) 53.80

**1.3 Summary of Receipts and Disbursements for the Year**

Table 1 summarises the finances of the State Government of Mizoram for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements made during the year as emerging from **Statement-1** of Finance Account and other detailed statements.

**Table 1 : SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2004-05**

<i>(Rupees in crore)</i>							
2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
<b>Section-A: Revenue</b>							
					Non-Plan	Plan	Total
1370.95	<b>I Revenue Receipts</b>	1501.86	1287.77	<b>I Revenue Expenditure</b>	976.38	419.13	1395.51
33.85	Tax Revenue	39.55	462.54	General Services	501.72	12.93	514.65
58.01	Non-Tax Revenue	75.60	435.49	Social Services	266.01	210.49	476.50
130.33	Share of Union Taxes/Duties	155.79	389.74	Economic Services	208.65	195.71	404.36
1148.76	Grants from GOI	1230.92	---	Grants-in-aid/Contributions	---	---	---
<b>Section-B: Capital</b>							
---	<b>II Misc. Capital Receipts</b>	---	371.68	<b>II Capital Outlay</b>	9.65	319.89	329.54
20.05	<b>III Recoveries of Loans and Advances</b>	22.30	37.23	<b>III Loans and Advances disbursed</b>	---	---	34.41
300.96	<b>IV Public Debt Receipts</b>	176.56	214.57	<b>IV Repayments of Public Debt</b>	---	---	58.49
---	<b>V Contingency Fund</b>	---	---	<b>V Contingency Fund</b>	---	---	---
960.28	<b>VI Public Account Receipts <sup>1</sup></b>	1168.98	697.87	<b>VI Public Account Disbursements <sup>1</sup></b>	---	---	994.10
(-)88.76	Opening balance	(-)45.64	(-)45.64	Closing balance	---	---	12.01
<b>2563.48</b>	<b>TOTAL</b>	<b>2824.06</b>	<b>2563.48</b>	<b>TOTAL</b>	---	---	<b>2824.06</b>

**1.4 Audit Methodology**

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2004-05 wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) Resources by volumes and sources (ii) Application of resources (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the

<sup>1</sup> Excludes 'other accounts' figures

application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in the Box 1.2.

<b>Box 1.2</b>
<b>Reporting Parameters</b>
<p><i>Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The New GSDP series as base as published by the Bureau of Economics and Statistics Department of the State Government have been used.</i></p> <p><i>For tax revenues, non-tax revenues/revenue expenditure, etc., buoyancy, projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.</i></p> <p><i>For most series a trend growth during 2000-2005 has been indicated. The ratios with respect of GSDP have also been depicted. Some of the terms used here are explained in <b>Appendix-I</b>.</i></p>

The accounts of the State Government are kept in three parts (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account as defined in Box 1.3.

**Box 1.3 - State Government Funds and the Public Account**

<b>Consolidated Fund</b>	<b>Contingency Fund</b>	<b>Public Account</b>
<p>All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State established under Article 266(1) of the Constitution of India'.</p>	<p>Contingency Fund of State established under Article 267(2) of the Constitution is in nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending Authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p>	<p>Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursement are made from it.</p>

**1.5 State finances by key indicators**

**1.5.1 Resources by volumes and sources:** Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from dis-investments, recoveries of loans and advances, debt receipts from internal sources *viz.*, market loans, borrowings from financial institutions/commercial banks *etc.*, and loans and advances from Government of India as well as accruals from Public Account.

Table 2 shows that the total receipts of the State Government for the year 2004-05 were Rs.2869.70 crore. Of these, the revenue receipts of the State Government were Rs.1501.86 crore only, constituting 52.33 *per cent* of the total receipts. The balance of receipts came mainly from borrowings and public account receipts.

**Table 2: Resources of Mizoram**

*(Rupees in crore)*

<b>I.</b>	<b>Revenue Receipts</b>		<b>1501.86</b>
<b>II.</b>	<b>Capital Receipts</b>		<b>198.86</b>
	(a) Miscellaneous Receipts	---	
	(b) Recovery of loans and advances	22.30	
	(c) Public Debt receipts	176.56	
<b>III.</b>	<b>Contingency Fund Receipts</b>		---
<b>IV.</b>	<b>Public Account Receipts</b>		<b>1168.98</b>
	(a) Small savings, Provident Fund etc.	189.65	
	(b) Reserve Fund	16.92	
	(c) Deposits and Advances	303.82	
	(d) Suspense and Miscellaneous	6.10	
	(e) Remittances	652.49	
	<b>TOTAL RECEIPTS</b>		<b>2869.70</b>

**1.5.2 Revenue Receipts:** Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts of the State consist mainly of its own tax and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy is indicated in Table 3.

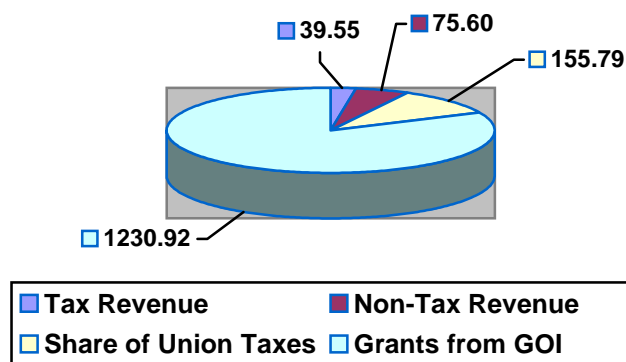
**Table 3: Revenue Receipts-Basic Parameters***(Values, Rupees in crore and others in per cent)*

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Receipts	828.22	867.79	1021.61	1370.95	1501.86	1118.09
Own Taxes	1.74	2.20	2.74	2.47	2.64	2.36
Non-Tax Revenue	4.87	5.17	5.15	4.23	5.03	4.89
Central Tax Transfers	10.56	5.04	9.26	9.51	10.37	8.95
Grants-in-aid	82.82	87.59	82.85	83.79	81.96	83.80
Rate of Growth	(-)3.79	4.78	17.73	34.20	9.55	13.58
Revenue Receipt/GSDP	46.83	45.10	52.66	65.55	65.34	48.90
Revenue Buoyancy	#	0.54	21.48	4.39	0.96	1.54
Revenue Buoyancy (Own Tax)	1.353	3.698	56.22	2.702	1.699	3.521
Growth rate (Own Tax)	34.48	32.50	46.23	21.07	16.84	31.04
GSDP Growth	25.50	8.79	0.83	7.80	9.91	8.81

# Rate of growth of Revenue Receipt was negative.

The revenue receipts of the State increased from Rs.828.22 crore in 2000-01 to Rs.1501.86 crore in 2004-05 at an average trend rate of 13.58 *per cent*. There were, however, significant inter-year variations in the growth rates. Revenue growth exceeded GSDP growth rates during 2002-04 and buoyancy of revenue receipts during this period was greater than one.

While 7.67 *per cent* of the revenue receipts during 2004-05 have come from State's own resources comprising tax and non-tax, central tax transfers and grants-in-aid together contributed 92.33 *per cent* of total revenue. Revenue receipts from State's own sources particularly the tax receipts, notwithstanding their moderate share were particularly buoyant. Sales tax was the major contributor (71 *per cent*) of State own tax revenue followed by taxes on vehicle (10 *per cent*) and State excise (4 *per cent*). Of non-tax revenue sources, receipts in power sector (54 *per cent*) was the principal contributor.

**REVENUE RECEIPTS FOR 2004-05**  
(Rupees in crore)

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 0.16 per cent for Education, Sports, Art and Culture, 0.63 per cent for Medical and Public Health and 10.18 per cent for Water Supply and Sanitation.

The source of total receipts under different heads and GSDP during 2000-2005 is indicated in Table 4.

**Table 4: Sources of Receipts: Trends**

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
2000-01	828.22	12.41	230.82	848.18	1919.63	1768.72
2001-02	867.79	15.10	198.26	915.83	1996.98	1924.17
2002-03	1021.61	16.70	265.38	955.23	2258.92	1940.05
2003-04	1370.95	20.05	300.96	960.28	2652.24	2091.32
2004-05	1501.86	22.30	176.56	1168.98	2869.70	2298.57

### 1.6 Application of resources

**1.6.1 Trend of growth:** Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs.1215.90 crore in 2000-01 to Rs.1759.46 crore in 2004-05 at an average trend rate of 10.38 per cent per annum. The rate of growth of total expenditure was higher than the rate of growth of revenue receipts during 2000-02.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table 5 below:

**Table 5: Total Expenditure-Basic Parameters**

(Values, Rupees in crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Total Expenditure	1215.90	1305.23	1353.65	1696.68	1759.46	1466.18
Rate of Growth	12.17	7.35	3.71	25.34	3.70	10.38
TE/GSDP Ratio	68.74	67.83	69.77	81.13	76.55	72.81
Revenue Receipts/ TE Ratio	68.12	66.49	75.47	80.80	85.36	75.25
<b>Buoyancy of Total Expenditure with</b>						
GSDP	0.477	0.836	4.495	3.250	0.373	1.89
Revenue Receipts	*	1.538	0.209	0.741	0.387	(-)0.07

\* Revenue Receipt had a negative growth.

(Total expenditure includes Revenue expenditure, Capital expenditure and Loans & Advances)

There was significant increase (Rs.62.78 crore) in total expenditure during 2004-05 compared to previous year. Though the annual rate of growth of total expenditure varied significantly during 2000-2005, on



an average it remained higher than the rate of growth of GSDP (8.81 *per cent*). The overall buoyancy of the total expenditure to GSDP was 1.89 *per cent*. It indicated that for every one *per cent* increase in the State's GSDP, expenditure increased by 1.89 *per cent*. With regard to revenue receipts, the buoyancy of total expenditure was less than one indicating relatively slower increase in total expenditure compared to revenue receipts during 2000-2005.

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services, interest payments, social and economic services, grants-in-aid and other contributions to institutions and loans and advances. Relative share of these components in total expenditure is indicated in Table 6.

**Table 6: Components of Expenditure-Relative Share**

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
General Services	19.71	19.55	20.77	18.43	19.56	19.60
Interest Payments	8.32	11.20	9.83	9.82	10.32	9.90
Social Services	35.75	36.34	35.51	32.99	31.51	34.42
Economic Services	33.71	29.96	31.33	36.57	36.66	33.64
Loans and Advances	2.52	2.95	2.56	2.19	1.96	2.44

(in per cent)

The movement of relative share of these components indicated that all components of expenditure had inter-year variation. The share of economic services in total expenditure increased from 33.71 *per cent* in 2000-01 to 36.66 *per cent* in 2004-05. Interest payments and expenditure on general services considered as non-developmental, together accounted for nearly 29.88 *per cent* of total expenditure in 2004-05 as compared to 28.03 *per cent* in 2000-01.

**1.6.2 Incidence of Revenue expenditure:** In total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services and not represent any addition in the State's service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table 7.

**Table 7: Revenue Expenditure- Basic Parameters**

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Expenditure (Rupees in crore)	1021.61	1128.22	1130.96	1287.77	1395.51	1192.81
Rate of Growth( <i>per cent</i> )	14.54	10.44	0.24	13.87	8.37	8.75
RE/GSDP	57.76	58.63	58.30	61.58	60.71	59.50
RE as percentage of TE	84.02	86.44	83.55	75.90	79.31	81.36
RE as percentage of RR	123.35	130.01	110.70	93.93	92.92	106.68
<b>Buoyancy of Revenue Expenditure with</b>						
GSDP	0.570	1.187	0.294	1.778	0.844	0.992
Revenue Receipts	#	2.184	0.014	0.405	0.876	0.644

# Revenue Receipt had a negative growth.

Overall revenue expenditure of the State increased at an average trend rate of 8.75 per cent. Rate of growth of revenue expenditure after reaching a level of 14.54 per cent in 2000-01, had declined to 8.37 per cent in 2004-05. On an average, 81.36 per cent of total expenditure of the State was on current consumption.

i) **High salary expenditure:** Salaries including grants-in-aid towards salaries accounted for 42.56 per cent of the revenue receipts and 45.80 per cent of the revenue expenditure of the State during 2004-05. Compared to 2000-01, the expenditure on salaries increased by 52.76 per cent as indicated in the Table 8.

**Table 8** (Rupees in crore)

Heads	2000-01	2001-02	2002-03	2003-04	2004-05
Salary expenditure	418.44	440.47	463.46	525.35	639.20
As a percentage of GSDP	23.66	22.89	23.90	25.12	27.81
As a percentage of Revenue Receipts	50.52	50.76	45.37	38.32	42.56
As a percentage of Revenue Expenditure	40.96	39.04	40.98	40.80	45.80

(Source: Information furnished by the Finance Department)

ii) **Huge expenditure on pension payments:** Pension payments have increased by 124.42 per cent from Rs.39.56 crore in 2000-01 to Rs.88.78 crore in 2004-05. Year-wise break-up of expenditure incurred on pension payments during the years 2000-01 to 2004-05 was as under:

**Table 9**

Year	Expenditure (Rupees in crore)	Percentage to total revenue expenditure
2000-01	39.56	3.87
2001-02	47.80	4.24
2002-03	47.12	4.17
2003-04	61.87	4.80
2004-05	88.78	6.36

(Source: Information furnished by the Finance Department)

iii) **Interest payments:** The interest payments are shown below:

**Table 10**

Year	Interest payments (Rupees in crore)	Percentage of interest with reference to	
		Revenue Receipts	Revenue Expenditure
2000-01	101.20	12.22	9.91
2001-02	146.18	16.85	12.96
2002-03	133.06	13.02	11.77
2003-04	166.62	12.15	12.94
2004-05	181.50	12.08	13.01

Interest payments increased steadily by 79.35 per cent from Rs.101.20 crore in 2000-01 to Rs.181.50 crore in 2004-05. The interest payment was on Internal Debt (Rs.94.33 crore), loans received from Central Government (Rs.42.37 crore) and Small Savings, PF, etc.,(Rs.44.80 crore).

*iv) Subsidies by the Government:* Though the finances of the State are under strain, the State Government has been paying subsidies. During the last five years, State Government paid the subsidies as under:

**Table 11** (Rupees in crore)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
Subsidies to aid	10.90	11.01	10.42	9.87	1.28
Percentage of increase(+)/decrease(-) over previous year	(+) 39	(+) 1	(-) 5	(-) 5	(-)87
Percentage of subsidy in total expenditure	0.92	0.87	0.79	0.59	0.07

(Total expenditure does not include Loans and Advances)

During the current year subsidies constituted 0.07 per cent of the total expenditure.

### 1.7 Expenditure by Allocative Priorities

The expenditure of the State in the nature of plan expenditure, capital expenditure and development expenditure reflects its quality. Higher the ratio of these components to total expenditure, better is the quality of expenditure. Table 12 gives these ratios during 2000-2005, as follows:

**Table 12: Quality of Expenditure (per cent to total expenditure)**

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Plan Expenditure	40.85	41.51	40.86	43.99	42.84	42.18
Capital Expenditure	13.81	10.93	14.25	22.40	19.10	16.65
Development Expenditure	71.25	68.32	68.60	71.12	69.53	69.80

(Total expenditure does not include Loans and Advances)

All the three components of quality of expenditure indicated inter-year variations. Compared to 2003-04, there was decline in capital expenditure, developmental expenditure and plan expenditure.

Out of the developmental expenditure of Rs.1199.45 crore, during the year, social services accounted for 46.23 per cent (Rs.554.47 crore). Expenditure on Social Sector viz., Education, Health and Family Welfare, Water supply, Sanitation, Housing and Urban Development constituted 79.92 per cent of the expenditure on Social Services.

**Table 13: Social Sector Expenditure**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Education, Sports, etc.	188.13	213.89	204.25	218.35	250.41
Health and Family Welfare	53.85	72.26	70.45	91.65	78.11
Water Supply, Sanitation, Housing & Urban Development	53.26	104.14	91.62	156.47	114.59
<b>TOTAL</b>	<b>295.24</b>	<b>390.29</b>	<b>366.32</b>	<b>466.47</b>	<b>443.11</b>
<b>As a percentage of expenditure on Social Sector</b>	67.93	82.28	76.21	83.33	79.92

Similarly, the expenditure on Economic Services (Rs.644.98 crore) accounted for 53.77 *per cent* of the development expenditure. Of which, Irrigation and flood control, Energy and Transport accounted for 51.68 *per cent*.

**Table 14: Economic Sector Expenditure**

	<i>(Rupees in crore)</i>				
	2000-01	2001-02	2002-03	2003-04	2004-05
Irrigation and flood control	2.90	7.13	7.15	15.43	15.27
Energy	101.25	99.81	112.31	194.93	164.39
Transport	41.91	77.44	74.93	153.71	153.67
<b>TOTAL</b>	<b>146.06</b>	<b>184.38</b>	<b>194.39</b>	<b>364.07</b>	<b>333.33</b>
<b>As a percentage of expenditure of Economic Sector</b>	35.64	64.45	45.84	58.68	51.68

**1.7.1 Financial Assistance to Local Bodies and other Institutions**

*i) Extent of assistance:* During 2004-05 financial assistance of Rs.116.61 crore was paid to various autonomous bodies and other institutions as compared to Rs.50.67 crore paid in 2000-01 as shown below:

	<i>(Rupees in crore)</i>				
	2000-01	2001-02	2002-03	2003-04	2004-05
Universities and Educational Institutions	Nil	Nil	35.75	37.94	37.39
District Council	44.02	50.03	52.76	51.11	61.29
MIZOFED/Consumer Co-op. Societies	0.09	0.09	0.15	0.23	0.96
Other Institutions	6.56	8.51	9.52	12.11	16.97
<b>TOTAL</b>	<b>50.67</b>	<b>58.63</b>	<b>98.18</b>	<b>101.39</b>	<b>116.61</b>
Percentage of increase(+)/decrease(-) over previous year	22.51	15.71	67.46	3.27	15.01
Assistance as a percentage of revenue expenditure	4.96	5.20	8.68	7.87	8.36

The total assistance at the end of 2004-05 had grown by 130.14 *per cent* over the level of 2000-01. The assistance to local bodies as a percentage of total revenue expenditure had increased from 4.96 in 2000-01 to 8.36 in 2004-05.

*ii) Delay in submission of accounts:* In order to identify the institutions which attract audit under Section 14/15 of the C&AG's (Duties, Power and Conditions of Service) Act 1971, Government is required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose for which assistance was sanctioned and the total expenditure of the institution. Information for the year 2004-05 was called for in May 2005 from 22 institutions, but the reply was awaited from eleven institutions as of October 2005.

Accounts of one Autonomous Body covered under Section 19(3) of the Act, upto 2004-05 were due for 3 years (2002-03 to 2004-05).

**1.7.2 Misappropriation, losses etc.:** Out of 28 cases of misappropriation and losses amounting to Rs.119.36 lakh, there were two cases amounting to Rs.70.45 lakh against which departmental/criminal action have not been started, eight cases amounting to Rs.36.65 lakh against which police action had not been finalised and 18 nos. of cases amounting to Rs.12.26 lakh awaiting order for recovery or write off. The year-wise details are given in **Appendix-I-A**.

### 1.8 Assets and liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings *etc.*, owned by Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. **Appendix-II** gives an abstract of such liabilities and the assets as on 31 March 2005 compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprises mainly the capital outlay, loans and advances given by the State Government and the cash balances. **Appendix-III** shows that while the liabilities grew by *10 per cent*, the assets increased by *13.77 per cent* mainly as a result of *14 per cent* increase in gross capital outlay in fixed assets. **Appendix-IV** and **V** depicts the Sources and Application of funds and Time series data on State Government Finances for the period 2000-2005.

**1.8.1 Investments and returns:** As on 31 March 2005, Government had invested Rs.11.68 crore<sup>2</sup> in Government Companies and Co-operative Societies. Government's return on this investment was 'nil' in the last five years. With an average interest rate of *8.63 per cent* being paid by Government on its borrowings, the average annual subsidy amounted to *8.63 per cent* and the implicit subsidy during the period 2000-2005 was Rs.5.02 crore.

**Table 16: Return on Investment**

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Investment (Rs. in crore)	11.59	11.59	11.68	11.68	11.68	11.64
Returns (Rs. in crore)	Nil	Nil	Nil	Nil	Nil	Nil
Percentage of returns	Nil	Nil	Nil	Nil	Nil	Nil
Average interest rate paid by Government	8.28	10.06	7.81	8.60	8.38	8.63
Difference between interest rates and return	8.28	10.06	7.81	8.60	8.38	8.63
Implicit subsidy (Rs. in crore)	0.96	1.17	0.91	1.00	0.98	1.00

<sup>2</sup> As per Finance Accounts for the year 2004-05.

**1.8.2 Loans and advances by State Government:** In addition to investments in Co-operatives and Companies, Government has also been providing support in terms of loans and advances to many of these parastatals. Total outstanding balance of loans and advances as on 31 March 2005 was Rs.283.02 crore. Interest received on such loans had varied from 0.43 *per cent* to 0.94 *per cent* during 2000-2005 (Table 17). Total implicit subsidy during 2000-2005, on such loans was Rs.91.23 crore.

**Table 17: Average Interest Received on Loans Advanced by the State Government**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening Balance	194.11	212.30	235.70	253.73	270.91
Amount Advanced during the year	30.60	38.50	34.72	37.23	34.41
Amount repaid during the year	12.41	15.10	16.70	20.05	22.30
Closing Balance	212.30	235.70	253.73	270.91	283.02
Net Addition	18.19	23.40	18.02	17.18	12.11
Interest Received	0.88	1.45	2.43	2.10	2.62
Interest received as <i>per cent</i> to Loans advanced	0.43	0.65	0.99	0.80	0.94
Average interest paid by the State ( <i>per cent</i> )	8.28	10.06	7.81	8.60	8.38
Difference between interest paid and received ( <i>per cent</i> )	7.85	9.41	6.82	7.80	7.44
Implicit Subsidy	15.24	19.98	16.07	19.79	20.15

**1.8.3 Management of cash balances:** It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Reserve Bank of India has been put in place. There was some deficiency in management of cash balances as WMA facilities were used for 92 days during 2004-05 as against 75 days in previous year. However, there was no overdraft in 2004-05, signifying distinct improvement in cash management.

**Table 18: Ways and means advance and overdrafts of the State and Interest paid thereon**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
<b>Ways and Means Advance</b>						
Taken in the year	123.77	326.15	402.29	241.49	295.14	259.76
Outstanding	28.00	141.24	97.84	12.13	12.13	58.26
Interest Paid	0.33	0.77	0.98	0.59	0.47	0.62
Number of days	31	117	178	75	92	98.60
<b>Overdraft</b>						
Taken in the year	129.74	140.74	118.23	---	---	77.74
Outstanding	95.87	21.45	15.08	15.08	15.08	32.51
Interest Paid	0.16	0.33	0.11	0.01	---	0.12
Number of days	34	78	32	---	---	28.80

### 1.8.4 Undischarged liabilities

**Fiscal liabilities - public debt and guarantees:** Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. However, no such law has been passed by the State, to lay down any such limit. Table 19 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

**Table 19: Fiscal Liabilities- Basic Parameters**

*(Values, Rupees in crore and ratios in per cent)*

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Fiscal liabilities	1330.19	1575.75	1832.44	2043.51	2288.35	1813.85
Rate of Growth	19.49	18.39	16.36	11.52	11.98	15.50
<b>Ratio of Fiscal liabilities to</b>						
GSDP	75.21	81.84	94.45	97.71	99.56	90.49
Revenue Receipt	160.61	181.47	179.37	149.06	152.37	163.48
Own Resources	2427.35	2460.93	2273.78	2224.59	1987.28	2261.58
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP	0.765	2.092	19.828	1.477	1.209	1.758
Revenue Receipt	#	3.848	0.923	0.337	1.255	1.141
Own Resources	3.732	1.096	0.631	0.824	0.473	0.864

# Revenue Receipt had a negative growth.

It would be observed that overall fiscal liabilities of the State increased from Rs.1330.19 crore in 2000-01 to Rs.2288.35 crore in 2004-05 at an average annual rate of 15.50 *per cent*. These liabilities as ratio to GSDP increased from 75.21 *per cent* in 2000-01 to 99.56 *per cent* in 2004-05 and stood at 1.52 times of its revenue receipts and 19.87 times of its own resources comprising its own tax and non-tax revenue.

In addition to these liabilities Government had guaranteed loans of its various corporations and others. At the end of the year 2004-05, against the guaranteed amount of Rs.229.39<sup>3</sup> crore, Rs.146.14 crore (Principal: Rs.136.70 crore and interest: Rs.9.44 crore) in respect of four statutory corporations, five co-operative societies and three other institutions was outstanding. No law under Article 293 has been passed so far by the State Legislature laying down the limit upto which the Government may give guarantee on the security of the Consolidated Fund of the State. On an average for one *per cent* increase in GSDP, revenue receipts, own resources, the direct fiscal liabilities of the State increased by 1.76, 1.14 and 0.86 *per cent* respectively during 2000-2005.

<sup>3</sup> As per Finance Accounts.

Fiscal liabilities are also considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. Though in the case of Mizoram, average interest rate on fiscal liabilities at 8.63 *per cent* was lower than the rate of growth of GSDP by 0.19 *per cent* as indicated in Table 20, the positive spread was largely because of buoyant GSDP during 2000-01. During 2001-2004, spread between GSDP growth and interest rate was negative.

**Table 20: Debt Sustainability – Interest Rate and GSDP Growth**

	<i>(in per cent)</i>					
	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Weighted Interest Rate	8.28	10.06	7.81	8.60	8.38	8.63
GSDP Growth	25.50	8.79	0.83	7.80	9.91	8.81
Interest spread	17.21	(-) 1.28	(-) 6.99	(-) 0.80	1.53	0.19

Another important indication of debt sustainability is the net availability of the borrowed funds after payment of the principal and interest. Table 21 gives the position of the receipt and repayment, internal debt and other fiscal liabilities over the last five years. The net funds available on account of internal debt, loans and advances from Government of India and other liabilities after providing for interest and repayments varied from 15.75 *per cent* to 4.58 *per cent*. Compared to 2000-01, the net funds available declined from 15.75 *per cent* to 4.58 *per cent* in 2004-05. This is due to increased interest payments and repayment of principal.

**Table 21: Net Availability of Borrowed Funds**

	<i>(Rupees in crore)</i>					
	2000-01	2001-02	2002-03	2003-04	2004-05	Average
<b>Internal Debt</b>						
Receipt	345	542	734	463	404	497
Repayment (Principal + Interest)	199	521	646	441	421	545
Net Fund Available	146	21	88	22	-17	52
Net Fund Available ( <i>per cent</i> )	42.32	3.87	11.99	4.75	-4.21	11.74
<b>Loans and Advances from Government of India</b>						
Receipt	42	85	52	80	68	65
Repayment (Principal + Interest)	97	50	74	144	70	87
Net Fund Available	-55	35	-22	-64	-2	-21
Net Fund Available ( <i>per cent</i> )	-130.95	41.18	-42.31	-80.00	*	*
<b>Other obligations</b>						
Receipt	229	316	374	459	401	355
Repayment (Principal + Interest)	223	206	291	284	342	269
<b>Total Liabilities</b>						
Receipt	616	943	1160	1002	873	917
Payments	519	777	1011	869	833	901
Net receipts	97	166	149	133	40	117
Net Fund Available ( <i>per cent</i> )	15.75	17.60	12.84	13.27	4.58	12.81

\* Not applicable



## 1.9 Management of deficits

**1.9.1 Fiscal imbalances:** The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed are important pointers to its fiscal health. The revenue deficit of the State, which continued during the period 2000-03 had improved in 2003-05. The fiscal deficit which represents the total borrowings of the Government and the total resource gap decreased from Rs.375.27 crore in 2000-01 to Rs.235.30 crore in 2004-05. State also had a primary deficit decreasing from Rs.274.07 crore in 2000-01 to Rs.53.80 crore in 2004-05. As a proportion of State's GSDP, the fiscal deficit had decreased to 10.24 per cent in 2004-05.

**Table 22: Fiscal Imbalances – Basic Parameters**

(Values, Rupees in crore and ratios in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Deficit (-)/ Surplus (+)	(-)193.39	(-)260.43	(-)109.35	(+)83.18	(+)106.35	(-)74.73
Fiscal Deficit (-)	(-) 375.27	(-) 422.34	(-) 315.34	(-) 305.68	(-)235.30	(-)330.79
Primary Deficit	(-) 274.07	(-) 276.16	(-) 182.28	(-) 139.06	(-)53.80	(-)185.07
RD/GSDP	(-) 10.93	(-) 13.53	(-) 5.64	(+) 3.98	(+)4.63	(-)3.73
FD/GSDP	(-) 21.22	(-) 21.95	(-) 16.25	(-) 14.62	(-)10.24	(-)16.85
PD/GSDP	(-) 15.50	(-) 14.35	(-) 9.40	(-) 6.65	(-)2.34	(-)9.65

(Negative figures indicate deficit)

### 1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 23 presents a summarised position of Government finances over 2000-2005, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their application and highlight areas of concern and capture its important facets.

**Table 23: Indicators of Fiscal Health**

(in per cent)

Fiscal indicators	2000-01	2001-02	2002-03	2003-04	2004-05	Average
<b>I. Resource Mobilisation</b>						
Revenue Receipt/GSDP	46.83	45.10	52.66	65.55	65.62	55.15
Revenue Buoyancy	*	0.544	21.48	4.39	0.96	1.54
Own tax/GSDP	0.82	0.99	1.44	1.62	1.72	1.74
<b>II. Expenditure Management</b>						
Total expenditure/GSDP	68.74	67.83	69.77	81.13	76.55	73.14
Revenue Receipt/Total expenditure	68.12	66.49	75.47	80.80	85.36	75.25
Revenue expenditure/Total expenditure	84.02	86.44	83.55	75.90	79.31	81.36
Capital expenditure/Total expenditure	13.81	10.93	14.25	22.40	18.73	16.65

Fiscal indicators	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Development expenditure/Total expenditure	71.25	68.32	68.60	71.12	69.53	69.80
Buoyancy of TE with RR	*	1.538	0.209	0.741	0.387	0.764
Buoyancy of RE with RR	*	2.184	0.014	0.405	0.876	0.644
<b>III. Management of Fiscal Imbalances</b>						
Revenue deficit (Rs. in crore)	(-)193.39	(-)260.43	(-)109.35	83.18	106.35	(-)74.73
Fiscal deficit (Rs. in crore)	(-)375	(-)422	(-)315	(-)306	(-)235.30	(-)330.79
Primary deficit (Rs. in crore)	(-)274	(-)276	(-)182	(-)139	(-)53.80	(-)185.07
Revenue deficit/Fiscal deficit	51.53	61.66	34.68	(-)27.21	(-)45.20	22.59
<b>IV. Management of Fiscal Liabilities</b>						
Fiscal liabilities/GSDP	75.21	81.84	94.45	97.71	99.56	90.49
Fiscal liabilities/RR	160.61	181.47	179.37	149.06	152.37	163.48
Buoyancy of FL with RR	*	3.85	0.92	0.34	1.26	1.141
Buoyancy of FL with OR	3.73	1.10	0.63	0.82	0.47	0.864
Interest spread	17.21	(-)1.28	(-)6.99	(-)0.80	1.53	0.19
Net Funds available	15.75	17.60	12.84	13.27	4.58	12.81
<b>V. Other Fiscal Health Indicators</b>						
Return on Investment	0.00	0.00	0.00	0.00	0.000	0.00
BCR (Rs. in crore)	(-)378.21	(-)358.96	(-)294.12	(-)379.76	(-)232.20	(-)328.74
Financial Assets/Liabilities	1.20	1.03	0.98	1.01	1.05	1.05

\* Revenue Receipt had a negative growth.

The ratios of revenue receipts and State's own taxes to GSDP indicate its adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of tax regime and the State's increasing access to resources. The ratio of own taxes to GSDP had shown continuous improvement in the five years period. The ratio of Revenue receipts to GSDP also was on a rising trend from 2000-01 to 2004-05 but the revenue buoyancy declined in 2004-05 compared to previous year.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to resource mobilisation. The total expenditure to GSDP is buoyant. Revenue expenditure is on the increasing trend over five-year period 2000-2005 and comprises 79 per cent of total expenditure in 2004-05 leaving very little for capital formation or asset creation. Though the State had enjoyed a revenue surplus for the second time in 2004-05 during the five year period 2000-2005, its fiscal deficit decreased substantially during 2004-05 compared to 2000-01 and averaged Rs.331 crore during 2000-2005. Ratio of fiscal liabilities to GSDP was on rise and interest spread, one of the critical parameters of debt substantiality, was declining. All these indicate increasing un-sustainability and vulnerability of State finances. There has also been a decline in net availability of funds from its borrowings due to a larger portion of these funds being used for debt servicing. The State's nil return on investment indicated that Capital investment did not yield any benefit. The ratio of State's total financial assets to liabilities has slightly improved during 2004-05 as compared to the previous year but when compared to 2001-2005 the position had

deteriorated indicating that a greater part of liabilities were without an asset backup. The balance from current revenue of the State also continued to be negative indicating continued dependence on borrowings for plan or developmental expenditure.

**1.11 Impact of Government policies**

**Appendix-VI** depicts the progress achieved by the State Government during 2004-05 as compared to 2003-04 in various sectors. It would be seen that no new institutions were opened in the Health and Family Welfare sector. Agriculture production and village connectivity with roads decreased as compared to 2003-04. Number of colleges and other technical institutions remained the same as it was in previous year. Infant mortality had increased in comparison to previous year (2003-04).