

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

In Summary

Mizoram enjoyed a revenue surplus of Rs.83.18 crore for the first time in 2003-04 during the five years period ending March 2004, but the fiscal deficit of the State increased substantially by Rs.91.84 crore during 2003-04 over that of 1999-2000.

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.860.84 crore in 1999-2000 to Rs.1370.95 crore in 2003-04 at an average trend rate of 10.28 *per cent*. During the current year the revenue receipts grew by 34 *per cent*. 7 *per cent* of the revenue came from State's own resources. While central tax transfers had increased by 38 *per cent*, the grants-in-aid from Government of India increased by 36 *per cent* over the last year.

Total expenditure of the State increased from Rs.1083.99 crore in 1999-2000 to Rs.1696.68 crore in 2003-04 at an average trend rate of 12.19 *per cent*. The rate of growth of expenditure in 2003-04 was 25.34 *per cent* which was higher than the average trend rate (12.19 *per cent*) for five years.

There was an increase of 98 *per cent* in capital expenditure during 2003-04 over last year. The interest payment during 2003-04 was Rs.166.62 crore and the same grew by 25 *per cent* over the last year. The average growth rate of interest payment during the period 1999-2004 was 19 *per cent*. Debt burden (fiscal liabilities) of the State at the end of 2003-04 was Rs.2043.51 crore, up by 11.52 *per cent* over the previous year.

State Government has not yet passed any Fiscal Responsibility Act but entered into Memorandum of Understanding with Government of India in April 1999.

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 finances into a debt trap. 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 I. I.

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 2004.

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 2004.

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)

2002-03	Sl. No.	Major Aggregates	2003-04
1021.61	1	Revenue Receipts (2+3+4)	1370.95
27.96	2	Tax Revenue	33.85
52.63	3	Non-tax Revenue	58.01
941.02	4	Other Receipts	1279.09
16.70	5	Non-Debt Capital Receipts	20.05
16.70	6	Of which recovery of loans	20.05
1038.31	7	Total Non Debt Receipts (1+5)	1391.00
780.07	8	Non-Plan Expenditure (9+11+12)	929.44
777.15	9	On Revenue Account	917.24
133.06	10	Of which interest payments	166.62
2.92	11	On Capital Account	12.20
---	12	On Loans disbursed	---
573.58	13	Plan expenditure (14+15+16)	767.24
353.81	14	On Revenue Account	370.53
185.05	15	On Capital Account	359.48
34.72	16	On Loan disbursed	37.23
1353.65	17	Total Expenditure (8+13)	1696.68
(-)315.34	18	Fiscal Deficit (17-7)	(-) 305.68
(-) 109.35	19	Revenue Deficit/Surplus (9+14-1)	83.18
(-) 182.26	20	Primary Deficit (-)/Surplus (+) (18-10)	(-) 139.06

1.3 Summary of Receipts and Disbursements for the Year

Table 1 summarises the finances of the State Government of Mizoram for the year 2003-04 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 2003-04

(Rupees in crore)

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
Section – A: Revenue							
					Non-Plan	Plan	Total
1021.61	I Revenue Receipts	1370.95	1130.96	I Revenue Expenditure	917.24	370.53	1287.77
27.96	Tax Revenue	33.85	405.63	General Services	449.65	12.89	462.54
52.63	Non-Tax Revenue	58.01	406.53	Social Services	236.97	198.52	435.49
94.60	Share of Union Taxes/Duties	130.33	318.80	Economic Services	230.62	159.12	389.74
846.42	Grants from GOI	1148.76	---	Grants-in-aid/Contributions	---	---	---
Section – B: Capital							
---	II Misc. Capital Receipts	---	187.97	II Capital Outlay	12.20	359.48	371.68
16.70	III Recoveries of Loans and Advances	20.05	34.72	III Loans and Advances disbursed	---	37.23	37.23
265.38	IV Public Debt Receipts	300.96	100.95	IV Repayments of Public Debt	---	---	214.57
---	V Contingency Fund	---	---	V Contingency Fund	---	---	---
955.23	VI Public Account Receipts	960.28	730.83	VI Public Account Disbursements	---	---	697.87
(-)162.25	Opening balance	(-)88.76	(-)88.76	Closing balance	---	---	(-)45.64
2096.67	TOTAL	2563.48	2096.67	TOTAL	---	---	2563.48

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 2003-04 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 mobilization efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the 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.

Box 1.2**Reporting Parameters**

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.

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.

*For most series a trend growth during 1999-2004 has been indicated. The ratios with respect of GSDP have also been depicted. Some of the terms used here are explained in **Appendix I**.*

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

Consolidated Fund	Contingency Fund	Public Account
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'.	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.	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.

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 2003-04 were Rs.2652.24 crore. Of these, the revenue receipts of the State Government were Rs.1370.95 crore only, constituting 52 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)

I.	Revenue Receipts		1370.95
II.	Capital Receipts		321.01
	(a) Miscellaneous Receipts	---	
	(b) Recovery of loans and advances	20.05	
	(c) Public Debt receipts	300.96	
III.	Contingency Fund Receipts		---
IV.	Public Account Receipts		960.28
	(a) Small savings, Provident Fund etc.	166.91	
	(b) Reserve Fund	8.35	
	(c) Deposits and Advances	293.54	
	(d) Suspense and Miscellaneous	(-) 111.85	
	(e) Remittances	603.33	
	TOTAL RECEIPTS		2652.24

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.

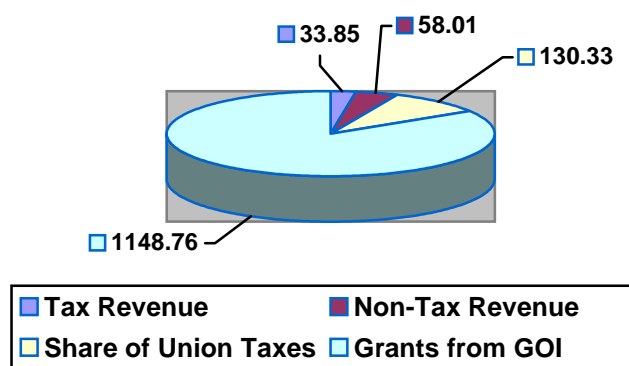
Table 3: Revenue Receipts-Basic Parameters(Values, Rupees in crore and others in *per cent*)

	1999-00	2000-01	2001-02	2002-03	2003-04	Average
Revenue Receipts	860.84	828.22	867.79	1021.61	1370.95	990
Own Taxes	1.25	1.74	2.20	2.74	2.47	2.08
Non-Tax Revenue	4.80	4.87	5.17	5.15	4.23	4.85
Central Tax Transfers	37.76	10.56	5.04	9.26	9.51	14.42
Grants-in-aid	56.19	82.82	87.59	82.85	83.79	78.65
Rate of Growth	11.35	(-)3.79	4.78	17.73	34.20	10.28
Revenue Receipt/GSDP	61.08	46.83	45.10	52.66	65.55	54.19
Revenue Buoyancy	0.87	(-)0.15	0.54	21.48	4.39	0.94
GSDP Growth	13.12	25.50	8.79	0.83	7.80	10.94

The revenue receipts of the State increased from Rs.860.84 crore in 1999-2000 to Rs.1370.95 crore in 2003-04 at an average trend rate of 10.28 *per cent*. There were, however, significant inter-year variations in the growth rates. During the five-year period 1999-2004, the State had a buoyant economy with its GSDP growth averaging 10.94 *per cent*. Revenue growth exceeded GSDP growth rates during 2002-04 and buoyancy of revenue receipts during this period was greater than one.

While 7 *per cent* of the revenue receipts during 2003-04 have come from State's own resources comprising tax and non-tax, central tax transfers and grants-in-aid together contributed 93 *per cent* of total revenue. Sales tax was the major contributor (69 *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 (45 *per cent*) was the principal contributor.

REVENUE RECEIPTS FOR 2003-04
(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

0.33 per cent for Education, Sports, Art and Culture, 0.45 per cent for Medical and Public Health and 10.46 per cent for Water Supply and Sanitation.

The source of total receipts under different heads and GSDP during 1999-2004 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		
1999-00	860.84	9.31	341.97	525.14	1737.26	1409.39
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

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.1083.99 crore in 1999-2000 to Rs.1696.68 crore in 2003-04 at an average trend rate of 12.19 per cent per annum. The rate of growth of total expenditure was higher than the rate of growth of revenue receipts during 1999-2002.

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)

	1999-00	2000-01	2001-02	2002-03	2003-04	Average
Total Expenditure	1083.99	1215.90	1305.23	1353.65	1696.68	1331.09
Rate of Growth	23.31	12.17	7.35	3.71	25.34	12.19
TE/GSDP Ratio	76.91	68.74	67.83	69.77	81.13	72.87
Revenue Receipts/ TE Ratio	79.41	68.12	66.49	75.47	80.80	74.06
Buoyancy of Total Expenditure with						
GSDP	1.776	0.477	0.836	4.495	3.250	1.114
Revenue Receipts	2.053	(-)3.211	1.538	0.209	0.741	1.186

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

There was significant increase (Rs.343.03 crore) in total expenditure during 2003-04 compared to previous year. Though the annual rate of growth of total expenditure varied significantly during 1999-2004, on an average it remained higher than the rate of GSDP (10.94 per cent). The overall

buoyancy of the total expenditure to GSDP at 1.114 *per cent* during the period was moderate. It indicates that for every one *per cent* increase in the State's GSDP, expenditure increased by 1.114 *per cent*. With regard to revenue receipts, the buoyancy of total expenditure was more than one indicating relatively slower increase in revenue receipts compared to total expenditure.

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

(in *per cent*)

	1999-00	2000-01	2001-02	2002-03	2003-04	Average
General Services	19.22	19.71	19.55	20.77	18.43	19.53
Interest Payments	8.65	8.32	11.20	9.83	9.82	9.56
Social Services	34.43	35.75	36.34	35.51	32.99	35.00
Economic Services	33.80	33.71	29.96	31.33	36.57	33.07
Loans and Advances	3.91	2.52	2.95	2.56	2.19	2.83

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 33.80 *per cent* in 1999-2000 to 36.57 *per cent* in 2003-04. Interest payments and expenditure on general services considered as non-developmental, together accounted for nearly 28.25 *per cent* of total expenditure in 2003-04 as compared to 27.87 *per cent* in 1999-2000.

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

	1999-00	2000-01	2001-02	2002-03	2004-04	Average
Revenue Expenditure (Rupees in crore)	891.92	1021.61	1128.22	1130.96	1287.77	1092.10
Rate of Growth(<i>per cent</i>)	28.32	14.54	10.44	0.24	13.87	11.77
RE/GSDP	63.28	57.76	58.63	58.30	61.58	59.78
RE as percentage of TE	82.28	84.02	86.44	83.55	75.90	82.05
RE as percentage of RR	103.61	123.35	130.01	110.70	93.93	110.33
Buoyancy of Revenue Expenditure with (<i>per cent</i>)						
GSDP	2.159	0.570	1.187	0.294	1.778	1.076
Revenue Receipts	2.495	(-)3.837	2.184	0.014	0.405	1.145

Overall revenue expenditure of the State increased at an average trend rate of 11.77 *per cent*. Rate of growth of revenue expenditure after reaching a level

of 28.32 per cent in 1999-2000, had declined to 0.24 per cent in 2002-03, but increased to 13.87 per cent in 2003-04. On an average, 82 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 38.32 per cent of the revenue receipts and 40.80 per cent of the revenue expenditure of the State during 2003-04. Compared to 1999-2000, the expenditure on salaries increased by 33 per cent as indicated in the Table 8.

Table 8 (Rupees in crore)

Heads	1999-00	2000-01	2001-02	2002-03	2003-04
Salary expenditure	395.35	418.44	440.47	463.46	525.35
As a percentage of GSDP	28.05	23.66	22.89	23.90	25.12
As a percentage of Revenue Receipts	45.93	50.52	50.76	45.37	38.32
As a percentage of Revenue Expdr.	44.33	40.96	39.04	40.98	40.80

ii) Huge expenditure on pension payments: Pension payments have increased by 149.78 per cent from Rs.24.77 crore in 1999-2000 to Rs.61.87 crore in 2003-04. Year-wise break-up of expenditure incurred on pension payments during the years 1999-2000 to 2003-04 was as under:

Table 9

Year	Expenditure (Rupees in crore)	Percentage to total revenue expenditure
1999-00	24.77	2.78
2000-01	39.56	3.87
2001-02	47.80	4.24
2002-03	47.12	4.17
2003-04	61.87	4.80

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
1999-00	93.72	10.89	10.51
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

Interest payments increased steadily by 77.78 per cent from Rs.93.72 crore in 1999-2000 to Rs.166.62 crore in 2003-04. The interest payment was on Internal Debt (Rs.86.86 crore), loans received from Central Government (Rs.42.40 crore) and Small Savings, PF, etc.,(Rs.37.36 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	1999-00	2000-01	2001-02	2002-03	2003-04
Subsidies to aid	7.82	10.90	11.01	10.42	9.87
Percentage of increase(+)/decrease(-) over previous year	---	(+) 39	(+) 1	(-) 5	(-) 5
Percentage of subsidy in total expenditure	0.75	0.92	0.87	0.79	0.59

(Total expenditure does not include Loans and Advances)

During the current year subsidies constituted 0.59 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 1999-2004, as follows:

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

	1999-00	2000-01	2001-02	2002-03	2003-04	Average
Plan Expenditure	45.08	40.85	41.51	40.86	43.99	42.47
Capital Expenditure	14.37	13.81	10.93	14.25	22.40	15.63
Development Expenditure	71.00	71.25	68.32	68.60	71.12	70.06

(Total expenditure does not include Loans and Advances)

All the three components of quality of expenditure indicated inter-year variations. Compared to 1999-2000, while there was significant improvement in capital expenditure during 2003-04, developmental expenditure increased marginally. But there was decline in plan expenditure compared to 1999-2000.

Out of the developmental expenditure of Rs.1180.19 crore, during the year, social services accounted for 47.43 per cent (Rs.559.77 crore). Expenditure on Education, Health and Family Welfare, Water supply, Sanitation, Housing and Urban Development constituted 83.33 per cent of the expenditure on Social sector.

Table 13: Social Sector Expenditure

(Rupees in crore)

	1999-00	2000-01	2001-02	2002-03	2003-04
Education, Sports, etc.	160.19	188.13	213.89	204.25	218.35
Health and Family Welfare	53.64	53.85	72.26	70.45	91.65
Water Supply, Sanitation, Housing & Urban Development	47.76	53.26	104.14	91.62	156.47
TOTAL	261.59	295.24	390.29	366.32	466.47
As a percentage of expenditure on Social Sector	70.09	67.93	82.28	76.21	83.33

Similarly, the expenditure on Economic Services (Rs.620.42 crore) accounted for 52.57 per cent of the development expenditure. Of which, Irrigation and flood control, Energy and Transport accounted for 58.68 per cent.

Table 14: Economic Sector Expenditure

(Rupees in crore)

	1999-00	2000-01	2001-02	2002-03	2003-04
Irrigation and flood control	3.88	2.90	7.13	7.15	15.43
Energy	44.53	101.25	99.81	112.31	194.93
Transport	35.02	41.91	77.44	74.93	153.71
TOTAL	83.43	146.06	184.38	194.39	364.07
As a percentage of expenditure of Economic Sector	22.77	35.64	64.45	45.84	58.68

1.7.1 Financial Assistance to Local Bodies and other Institutions

i) **Extent of assistance:** During 2003-04 financial assistance of Rs.101.39 crore was paid to various autonomous bodies and other institutions as compared to Rs.41.36 crore paid in 1999-2000 as shown below:

Table 15

(Rupees in crore)

	1999-00	2000-01	2001-02	2002-03	2003-04
Universities and Educational Institutions	Nil	Nil	Nil	35.75	37.94
District Council	40.98	44.02	50.03	52.76	51.11
MIZOFED/Consumer Co-op. Societies	0.38	0.09	0.09	0.15	0.23
Other Institutions	Nil	6.56	8.51	9.52	12.11
TOTAL	41.36	50.67	58.63	98.18	101.39
Percentage of increase(+)/decrease(-) over previous year	24.28	22.51	15.71	67.46	3.27
Assistance as a percentage of revenue expenditure	4.64	4.96	5.20	8.68	7.87

The total assistance at the end of 2003-04 had grown by 145.14 per cent over the level of 1999-2000. The assistance to local bodies as a percentage of total revenue expenditure had increased from 4.64 in 1999-2000 to 7.87 in 2003-04.

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 2003-04 was called for in April 2004 from 20 institutions, but the reply was awaited from seven institutions as of October 2004.

Accounts of one Autonomous Body covered under Section 19(3) of the Act, upto 2003-04 were due for 3 years (2001-02 to 2003-04).

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 2004 compared with the corresponding position on 31 March 2003. 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 comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. **Appendix-II** shows that while the liabilities grew by 12 per cent, the assets increased by 16 per cent mainly as a result of 19 per cent increase in gross capital outlay in fixed assets. **Appendix-V** depicts the Time series data on State Government Finances for the period 1999-2004.

1.8.2 Investments and returns: As on 31 March 2004, Government had invested Rs.11.68 crore^Ψ 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 8.85 per cent being paid by Government on its borrowings, the average annual subsidy amounted to 8.85 per cent and the implicit subsidy during the period 1999-2004 was Rs.5.08 crore.

Table 16: Return on Investment

	1999-00	2000-01	2001-02	2002-03	2003-04	Average
Investment (Rs. in crore)	10.98	11.59	11.59	11.68	11.68	11.50
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	9.50	8.28	10.06	7.81	8.60	8.85
Difference between interest rates and return	9.50	8.28	10.06	7.81	8.60	8.85
Implicit subsidy (Rs. in crore)	1.04	0.96	1.17	0.91	1.00	1.02

1.8.3 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

^Ψ As per Finance Accounts for the year 2003-04.

balance of loans and advances as on 31 March 2004 was Rs.270.91 crore. Interest received on such loans had varied from 0.39 *per cent* to 0.80 *per cent* during 1999-2004 (Table 17). Total implicit subsidy during 1999-2004, on such loans was Rs.85.76 crore.

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

(Rupees in crore)

	1999-00	2000-01	2001-02	2002-03	2003-04
Opening Balance	161.09	194.11	212.30	235.70	253.73
Amount Advanced during the year	42.34	30.60	38.50	34.72	37.23
Amount repaid during the year	9.31	12.41	15.10	16.70	20.05
Closing Balance	194.11	212.30	235.70	253.73	270.91
Net Addition	33.03	18.19	23.40	18.02	17.18
Interest Received	0.70	0.88	1.45	2.43	2.10
Interest received as <i>per cent</i> to Loans advanced	0.39	0.43	0.65	0.99	0.80
Average interest paid by the State (<i>per cent</i>)	9.50	8.28	10.06	7.81	8.60
Difference between interest paid and received (<i>per cent</i>)	9.11	7.85	9.41	6.82	7.80
Implicit Subsidy	14.68	15.24	19.98	16.07	19.79

1.8.4 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. State has shown improvement in management of cash balances as WMA facilities were used for 75 days during 2003-04 as against 178 days in previous year. As regards overdraft, there was no overdraft in 2003-04, signifying distinct improvement in cash management.

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

(Rupees in crore)

	1999-00	2000-01	2001-02	2002-03	2003-04	Average
Ways and Means Advance						
Taken in the year	263.95	123.77	326.15	402.29	241.49	271.53
Outstanding	16.89	28.00	141.24	97.84	12.13	59.22
Interest Paid	3.85	0.33	0.77	0.98	0.59	1.30
Number of days	165	31	117	178	75	113.20
Overdraft						
Taken in the year	258.00	129.74	140.74	118.23	---	161.68
Outstanding	9.25	95.87	21.45	15.08	15.08	31.35
Interest Paid	0.36	0.16	0.33	10.67	1.17	2.54
Number of days	57	34	78	32	---	50.25

1.8.5 Undischarged liabilities

i) 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*)

	1999-00	2000-01	2001-02	2002-03	2003-04	Average
Fiscal liabilities*	1113	1330	1575	1832	2044	1579
Rate of Growth	29.44	19.49	18.39	16.36	11.52	18.67
Ratio of Fiscal liabilities to						
GSDP	78.98	75.21	81.84	94.45	97.71	86.43
Revenue Receipt	129.32	160.61	181.47	179.37	149.06	157.46
Own Resources	2137.48	2427.35	2460.93	2273.78	2224.59	2298.34
Buoyancy of Fiscal Liabilities to						
GSDP	2.244	0.765	2.092	19.828	1.477	1.707
Revenue Receipt	2.594	(-)5.144	3.848	0.923	0.337	1.816
Own Resources	1.994	3.732	1.096	0.631	0.824	1.041

* Includes internal debt, loans and advances from GOI and small savings, provident funds etc.

It would be observed that overall fiscal liabilities of the State increased from Rs.1113 crore in 1999-2000 to Rs.2044 crore in 2003-04 at an average annual rate of 18.67 *per cent*. These liabilities as ratio to GSDP increased from 78.98 *per cent* in 1999-2000 to 97.71 *per cent* in 2003-04 and stood at 1.99 times of its revenue receipts and 29.68 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 2003-04, against the guaranteed amount of Rs.168.69** crore, Rs.126.78 crore (Principal: Rs.113.28 crore and interest: Rs.13.50 crore) in respect of three statutory corporations, four 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 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 1.71, 1.82 and 1.04 *per cent* respectively during 1999-2004.

Fiscal liabilities are 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 8.85 *per cent* was lower than the rate of growth of GSDP by 2.09 *per cent* as indicated in Table 20, the spread had considerably declined from 17.21 *per cent* in 2000-01 to a negative 0.8 *per cent* in 2003-04.

** As per Finance Accounts.

Table 20: Debt Sustainability – Interest Rate and GSDP Growth

(in per cent)

	1999-00	2000-01	2001-02	2002-03	2003-04	Average
Weighted Interest Rate	9.50	8.28	10.06	7.81	8.60	8.85
GSDP Growth	13.12	25.50	8.79	0.83	7.80	10.94
Interest spread	3.62	17.21	(-) 1.28	(-) 6.99	(-) 0.80	2.09

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 22.96 per cent to 13.27 per cent. Compared to 1999-2000, the net funds available declined from 22.96 per cent to 13.27 per cent in 2003-04. This is due to increased interest payments and repayment of principal.

Table 21: Net Availability of Borrowed Funds (Rupees in crore)

	1999-00	2000-01	2001-02	2002-03	2003-04	Average
Internal Debt						
Receipt	614	345	542	734	463	539
Repayment (Principal + Interest)	622	199	521	646	441	486
Net Fund Available	-8	146	21	88	22	53
Net Fund Available (per cent)	-1.30	42.32	3.87	11.99	4.75	12.33
Loans and Advances from GOI						
Receipt	250	42	85	52	80	102
Repayment (Principal + Interest)	84	97	50	74	144	90
Net Fund Available	166	-55	35	-22	-64	12
Net Fund Available (per cent)	66.40	-130.95	41.18	-42.31	-80.00	-29.14
Other obligations						
Receipt	225	229	316	374	459	321
Repayment (Principal + Interest)	133	223	206	291	284	227
Total Liabilities						
Receipt	1089	616	943	1160	1002	962
Payments	839	519	777	1011	869	803
Net receipts	250	97	166	149	133	159
Net Fund Available (per cent)	22.96	15.75	17.60	12.84	13.27	16.48

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 1999-2003 had improved in 2003-04. The fiscal deficit which represents the total borrowings of the Government and the total resource gap increased from Rs.213.84 crore in 1999-2000 to Rs.305.68 crore in 2003-04. State also had a primary deficit increasing from Rs.120.12 crore

in 1999-2000 to Rs.139.06 crore in 2003-04. As a proportion of State's GSDP, the fiscal deficit had increased to 14.62 *per cent* in 2003-04.

Table 22: Fiscal Imbalances – Basic Parameters

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

	1999-00	2000-01	2001-02	2002-03	2003-04	Average
Revenue Deficit (-)/ Surplus (+)	(-) 31.08	(-)193.39	(-)260.43	(-)109.35	(+)83.18	(-)102.21
Fiscal Deficit	(-) 213.84	(-) 375.27	(-) 422.34	(-) 315.34	(-) 305.68	(-) 326.49
Primary Deficit	(-) 120.12	(-) 274.07	(-) 276.16	(-) 182.28	(-) 139.06	(-) 198.34
RD/GSDP	(-) 2.21	(-) 10.93	(-) 13.53	(-) 5.64	(+) 3.98	(-) 5.60
FD/GSDP	(-) 15.17	(-) 21.22	(-) 21.95	(-) 16.25	(-) 14.62	(-) 17.87
PD/GSDP	(-) 8.52	(-) 15.50	(-) 14.35	(-) 9.40	(-) 6.65	(-) 10.86
RD/FD	14.53	51.53	61.66	34.68	(-) 27.21	31.31

(Negative figures indicate deficit)

1.10 Fiscal Reforms programme

Mention was made in Para 1.9 of the Report of the Comptroller and Auditor General of India for the year ended March 2002 regarding implementation of Fiscal Reforms measures in the State during the years 1999-2000 to 2001-02 wherein it was mentioned that the reform measures introduced by the State Government had no positive effect at the ground level as the Government resorted to Ways and Means Advances/Overdrafts to meet the deficit on revenue account.

A further analysis of implementation of the MOU during the years 2002-03 and 2003-04 revealed the following shortcomings:

(i) ***Lack of appropriate action for abolishing 10 per cent of the total vacant posts***

The MOU stipulated a measure for reduction of total wage bill of the State Government by 1.5 *per cent* in real terms during 1999-2000 and to abolish at least 10 *per cent* of the total vacant posts and to re-deploy staff wherever possible. However, no decision was taken by the State Government till October 2002. In August 2004, the Government stated that 157 employees were permitted to retire under Voluntary Retirement Scheme (VRS) and 100 posts were abolished during the year 2003-04. But this would have no impact on the financial burden of the State as the benefit accrued to these employees from VRS was substantial in order to make it attractive to the employees. Thus, the reforms measures adopted by the State Government by way of abolition of posts held by the incumbents instead of abolishing the vacant posts was unfruitful.

(ii) ***Revenue raising measures***

It was mentioned in Para 1.9.6 of the Report mentioned *ibid* that there was declining trend in the actual collection of land revenue account 'Road

Transport' during the years 2000-01 and 2002-03. The position showing the actual realisation of revenue during the years 2002-03 and 2003-04 is tabulated below:

Table 23

Year	Head of Account	Nature of receipts	Actual receipts	Increase (+)/ Decrease (-) over the previous years receipt
			(Rupees in lakh)	
A. 2002-03	0029-Land Revenue	Land Revenue, House Tax, Rates and Cesses on land	0.97	(-) 0.27
2003-04	-do-	-do-	0.72	(-) 0.25
B. 2002-03	1055-Road Transport	Other Receipts	2.03	(+) 0.32
2003-04	-do-	-do-	1.49	(-) 0.54

It would be seen from the above that the actual collection of land revenue during 2002-03 and 2003-04 continued to be in the declining trend. Similarly, collection under the head of account 'Road Transport' declined sharply during the year 2003-04 over the year 2002-03. Thus, the reform measures introduced by the State Government failed to achieve the desired objectives.

1.11 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 24 presents a summarised position of Government finances over 1999-2004, 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 24: Indicators of Fiscal Health (in per cent)

Fiscal indicators	1999-00	2000-01	2001-02	2002-03	2003-04	Average
I. Resource Mobilisation						
Revenue Receipt/GSDP	61.08	46.83	45.10	52.66	65.55	54.19
Revenue Buoyancy	0.865	(-)0.149	0.544	21.48	4.39	0.94
Own tax/GSDP	0.76	0.82	0.99	1.44	1.62	1.13
II. Expenditure Management						
Total expenditure/GSDP	76.91	68.74	67.83	69.77	81.13	72.87
Revenue Receipt/Total expenditure	79.41	68.12	66.49	75.47	80.80	74.06
Revenue expenditure/Total expenditure	82.28	84.02	86.44	83.55	75.90	82.05
Capital expenditure/Total expenditure	14.37	13.81	10.93	14.25	22.40	15.63

Fiscal indicators	1999-00	2000-01	2001-02	2002-03	2003-04	Average
Development expenditure/Total expenditure	71.00	71.25	68.32	68.60	71.12	70.06
Buoyancy of TE with RR	2.053	(-)3.211	1.538	0.209	0.741	1.186
Buoyancy of RE with RR	2.495	(-)3.837	2.184	0.014	0.405	1.145
III. Management of Fiscal Imbalances						
Revenue deficit (Rs. in crore)	(-)31.08	(-)193.39	(-)260.43	(-)109.35	83.18	(-)102.21
Fiscal deficit (Rs. in crore)	(-)214	(-)375	(-)422	(-)315	(-)306	(-)326
Primary deficit (Rs. in crore)	(-)120	(-)274	(-)276	(-)182	(-)139	(-)198
Revenue deficit/Fiscal deficit	14.53	51.53	61.66	34.68	(-)27.21	31.31
IV. Management of Fiscal Liabilities						
Fiscal liabilities/GSDP	78.98	75.21	81.84	94.45	97.71	86.43
Fiscal liabilities/RR	129.32	160.61	181.47	179.37	149.06	157.46
Buoyancy of FL with RR	2.59	(-)5.14	3.85	0.92	0.34	1.82
Buoyancy of FL with OR	1.99	3.73	1.10	0.63	0.82	1.041
Interest spread	3.62	17.21	(-)1.28	(-)6.99	(-)0.80	2.09
Net Funds available	22.96	15.75	17.60	12.84	0.34	16.52
V. Other Fiscal Health Indicators						
Return on Investment	0.00	0.00	0.00	0.00	0.00	
BCR (Rs. in crore)	(-)191.77	(-)378.21	(-)358.96	(-)294.12	(-)379.76	(-)320.56
Financial Assets/Liabilities	1.40	1.20	1.03	0.98	1.01	0.92

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 year period. The ratio of Revenue receipts to GSDP also was on a rising trend from 1999-2000 to 2003-04 but the revenue buoyancy steeply declined in 2003-04 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 1999-2004 and comprises 76 per cent of total expenditure in 2003-04 leaving very little for capital formation or asset creation. Increasing revenue and fiscal deficit indicate growing imbalance in the financial position of the State. Though the State had enjoyed a revenue surplus for the first time in 2003-04 during the five year period 1999-2004, its fiscal deficit increased substantially during 2003-04 compared to 1999-2000 and averaged Rs.326 crore during 1999-2004. 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 2003-04 compared to previous year but compared to

1999-2000 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.

1.12 Impact of Government policies

Appendix-VI depicts the progress achieved by the State Government during 2003-04 as compared to 2002-03 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 remained same as it was in 2002-03. Number of colleges decreased and other technical institutions remained the same as it was in previous year. Infant mortality had increased in comparison to previous year (2002-03).