

# Finances of the State Government

## Profile of Mizoram

**M**izoram is a mountainous region and is situated in the north-east of India. It has a pleasant climate and is also very rich in flora and fauna. It became the 23<sup>rd</sup> State of the Indian Union on 20 February 1987. It has an area of 21,081 sq. km., being bound on the north by the State of Assam and Manipur, on the west by Bangladesh and State of Tripura, on the east and south by Myanmar (Burma) and has an international boundary with Myanmar and Bangladesh. The State has eight districts with 26 Blocks and 23 sub-divisions and three Autonomous District Councils. According to the 2011 Census, Mizoram has a population of 10,91,014 of which 5,52,339 are males and 5,38,675 females. The literacy rate for the State is 91.58 *per cent* (2011 census). The State has only one airport at Lengpui which is 30 km away from the capital city, Aizawl.

Gross State Domestic Product (GSDP) at current prices during the year 2010-11 was ₹ 6,057.70 crore (base year 2004-05) (**Appendix-1.1 Part-D**). GSDP of the State registered a lesser growth of 7.80 *per cent* in 2010-11 as against a growth of 20.91 *per cent* in 2009-10.

The State Government presented its Budget for 2010-11 in the wake of the National Economy showing signs of recovery and with the expectation of a high growth over the medium term and even prospect of crossing the double digit barrier. Following the recommendations of the Thirteenth Finance Commission (XIII FC), the State Government in their Budget 2010-11, is committed to work within the optimum mix of economic growth and fiscal consolidation for long term fiscal stability.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix-1.1 Part-A**). The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Finance Accounts of the Government of Mizoram are laid out in nineteen statements, the layouts of which are depicted in **Appendix-1.1 Part-B**. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are shown in **Appendix-1.1 Part-C**.

This chapter provides a broad perspective of the finances of the State Government of Mizoram during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years.

## 1.1 Summary of Current Year's Fiscal Operations

**Table-1.1** presents the summary of the State Government's fiscal transactions during the current year (2010-11) *vis-à-vis* the previous year while **Appendix-1.2** provides details of receipts and disbursements as well as overall fiscal position during the current year.

**Table-1.1: Summary of Current Year's Fiscal Operations (2010-11)**

(₹ in crore)

| 2009-10                   | Receipts                         | 2010-11        | 2009-10        | Disbursements                   | 2010-11  |         |                |
|---------------------------|----------------------------------|----------------|----------------|---------------------------------|----------|---------|----------------|
|                           |                                  |                |                |                                 | Non Plan | Plan    | Total          |
| <b>Section-A: Revenue</b> |                                  |                |                |                                 |          |         |                |
| 2963.51                   | Revenue receipts                 | 2855.37        | 2702.70        | Revenue expenditure             | 2055.19  | 1201.05 | 3256.24        |
| 107.58                    | Tax revenue                      | 130.44         | 947.67         | General services                | 969.96   | 41.33   | 1011.29        |
| 126.51                    | Non-tax revenue                  | 146.72         | 1105.68        | Social services                 | 661.86   | 575.52  | 1237.38        |
| 394.53                    | Share of Union Taxes/ Duties     | 451.66         | 649.35         | Economic services               | 423.37   | 584.20  | 1007.57        |
| 2334.89                   | Grants from Government of India  | 2126.55        | ---            | Grants-in-aid and Contributions | ---      | ---     | ---            |
| <b>Section-B: Capital</b> |                                  |                |                |                                 |          |         |                |
| --                        | Misc. Capital Receipts           | ---            | 572.80         | Capital Outlay                  | 110.01   | 504.70  | 614.71         |
| 25.31                     | Recoveries of Loans and Advances | 25.97          | 24.94          | Loans and Advances disbursed    |          |         | 29.87          |
| 225.89                    | Public Debt receipts             | 537.22         | 365.33         | Repayment of Public Debt        |          |         | 272.55         |
| --                        | Contingency Fund                 | ---            | ---            | Contingency Fund                |          |         | ---            |
| 2463.30                   | Public Account receipts          | 3332.56        | 2504.71        | Public Account Disbursement     |          |         | 2482.28        |
| 175.69                    | Opening Cash Balance             | (-316.78)      | (-316.78)      | Closing Cash Balance            |          |         | (-221.31)      |
| 5853.70                   | <b>Total</b>                     | <b>6434.34</b> | <b>5853.70</b> | <b>Total</b>                    |          |         | <b>6434.34</b> |

The following are the significant changes during 2010-11 over the previous year:

- **Revenue receipts** decreased to ₹ 2,855.37 crore in 2010-11 from ₹ 2,963.51 crore in 2009-10 (3.65 *per cent*); mainly due to decrease in Grants-in-Aid (₹ 208.34 crore) offset by increase in Tax Revenue (₹ 22.86 crore), Non Tax Revenue (₹ 20.21 crore) and Central share of Taxes (₹ 57.13 crore). Tax revenue, increased from ₹ 107.58 crore in 2009-10 to ₹ 130.44 crore in 2010-11 (21.25 *per cent*), Non Tax Revenue increased from ₹ 126.51 crore to ₹ 146.72 crore (15.98 *per cent*) and Central share of Taxes also

increased from ₹ 394.53 crore to ₹ 451.66 crore (14.48 *per cent*). The revenue receipt (₹ 2,855.37 crore) was also, lesser by ₹ 398.50 crore (13.14 *per cent*) than the assessment of the State Government in its Fiscal Correction Path (FCP) (₹ 3,253.87 crore).

- **Revenue Expenditure and Capital Expenditure** increased by ₹ 553.54 crore (20.48 *per cent*) and ₹ 41.91 crore (7.32 *per cent*) respectively over the previous year. Revenue expenditure was higher by ₹ 344.01 crore (11.81 *per cent*) than the assessment made by the State Government in its FCP (₹ 2,912.23 crore). Also, Capital expenditure was higher by ₹ 226.23 crore (58.23 *per cent*) than the projection made by the State Government in its FCP (₹ 388.48 crore).
- **Disbursement of Loans and Advances** increased by ₹ 4.93 crore (19.77 *per cent*) while **recoveries** of the same, increased by ₹ 0.66 crore (2.61 *per cent*) over the previous year.
- **Public Debt receipts** increased by ₹ 311.33 crore (137.82 *per cent*) and **repayments** decreased by ₹ 92.78 crore (25.40 *per cent*) over the previous year.
- **Public Account receipts** increased by ₹ 869.26 crore (35.29 *per cent*) and **disbursements** decreased by ₹ 22.42 crore (0.90 *per cent*) over the previous year.
- **Cash balance** of the State decreased by ₹ 95.47 crore (30.14 *per cent*) over the previous year, and as a result, the investments from cash balances decreased from ₹ 266.48 crore in 2009-10 to ₹ 211.45 crore in 2010-11.

## 1.2 Fiscal Responsibility and Budget Management Act, 2006

As per the Mizoram Fiscal Responsibility and Budget Management (MZFRBM) Act, 2006, the State Government prepares a Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets, each year for placement in the State Assembly.

According to XIII FC recommendations:

- (1) States that incurred zero revenue deficit or achieved revenue surplus in 2007-08 should eliminate revenue deficit by 2011-12 and maintain revenue balance or attain a surplus thereafter. Other States should eliminate revenue deficit by 2014-15.
- (2) All Special Category States with base fiscal deficit of less than 3 *per cent* of GSDP in 2007-08 could incur a fiscal deficit of 3 *per cent* in 2011-12 and maintain thereafter. Mizoram should limit their fiscal deficit to 3 *per cent* of GSDP by 2014-15.
- (3) States should amend/enact FRBM Acts to build in the fiscal reform path worked out. State-specific grants recommended for a state should be released upon compliance.

In line with the recommendation of the XIII FC, Mizoram Fiscal Responsibility and Budget Management (MZFRBM) Act, 2006 was amended which envisaged that:

- (1) As per Second Amendment Act, 2010 dated 19 October 2010, Clause (2) of Section 6 of the Principal Act, “reduce fiscal deficit to 3 *per cent* of the estimated Gross State Domestic Product by 2014-15”. Further Clause (4) of Section 6 of the principal Act also envisages “reduce fiscal deficit annually at a percentage of Gross State Domestic Product so as to reach the above goal with the following rates of annual reduction – 8.50 *per cent* in base year 2010-11, 6.40 *per cent* in 2011-12, 5.20 *per cent* in 2012-13, 4.10 *per cent* in 2013-14 and 3 *per cent* in 2014-15.
- (2) As per Third Amendment Act, 2011 (Act No. 4 of 2011) dated 29 March 2011, reduce total outstanding debt at a percentage of Gross Domestic Product so as to reach the annual target of 87.30 *per cent* in 2010-11, 85.70 *per cent* in 2011-12, 82.90 *per cent* in 2012-13, 79.20 *per cent* in 2013-14 and 74.80 *per cent* in 2014-15.

The performance of the State during 2010-11 in terms of Fiscal targets fixed for selected variables laid down in the FRBM Act, MTFPS and the Fiscal Correction Path (FCP) *vis-à-vis* achievement is given in the table below:

**Table-1.2: Trends in Major fiscal parameters/variables *vis-à-vis* projections for 2010-11**

| Fiscal variables                           | Targets as per FRBM Act  | Projections made in |         | Actual   |
|--|--|---------------------|---------|----------|
|  |  | FCP                 | MTFPS   |          |
| Revenue Deficit/<br>Surplus                | Revenue deficit targeted at 0.00<br>(by 31.03.09)  | (+)342              | (+)342  | (-)401   |
| Fiscal Deficit                             | reduce fiscal deficit to 3 <i>per cent</i> of the<br>estimated Gross State Domestic Product by<br>2014-15  | (-)42               | (-)42   | (-)1019  |
| Fiscal Deficit/GSDP<br>( <i>per cent</i> ) | 3 <i>per cent</i> of GSDP<br>(by 31.03.15)   | (-)0.88             | (-)0.88 | (-)16.82 |
| State's Outstanding<br>Liabilities         | reduce total outstanding debt at a<br>percentage of Gross Domestic Products<br>so as to reach the annual target of 87.30<br><i>per cent</i> in 2010-11 i.e. ₹ 5288 crore | 3384                | 3384    | 4497     |

Although the State achieved revenue surplus in the last 5 years, during the current year *i.e.* 2010-11 the State registered a revenue deficit. Against the target of ₹ 342 crore revenue surplus set in FCP and MTFPS, the revenue deficit was ₹ 401 crore. The State Government should therefore, endeavor to return to revenue surplus in the next year to comply with the recommendation of XIII FC.

The fiscal deficit during the current year could not be kept within the limit set in the Thirteenth Finance Commission for Mizoram. The fiscal deficit in 2010-11 was ₹ 1,019 crore which was

₹ 977 crore higher than the assessment made in the FCP (₹ 42 crore) and ₹ 708 crore more than the fiscal deficit of ₹ 311 crore in 2009-10. The increase in fiscal deficit in the current year was mainly due to increase in Revenue expenditure (₹ 554 crore), Capital expenditure (₹ 42 crore), disbursement of Loans and Advance (₹ five crore) and decrease in Revenue receipt (₹ 108 crore) over the previous year. With that in view, the Government should pursue a policy of reducing revenue expenditure so as to confine the fiscal deficit to the target set for the State.

While the State's outstanding liabilities (₹ 4,497 crore) in 2010-11 was within prescribed limit of 87.30 per cent of GSDP as per MZFRBM Act, it was more than the assessment of ₹ 3,384 crore made in FCP by ₹ 1,113 crore (32.89 per cent). The State's outstanding liabilities increased by ₹ 869 crore (23.95 per cent) in the current year over 2009-10. The State Government should pursue a sustainable debt management to maintain the annual prescribed limit.

### 1.3 Budget Analysis

The budget papers presented by State Government provide descriptions of projections or estimates of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Several reasons may account for the deviation of the actual realization from budget estimates. It could be because of unanticipated and unforeseen events or under or over estimation of expenditure or revenue at the budget stage etc. Actual realization of revenue and its disbursement however depends on a variety of factors, some internal and others external. **Table-1.3** presents the consolidated picture of State Finances during 2009-10 (Accounts), 2010-11–Budget estimates (BE), 2010-11 Revised Estimates (RE) and 2010-11 (Accounts).

**Table-1.3: Variation in Major items – 2010-11 (Accounts) over 2010-11 Budget Estimates & Revised Estimates and 2009-10 (Accounts)**

(₹ in crore)

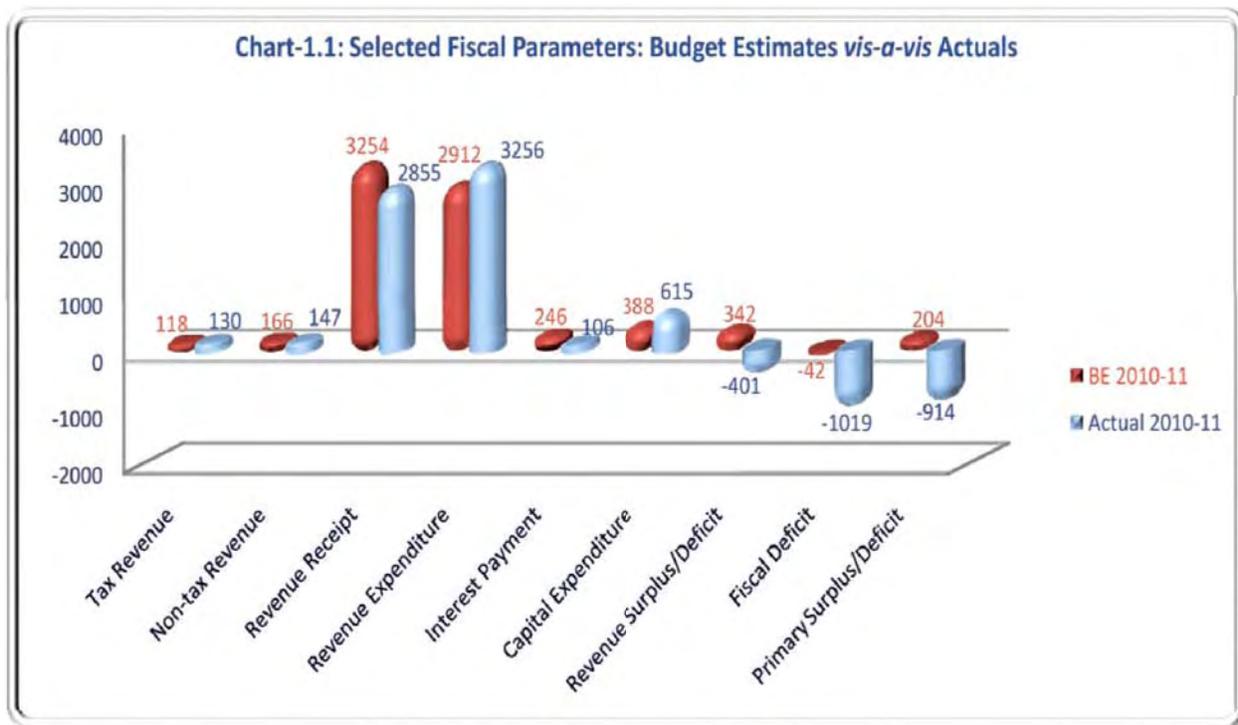
| Parameters                         | 2009-10 | 2010-11         |                  |          |
|------------------------------------|---------|-----------------|------------------|----------|
|                                    | Actual  | Budget Estimate | Revised Estimate | Actual   |
| Tax Revenue                        | 108     | 118             | 124              | 130      |
| Non-Tax Revenue                    | 127     | 166             | 178              | 147      |
| Revenue Receipts                   | 2964    | 3254            | 3716             | 2855     |
| Non-debt Capital Receipts          | 25      | 30              | 33               | 26       |
| Revenue Expenditure                | 2703    | 2912            | 3700             | 3256     |
| Interest Payment                   | 254     | 246             | 259              | 106      |
| Capital Expenditure                | 573     | 388             | 750              | 615      |
| Disbursement of Loans and Advances | 25      | 25              | 32               | 30       |
| Revenue Deficit/Surplus            | (+) 261 | (+) 342         | (+) 17           | (-) 401  |
| Fiscal deficit/surplus             | (-) 311 | (-) 42          | (-) 733          | (-) 1019 |
| Primary deficit/surplus            | (-) 57  | (+) 204         | (-) 474          | (-) 914  |

- During 2010-11, the actual revenue receipts fell short of the budget estimates by ₹ 399 crore (12.26 *per cent*) while actual revenue expenditure was ₹ 344 crore (11.81 *per cent*) more than the budget estimates, which were contributory factors for revenue deficit during the year.
- The actual collection of tax revenue during the year increased by ₹ 12 crore (10.17 *per cent*) over the budget estimate for the year. The increase was mainly contribution from increased collection under taxes on sales, trade etc. by ₹ 7.77 crore (8.02 *per cent*), land revenue by ₹ 1.83 crore (73.20 *per cent*) and taxes on vehicles by ₹ 0.92 crore (13.53 *per cent*) over the Budget Estimate.
- Although, there was an increase in non-tax revenue by ₹ 20 crore (15.75 *per cent*) over the previous year, it recorded a shortfall of ₹ 19 crore (11.45 *per cent*) over the Budget Estimates. The deficit in actual non-tax revenue over Budget Estimates was largely due to less receipts under interest, dividends and profits by ₹ 13.49 crore (51.47 *per cent*), decrease in revenue receipts under Economic Services by ₹ 12.87 crore (11.39 *per cent*) and Social Services by ₹ 2.29 crore (17.67 *per cent*), which was partially offset by increase in General Services by ₹ 9.01 crore (6.35 *per cent*).
- The revenue expenditure increased by ₹ 553.54 crore (20.46 *per cent*) during 2010-11 over the previous year. There was an increase in revenue expenditure by ₹ 344 crore (11.81 *per cent*) over the budget provision which was due to more expenditure under Social Services by ₹ 185.72 crore (17.66 *per cent*) and Economic Services by ₹ 209.90 crore (26.31 *per cent*), offset by a decrease of ₹ 53.36 crore (5.01 *per cent*) under General Services.
- The major increases in revenue expenditure under Social services were under Education, Sports, Art and Culture by ₹ 64.06 crore (12.21 *per cent*), Water Supply, Sanitation, Housing and Urban development by ₹ 30.54 crore (25.12 *per cent*), Welfare of ST, SC and OBC by ₹ 39.49 crore (28.68 *per cent*) and Social Welfare and Nutrition by ₹ 36.04 crore (41.78 *per cent*).
- Similarly, the significant increases in expenditure under Economic Services were under Agriculture and Allied Activities by ₹ 250.56 crore (99.81 *per cent*), Energy by ₹ 23.29 crore (13.30 *per cent*) and Industry and Minerals by ₹ 24.69 crore (66.18 *per cent*) which was offset by a decrease in expenditure under General Economic Services by ₹ 100.36 crore (66.63 *per cent*).
- However, there was a decrease in expenditure under General Services which were mainly under Interest Payment and Servicing of Debt by ₹ 140.43 crore (53.39 *per cent*) offset by

an increase in expenditure under Administrative Services by ₹ 32.79 crore (6.31 per cent) and Pensions and Miscellaneous General Services by ₹ 44.28 crore (21.44 per cent).

- The Capital expenditure during 2010-11 increased by ₹ 41.91 crore (7.32 per cent) over 2009-10. Also, the actual capital expenditure *vis-à-vis* Budget Estimate was more by ₹ 226.23 crore (58.23 per cent).
- The actual fiscal deficit deteriorated with reference to the assessment made in the Budget Estimates by ₹ 977 crore (2,326.19 per cent) and Revised Estimates by ₹ 286 crore (39.02 per cent) mainly due to increase in revenue expenditure by ₹ 344 crore (11.81 per cent) and capital expenditure by ₹ 227 crore (58 per cent). Also, the actual primary deficit as compared with the budget estimates exacerbated from a primary surplus of ₹ 204 crore to primary deficit of ₹ 914 crore in 2010-11.

The Chart below presents the budget estimates and actuals for some important fiscal parameters during 2010-11.



**Chart-1.1** depicts that revenue receipts decreased by ₹ 399 crore over the estimated amount of ₹ 3,254 crore. Revenue expenditure was ₹ 3,256 crore during 2010-11 against the estimated amount of ₹ 2,912 crore. Against the estimation of revenue surplus of ₹ 342 crore, there was revenue deficit of ₹ 401 crore during 2010-11. There was fiscal deficit of ₹ 1,019 crore and primary deficit of ₹ 914 crore during 2010-11 against the estimated fiscal deficit of ₹ 42 crore and primary surplus of ₹ 204 crore respectively. The wide variation between budget provisions and actual indicated that the budget estimates were unrealistic.

## 1.4 Resources of the State

### 1.4.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from the GoI as well as accruals from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart-1.2** depicts the trends in various components of the receipts of the State during 2006-11. **Chart-1.3** depicts the composition of resources of the State during the current year.

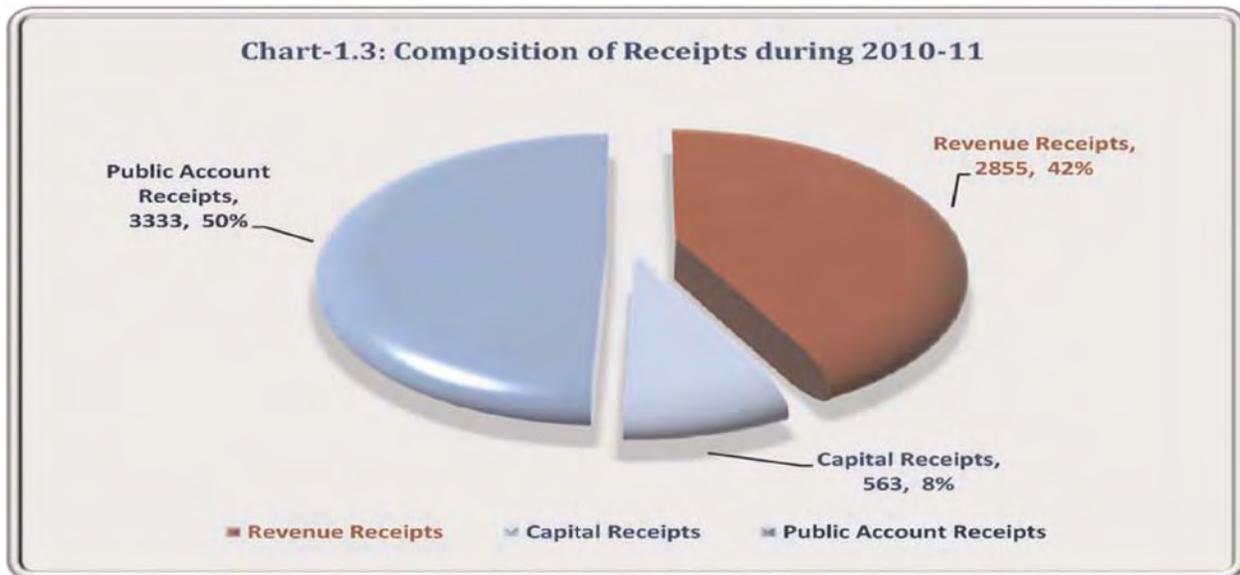
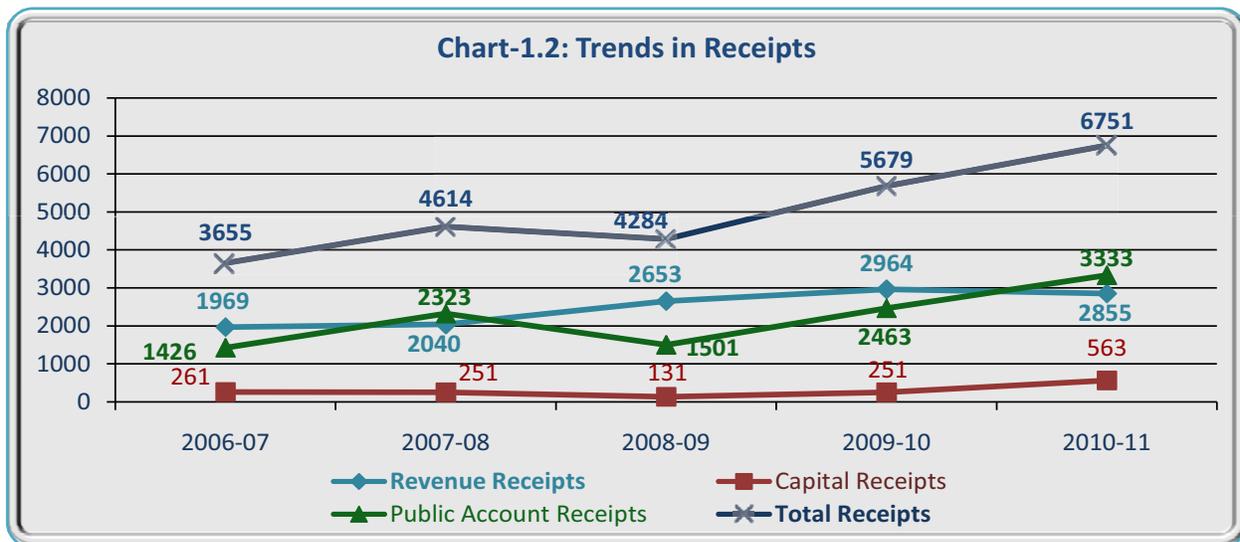


Table-1.4: Trends in growth and composition of receipts

(₹ in crore)

| Sources of State's Receipts                 | 2006-07     | 2007-08     | 2008-09     | 2009-10     | 2010-11     |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>I Revenue Receipts</b>                   | <b>1969</b> | <b>2040</b> | <b>2653</b> | <b>2964</b> | <b>2855</b> |
| <b>II Capital Receipts (CR)</b>             | <b>261</b>  | <b>251</b>  | <b>131</b>  | <b>251</b>  | <b>563</b>  |
| Miscellaneous Capital Receipts              | 0           | 0           | 0           | 0           | 0           |
| Recovery of Loans and Advances              | 24          | 28          | 25          | 25          | 26          |
| Public Debt Receipts                        | 237         | 224         | 106         | 226         | 537         |
| Rate of growth of debt capital receipts     | (-6.32)     | (-5.49)     | (-52.68)    | 113.21      | 137.61      |
| Rate of growth of non-debt capital receipts | 4.35        | 16.67       | (-10.71)    | 0           | 4.00        |
| Rate of growth of GSDP                      | 10.75       | 16.06       | 22.25       | 20.89       | 7.81        |
| Rate of growth of CR ( <i>per cent</i> )    | (-5.43)     | (-3.83)     | (-47.81)    | 91.60       | 124.30      |
| <b>III Contingency Fund</b>                 | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>0</b>    | <b>0</b>    |
| <b>IV Public Account Receipts</b>           | <b>1426</b> | <b>2323</b> | <b>1501</b> | <b>2463</b> | <b>3333</b> |
| <b>Total Receipts</b>                       | <b>3656</b> | <b>4614</b> | <b>4285</b> | <b>5678</b> | <b>6751</b> |

The total receipts of the State Government for 2010-11 was ₹ 6,751 crore of which ₹ 2,855 crore (42 *per cent*) came from revenue receipts and balance ₹ 3,896 crore (58 *per cent*) from borrowings, Public Account and Capital Receipts.

The share of revenue receipt of the State to total receipts decreased from 54 *per cent* in 2006-07 to 42 *per cent* in 2010-11. On the other hand, the Capital Receipts together with Public Account receipts ranged from 38 *per cent* to 58 *per cent* of total receipts during 2006-11. Revenue receipts increased steadily from ₹ 1,969 crore in 2006-07 to ₹ 2,964 crore in 2009-10, however, there was a decrease in revenue receipt to ₹ 2,855 crore in 2010-11. The Capital receipts which create future repayment obligation with inter year fluctuation decreased from ₹ 261 crore (seven *per cent* of total receipts) in 2006-07 to ₹ 131 crore (three *per cent* of total receipts) in 2008-09 and again increased to ₹ 563 crore (eight *per cent* of total receipts) in 2010-11. The percentage share of Public Account receipts showed inter year variation ranging from 35 *per cent* to 50 *per cent* of total receipt during 2006-11 and stood at 50 *per cent* in the current year.

The rate of growth of debt capital receipts increased from 131.21 *per cent* in 2009-10 to 137.61 *per cent* in 2010-11 while the ratio of growth of non-debt capital receipts was four *per cent* in 2010-11.

The rate of growth of capital receipts increased from 91.60 *per cent* in 2009-10 to 124.30 *per cent* in 2010-11, while the rate of growth of revenue receipts decreased from 11.72 *per cent* in

2009-10 to a negative 3.65 per cent in 2010-11. The rate of growth of GSDP also decreased from 20.89 per cent in 2009-10 to 7.81 per cent in 2010-11.

### **1.4.2 Funds Transferred to State Implementing Agencies outside the State Budgets**

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies for the implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated.

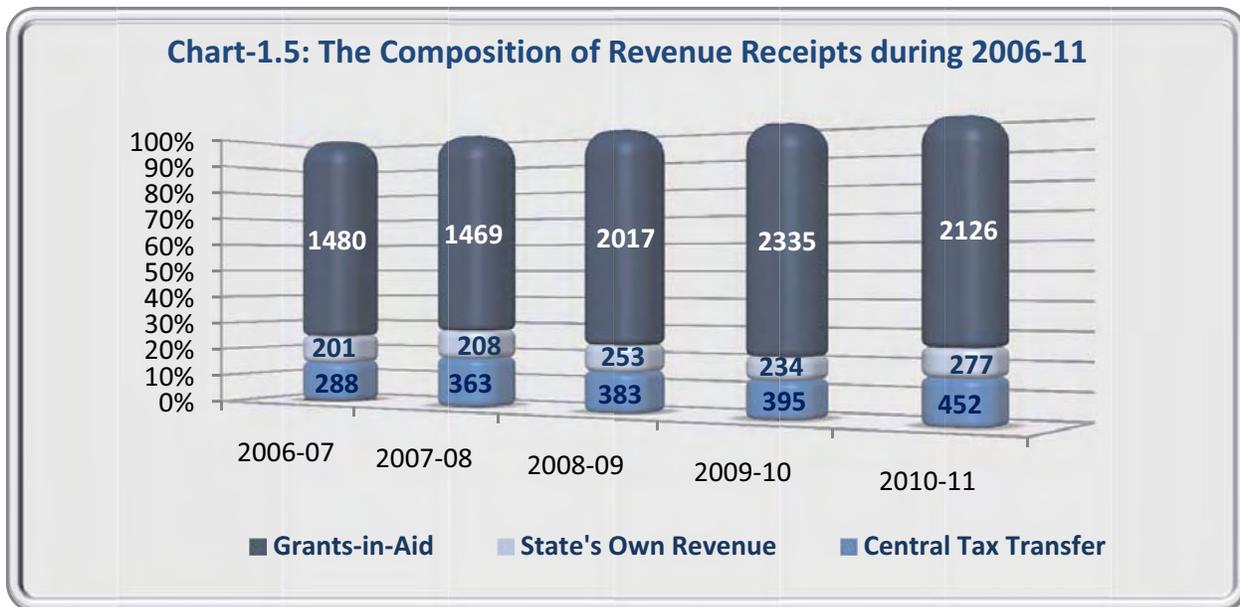
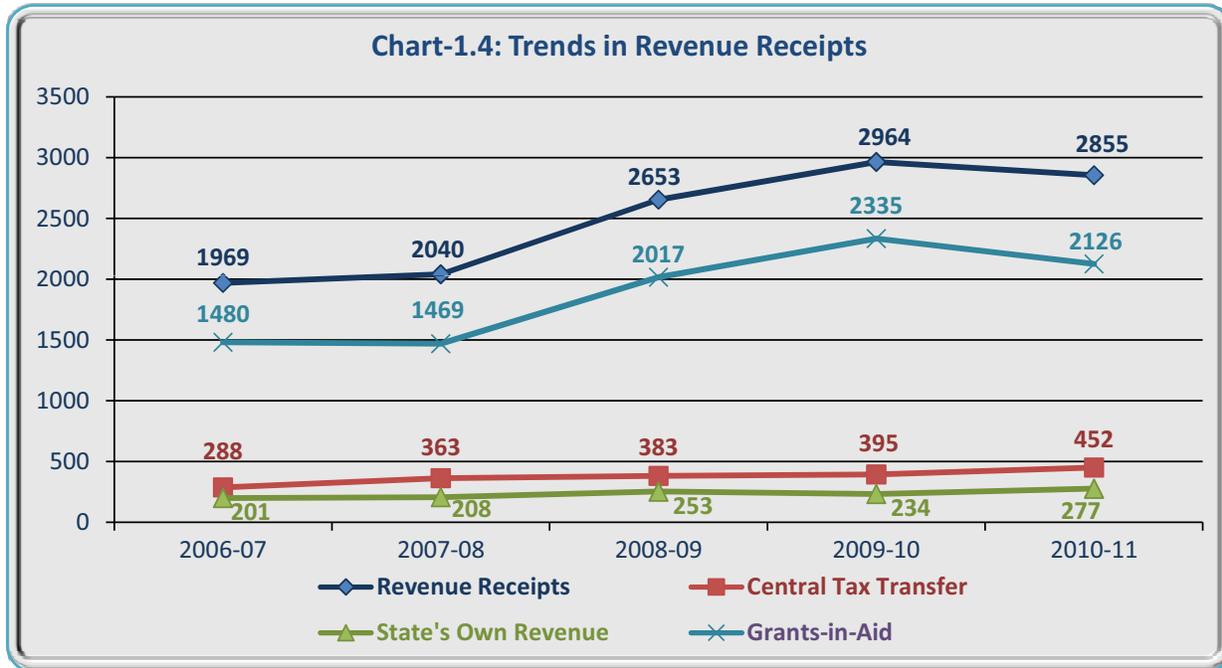
To present a holistic picture on availability of aggregate resources, an attempt was made in audit to obtain the scheme-wise funds directly transferred to the State implementing agencies which aggregated to ₹ 984.09 crore (**Appendix-1.5**) for implementation of various Centrally Sponsored Plan Schemes which among others included ₹ 216.17 crore (NREGS), ₹ 112.92 crore (SSA), ₹ 80.51 crore (NRWDP), ₹ 78.28 crore (RGGVY) and ₹ 61.58 crore (NRSWSP). With this huge transfer of fund from Government of India to State Implementing Agencies, the total availability of State resources increased from ₹ 6,752.09 crore to ₹ 7,736.18 crore in 2010-11. Considering that the direct transfers are so large (34.46 per cent of State's Revenue Receipts) it is imperative that the end use of this fund is monitored in a timely manner by both the Union and State Governments so that the intended outcomes are actually realized.

*There was no single agency monitoring the funds directly transferred by the GoI and there was no readily available data on how much was actually spent in any particular year on major flagship schemes and other important schemes being implemented by the State Implementing Agencies and funded directly by the GoI. Also, funds transferred directly from the Union Government to the State Implementing Agencies run the risk of poor oversight and therefore, unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.*

## **1.5 Revenue Receipts**

Statement 11 of the Finance Accounts depicts the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from the GoI.

The trends and composition of revenue receipts over the period 2006-11 are presented in **Appendix-1.4** and also depicted in **Chart-1.4** and **1.5** respectively.



During 2010-11, revenue receipts of the State decreased by ₹ 108 crore (3.65 per cent) over the previous year. The Revenue receipts of the State showed progressive growth from ₹ 1,969 crore in 2006-07 to ₹ 2,964 crore in 2009-10, however, 2010-11 registered a drop in revenue receipts to ₹ 2,855 crore. About 90 per cent (₹ 2,578 crore) of revenue receipt have been contributed by central tax transfers and grants-in-aid together while 10 per cent (₹ 277 crore) accrued from State's Own resources during the year.

**Tax Revenue:** - Tax revenue constituted five per cent of the total revenue receipts and increased by ₹ 22.86 crore during 2010-11 recording a growth rate of 21.25 per cent over the previous

year. The percentage of tax revenue to total revenue receipts ranged between three to five *per cent* during 2006-11. The increase in tax revenue during 2010-11 over previous year was mainly due to increase in taxes on Sales, Trade, etc. by ₹ 18.76 crore (increase of 21.83 *per cent* over previous year) and constituted 80 *per cent* of incremental increase.

**Non-Tax Revenue:** - Non-tax revenue constituted five *per cent* of total revenue receipts and increased by ₹ 20.21 crore during 2010-11 recording a growth rate of 15.98 *per cent* over the previous year. The increase in non-tax revenue during 2010-11 over previous year was mainly due to increase in receipts under police for services rendered to other parties (₹ 7.07 crore), transmission and distribution of power (₹ 4.78 crore), mineral concession fees, rents and royalties (₹ 3.56 crore) and tolls on roads (₹ 9.51 crore) which was, however, offset by a decrease mainly due to less interest realized on investment of cash balance (₹ 5.13 crore) and less receipt under building and general-other receipt (₹ 2.43 crore).

**Central Tax Transfer:** - Central tax revenue increased by ₹ 57.13 crore from ₹ 395.53 crore in 2009-10 to ₹ 451.66 crore in 2010-11 and constituted 15.82 *per cent* of revenue receipts during the year. The increase was mainly due to increase in Corporation tax by ₹ 20.84 crore (12.84 *per cent*), Customs by ₹ 20.39 crore (36.93 *per cent*), Union Excise Duties by ₹ 14.09 crore (31.68 *per cent*) and Service tax by ₹ 4.34 crore (10.42 *per cent*) offset by a decrease in Taxes on Income other than Corporation Tax by ₹ 2.57 crore (2.84 *per cent*). Increase in Central tax transfers during the current year was due to higher devolution in the share of net proceeds of sharable taxes recommended by the Thirteenth Finance Commission.

**Grants-in-aid:** - Grants-in-aid from the GoI decreased by ₹ 208.34 crore (8.92 *per cent*) from ₹ 2,334.89 crore in 2009-10 to ₹ 2,126.55 crore in 2010-11 mainly due to decreases in Grants for State/Union Territory Plan Schemes by ₹ 157.37 crore (11.76 *per cent*) and Grants for Centrally Sponsored Plan Schemes by ₹ 65.68 crore (29.48 *per cent*) which was, however, offset by an increase in Grants for Central Plan Schemes by ₹ 0.59 crore (5.38 *per cent*) and Grants for Special Plan Schemes by ₹ 14.48 crore (38.82 *per cent*).

Against ₹ 78.58 crore recommended by the Thirteenth Finance Commission under Non-Plan grant the GoI released ₹ 61.28 crore (**Table-1.5**). The release of such grants *vis-à-vis* the recommendation of Thirteenth Finance Commission during 2010-11 was for the following purpose.

**Table-1.5: Release of XIII Finance Commission grants by GoI**

(₹ in crore)

| Purpose  | Amount recommended by XIII FC | Amount released by GoI | Shortfall in release | Expenditure |
|--|-------------------------------|------------------------|----------------------|-------------|
| Disaster Relief Fund   | 8.55                          | 5.56                   | 2.99                 | 5.56        |
| Capacity Building  | 1.00                          | 1.00                   | --                   | 1.00        |
| Grants to local bodies (Panchayati Raj Institutions (PRIs), ULBs & Special Area Grants | 29.30                         | 29.00                  | 0.30                 | 28.00       |

| Purpose                               | Amount recommended by XIII FC | Amount released by GoI | Shortfall in release | Expenditure  |
|---------------------------------------|-------------------------------|------------------------|----------------------|--------------|
| Elementary Education                  | 1.00                          | 1.00                   | --                   | --           |
| Heritage Conservation                 | 12.00                         | --                     | 12.00                | --           |
| <b>Grants for improving outcomes:</b> |                               |                        |                      |              |
| (i) Judiciary delivery                | 2.59                          | 0.82                   | 1.77                 | 0.82         |
| (ii) Incentive Grant for UID          | 0.24                          | --                     | 0.24                 | --           |
| (iii) Employees and Pension Data Base | 2.50                          | 2.50                   | --                   | 0.11         |
| Environment related grants            | 21.40                         | 21.40                  | --                   | 21.40        |
| <b>Total</b>                          | <b>78.58</b>                  | <b>61.28</b>           | <b>17.30</b>         | <b>56.89</b> |

There was an overall shortfall in release of grants by GoI by ₹ 17.30 crore which was the net result of shortfall under (i) Disaster Relief Fund (₹ 2.99 crore), (ii) Grants to local bodies (PRIs, ULBs and Special Area Grant) (₹ 0.30 crore), (iii) Judiciary delivery grants (₹ 1.77 crore) and non-release of grants by GoI under (i) Heritage Conservation (₹ 12 crore) and (ii) Incentive grant for UID (₹ 0.24 crore). Out of the total amount released by GoI i.e. ₹ 61.28 crore, there was an overall expenditure of ₹ 56.89 crore resulting in unutilised balance of ₹ 4.39 crore.

The trends in revenue receipts relative to Gross State Domestic Product (GSDP) are presented in **Table-1.6:**

**Table-1.6: Trends in revenue receipts relative to GSDP**

|  | 2006-07        | 2007-08        | 2008-09        | 2009-10        | 2010-11        |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue Receipts (RR) (₹ in crore)</b>            | <b>1969</b>    | <b>2040</b>    | <b>2653</b>    | <b>2964</b>    | <b>2855</b>    |
| Rate of growth of RR ( <i>per cent</i> )             | 19.04          | 3.61           | 30.05          | 11.72          | (-)3.65        |
| RR/GSDP ( <i>per cent</i> )                          | 60.10          | 53.66          | 57.08          | 52.75          | 47.13          |
| <b>Buoyancy Ratios<sup>1</sup></b>                   |                |                |                |                |                |
| Revenue Buoyancy w.r.t. GSDP                         | 1.77           | 0.22           | 1.35           | 0.56           | (-)0.47        |
| State's Own Tax Buoyancy w.r.t. GSDP                 | 2.20           | 0.92           | 0.98           | 0.66           | 2.61           |
| Revenue Buoyancy with reference to State's own taxes | 0.81           | 0.25           | 1.38           | 0.86           | (-)0.18        |
| <b>Gross State Domestic Product (₹ in crore)</b>     | <b>3276.18</b> | <b>3802.42</b> | <b>4647.55</b> | <b>5619.41</b> | <b>6057.70</b> |
| Rate of growth of GSDP ( <i>per cent</i> )           | 10.76          | 16.06          | 22.23          | 20.91          | 7.80           |

*GSDP Source: Directorate of Economics and Statistics, Government of Mizoram*

The GSDP at current prices was estimated to increase from ₹ 5,619.41 crore in 2009-10 to ₹ 6,057.70 crore in 2010-11, representing an increase of 7.80 *per cent*. The revenue receipts of

<sup>1</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 1.24 implies that revenue receipts tend to decrease by 1.24 percentage points, if the GSDP increases by one *per cent*

the State registered increase from ₹ 1,969 crore in 2006-07 to ₹ 2,964 crore in 2009-10, however, during the current year the revenue receipts decreased to ₹ 2,855 crore and registered a negative growth rate of 3.65 *per cent* over the previous year. Although the buoyancy ratio of revenue receipts with reference to GSDP exhibited a decrease, the growth rate of State's own tax revenue was more than double the rate of growth of GSDP during the current year. During the period 2006-11, the buoyancy ratio of revenue receipts to State's own taxes indicates that the pace of growth of revenue receipts was lower than the growth of State's own taxes except during 2008-09 the growth of revenue receipts was faster than the growth of State's own taxes.

### 1.5.1 State's Own Resources

The State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The performance of State in regard to mobilization of its own resources *vis-à-vis* assessment made by the XIII FC and State Government in its FCP statements for 2010-11 was as shown in **Table-1.7**:

**Table-1.7: Tax Revenue and Non-tax Revenue *vis-à-vis* XIII FC/FCP**

(₹ in crore)

| Parameters                  | Assessment made by XIII FC | Fiscal Correction Path (FCP) | Actual |
|-----------------------------|----------------------------|------------------------------|--------|
| State's own Tax Revenue     | 133.35                     | 118.26                       | 130.44 |
| State's own Non-tax Revenue | 66.82                      | 166.37                       | 146.72 |

Source: Finance Accounts-2010-11, Thirteenth Finance Commission and Fiscal Policy Strategy Statement-2010-11

The above table indicates that tax revenue fell short by two *per cent* than the assessment made in the XIII FC, however, ***it recorded an increase of ten per cent over the normative assessment made in FCP.*** The Non-tax revenue increased significantly by 120 *per cent* over the assessment made in the XIII FC, however, ***it decreased by 12 per cent over the normative assessment made in the FCP.***

#### (a) Tax Revenue

The tax revenue has increased by ₹ 22.86 crore from ₹ 107.58 crore in 2009-10 to ₹ 130.44 crore in 2010-11. The tax revenue of the State showed progressive increase from ₹ 67.62 crore in 2006-07 to ₹ 130.44 crore in 2010-11 at an annual average rate of 18.58 *per cent*. The major sources in the State's own tax during 2010-11 are sales tax ₹ 104.70 crore (80.27 *per cent* of tax revenue), other taxes ₹ 9.24 crore (7.08 *per cent* of tax revenue) taxes on vehicles ₹ 7.72 crore (5.92 *per cent* of tax revenue) and land revenue ₹ 4.33 crore (3.32 *per cent* of tax revenue). Collection of sales tax increased by ₹ 18.76 crore in 2010-11 over previous year; mainly due to increase of ₹ 11.62 crore in Receipts under State Sales Tax Act and ₹ 7.01 crore under Tax on Sale of Motor Spirits and

Lubricants which was partly offset by decrease of ₹ 0.56 crore in Other Receipts. The sector wise components of Tax revenue is given in **Table-1.8**:

**Table-1.8: Sector-wise component of tax revenue for the year 2006-11**

(₹ in crore)

| Name of component           | Year         |              |              |               | 2010-11       |               |   |
|-----------------------------|--------------|--------------|--------------|---------------|---------------|---------------|---|
|                             | 2006-07      | 2007-08      | 2008-09      | 2009-10       | BE            | 2010-11       | Variation of Actual over BE (in per cent) |
| Sales Tax                   | 53.72        | 62.04        | 77.51        | 85.94         | 96.93         | 104.70        | (+) 8.02                                  |
| State Excise                | 1.65         | 1.69         | 1.87         | 2.10          | 2.06          | 2.39          | (+)16.02                                  |
| Taxes on vehicles           | 5.01         | 5.37         | 5.50         | 6.71          | 6.80          | 7.72          | (+)13.53                                  |
| Land Revenue                | 0.73         | 1.48         | 1.63         | 2.76          | 2.50          | 4.33          | (+)73.20                                  |
| Stamps & Registration fees  | 0.21         | 0.23         | 0.46         | 0.39          | 0.70          | 0.34          | (-)51.43                                  |
| Taxes on Goods & Passengers | 0.98         | 1.07         | 1.43         | 1.39          | 1.32          | 1.72          | (+)30.30                                  |
| Other Taxes                 | 5.32         | 5.65         | 6.22         | 8.29          | 7.95          | 9.24          | (+)16.23                                  |
| <b>Total</b>                | <b>67.62</b> | <b>77.53</b> | <b>94.62</b> | <b>107.58</b> | <b>118.26</b> | <b>130.44</b> | <b>(+)10.30</b>                           |

Source: Statement 11 (Finance Accounts of the respective years) and Annual Financial Statement-2010-11

There was large variation of Actual figures over Budget Estimates on Sales tax by (+) 8.02 per cent, taxes on vehicles by (+) 13.53 per cent, land revenue by (+) 73.20 per cent and other taxes by (+) 16.23 per cent. The actual Own Tax Revenue (OTR) of the State remained below the normative assessment made by XIII FC (₹ 133.35 crore) and above the projection of FCP (₹ 118.26 crore).

### (b) Non-tax Revenue

The non-tax revenue, which constituted four to seven per cent of the total revenue receipts during the last five years, increased by ₹ 20.21 crore during the current year recording an increase of 15.98 per cent over the previous year. There were fluctuations in non-tax revenue during the last five years, and during the current year it increased to ₹ 146.72 crore from ₹ 126.50 crore in 2009-10. The major contributors in State's non-tax revenue during 2010-11 are Police (₹ 7.07 crore), Power (₹ 4.78 crore), Non-ferrous mining and metallurgical industries (₹ 3.56 crore) and Roads and Bridges (₹ 9.51 crore) which was partly offset mainly by decrease under Public Works (₹ 2.42 crore).

The composition of non-tax revenue for the year 2006-11 is given in **Table-1.9** below:

**Table-1.9: Composition of non-tax revenue for the year 2006-11**

(₹ in crore)

| Name of component                         | Year          |               |               |               | 2010-11       |               |   |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---|
|   | 2006-07       | 2007-08       | 2008-09       | 2009-10       | BE            | 2010-11       | Variation of Actual over BE (in per cent) |
| General Services                          | 52.50         | 6.48          | 12.13         | 18.05         | 14.18         | 23.19         | (+)63.54                                  |
| Social Services                           | 7.78          | 8.80          | 8.25          | 9.60          | 12.96         | 10.66         | (-)17.75                                  |
| Economic Services                         | 64.35         | 99.42         | 105.38        | 81.00         | 113.02        | 100.15        | (-)11.39                                  |
| Interest received and dividends & profits | 8.76          | 15.60         | 32.91         | 17.85         | 26.21         | 12.72         | (-)51.47                                  |
| <b>Total</b>                              | <b>133.39</b> | <b>130.30</b> | <b>158.67</b> | <b>126.50</b> | <b>166.37</b> | <b>146.72</b> | <b>(-)11.81</b>                           |

Source: Statement 11 (Finance Accounts of the respective years) and Annual Financial Statement-2010-11

As can be seen from the above table, there was large variations between Actual figures and Budget Estimates under General Services by (+) 63.54 *per cent* and Interest received and dividends & Profits by (-) 51.47 *per cent*. The actual Own Non-Tax Revenue (ONTR) of the State remained above the normative assessment made by XIII FC (₹ 66.82 crore) and below the projection of FCP (₹ 166.37 crore).

### 1.5.2 Cost of recovery

The details of Non-Tax Revenue receipts (NTR), Non-Plan Revenue Expenditure (NPRE) and the percentage of NTR *vis-à-vis* NPRE (Cost of Recovery) of some selected services are shown in the table below:

**Table-1.10: Cost of recovery of socio-economic services during 2009-11**

(₹ in crore)

| Name of services              | 2009-10                  |                              |                          | 2010-11                  |                              |                          |
|-------------------------------|--------------------------|------------------------------|--------------------------|--------------------------|------------------------------|--------------------------|
|                               | Non-Tax Revenue Receipts | Non Plan Revenue Expenditure | Cost Recovery (per cent) | Non-Tax Revenue Receipts | Non Plan Revenue Expenditure | Cost Recovery (per cent) |
| Power                         | 67.86                    | 139.11                       | 48.78                    | 72.63                    | 162.35                       | 44.74                    |
| Water Supplies and Sanitation | 7.39                     | 46.06                        | 16.04                    | 7.64                     | 49.44                        | 15.45                    |
| Transport                     | 4.32                     | 62.05                        | 6.96                     | 13.94                    | 63.50                        | 21.95                    |
| <b>Total</b>                  | <b>79.57</b>             | <b>247.22</b>                | <b>32.19</b>             | <b>94.21</b>             | <b>275.29</b>                | <b>34.22</b>             |

Source: Statement 11 & 12 (Finance Accounts of the respective years)

As can be seen from the above table, overall NTR as percentage of NPRE slightly increased during 2010-11 (34.22 *per cent*) over the previous year (32.19 *per cent*). The rise in cost of recovery in 2010-11 was largely due to increase in Non-tax Revenue Receipts under Transport by ₹ 9.62 crore. However, there was a slight fall in cost of recovery in 2010-11 under Power due to increase in Non-plan Revenue Expenditure by ₹ 23.24 crore and under Water Supplies and Sanitation due to increase in Non-plan Revenue Expenditure by ₹ 3.38 crore. Incremental raising of user charges will facilitate sustainable provision of these services over a period of time.

### 1.5.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the last three years (2008-09 to 2010-11) along with relevant All India Average percentage of expenditure on collection to gross collection for 2010-11 are mentioned in the table below:

**Table-1.11: Expenditure on collection *vis-à-vis* percentage to gross collection**

(₹ in crore)

| Head of revenue                    | Year    | Gross collection | Expenditure on collection                  | Percentage of expenditure over gross collection | All India average percentage for the year 2009-10 |
|------------------------------------|---------|------------------|--|---|---|
| Taxes/VAT on sales, trade etc.     | 2008-09 | 77.51            | 6.03                                       | 7.78  | 0.96  |
|                                    | 2009-10 | 85.94            | 6.84                                       | 7.96  |   |
|                                    | 2010-11 | 104.70           | 8.49                                       | 8.11  |   |
| State Excise                       | 2008-09 | 1.87             | Cost of collection has not been segregated | ---   | 3.64  |
|                                    | 2009-10 | 2.10             |  |   |   |
|                                    | 2010-11 | 2.39             |  |   |   |
| Stamp duties and registration fees | 2008-09 | 0.46             | 0.16                                       | 34.78   | 2.47  |
|                                    | 2009-10 | 0.39             | 0.17                                       | 43.59   |   |
|                                    | 2010-11 | 0.34             | 0.12                                       | 35.29   |   |
| Taxes on vehicles                  | 2008-09 | 5.50             | 3.31                                       | 60.18   | 3.07  |
|                                    | 2009-10 | 6.71             | 3.68                                       | 54.84   |   |
|                                    | 2010-11 | 7.72             | 5.39                                       | 69.82   |   |

Source: Statement 11 & 12 (Finance Accounts of the respective years)

The table above indicates that the percentage of expenditure on collection in respect of all the components of State's Own Tax revenue was much higher than All India Average cost of collection which is indicative of the fact that excess expenditure incurred on collection of revenue might impede in the path of improvement towards achieving a healthy fiscal position in the State.

### 1.5.4 Revenue Arrears

The position of Outstanding Revenue Arrears during 2005-11 is given below:

**Table-1.12: Outstanding Revenue Arrears**

(₹ in lakh)

| Sl. No.      | Department                      | Type of Revenue         | Amount outstanding as on |               |               |               |               |              | Total          |
|--------------|---------------------------------|-------------------------|--------------------------|---------------|---------------|---------------|---------------|--------------|----------------|
|              |                                 |                         | 2005-06                  | 2006-07       | 2007-08       | 2008-09       | 2009-10       | 2010-11      |                |
| 1.           | PWD                             | Rent                    | 104.62                   | 201.96        | 45.32         | 201.64        | 15.22         | --           | 568.76         |
| 2.           | PWD                             | Tolls and other charges | 5.87                     | 25.32         | 21.76         | 11.25         | 42.83         | --           | 107.03         |
| 3.           | Taxation                        | Sales Tax               | 95.78                    | 128.73        | 143.23        | 268.45        | 466.33        | 14.99        | 1117.51        |
| 4.           | Land Revenue                    | Land Revenue            | --                       | --            | 3.40          | 9.24          | --            | --           | 12.64          |
| 5.           | Forest                          | Forest Revenue          | 1.32                     | 10.99         | 6.20          | 0.20          | --            | --           | 18.71          |
| 6.           | Transport                       | Taxes on Vehicles       | --                       | --            | --            | --            | --            | 2.19         | 2.19           |
| 7.           | Local Administration Department | Interest Receipt        | 1.11                     | 0.32          | 0.45          | 0.43          | 0.62          | 1.21         | 4.14           |
| <b>Total</b> |                                 |                         | <b>208.70</b>            | <b>367.32</b> | <b>220.36</b> | <b>491.21</b> | <b>525.00</b> | <b>18.39</b> | <b>1830.98</b> |

Source: Information furnished by the Departments

The total outstanding arrears in respect of some principal heads of revenue from 2005-06 to 2010-11 amounted to ₹ 18.31 crore of which ₹ 18.16 crore was outstanding for more than five years. The outstanding arrears in respect PWD was ₹ 6.76 crore, Sales Tax was ₹ 11.18 crore, Land Revenue was ₹ 0.13 crore, Forest Revenue was ₹ 0.20 crore, Taxes on vehicles was ₹ 0.02 crore and interest receipt was ₹ 0.04 crore.

## 1.6 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

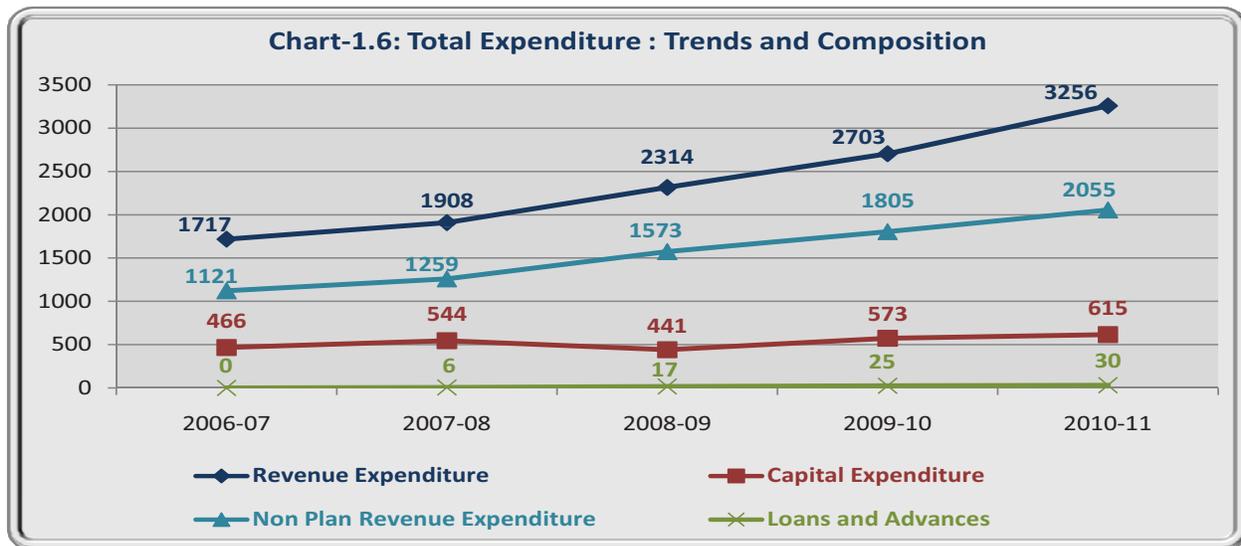
### 1.6.1 Growth and Composition of Expenditure

The total expenditure and its compositions during the years 2006-07 to 2010-11 are presented in the **Table-1.13**.

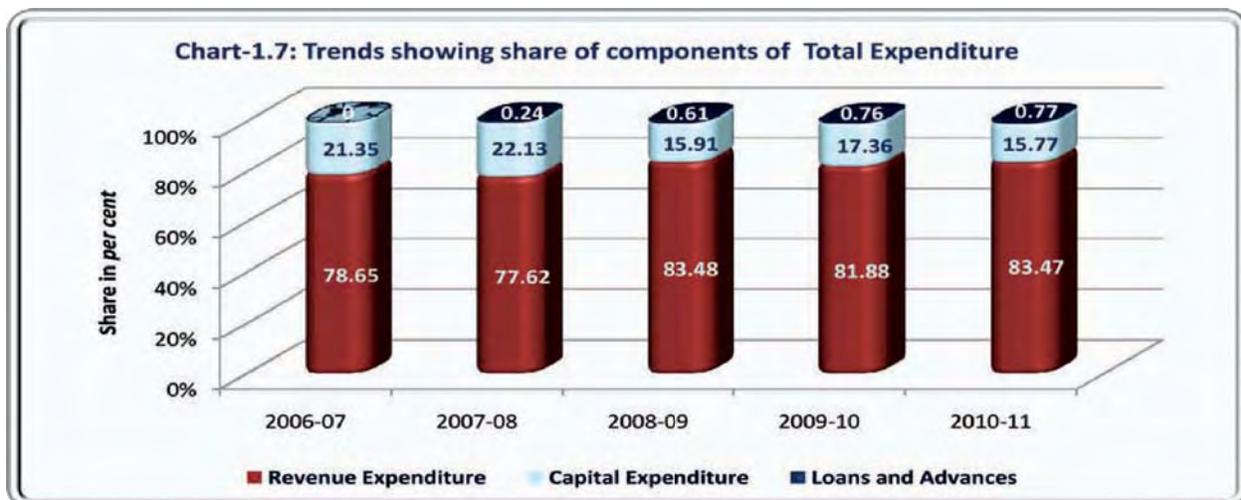
Table-1.13: Total expenditure and its compositions

|   | 2006-07     | 2007-08     | 2008-09     | 2009-10     | 2010-11     |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>Total Expenditure</b>                      | <b>2184</b> | <b>2458</b> | <b>2772</b> | <b>3301</b> | <b>3901</b> |
| Revenue Expenditure                           | 1717        | 1908        | 2314        | 2703        | 3256        |
| <i>Of which, Non-plan Revenue Expenditure</i> | 1121        | 1259        | 1573        | 1805        | 2055        |
| Capital Expenditure                           | 466         | 544         | 441         | 573         | 615         |
| Loans and Advances                            | 0           | 6           | 17          | 25          | 30          |

**Chart-1.6** presents the trends in total expenditure over a period of five years (2006-11) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts-1.7** and **1.8** respectively.



The trends showing share of components of Total Expenditure during 2006-11 are shown in **Chart-1.7**:



Statement 12 of the Finance Accounts depicts the detailed revenue expenditure and Statement 13 depicts capital expenditure. States raised resources to perform their sovereign functions, maintained their existing nature of delivery of social and economic services, to extend to network of these services through capital expenditure and investments and to discharge their debt service obligations.

The total expenditure of the State increased from ₹ 2,184 crore in 2006-07 to ₹ 3,901 crore in 2010-11 at an annual average rate of 15.73 *per cent* and increased by 18.18 *per cent* from ₹ 3,301 crore in 2009-10 to ₹ 3,901 crore in 2010-11. Of the total expenditure during 2010-11, the revenue expenditure (₹ 3,256 crore) constituted 83.47 *per cent* while capital expenditure (₹ 615 crore) constituted 15.77 *per cent* and loans and advances (₹ 30 crore) formed 0.77 *per cent*.

The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-1.14**.

**Table-1.14: Total Expenditure – basic parameters**

|   | 2006-07     | 2007-08     | 2008-09     | 2009-10     | 2010-11     |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>Total Expenditure (TE) (₹ in crore)</b>              | <b>2184</b> | <b>2458</b> | <b>2772</b> | <b>3301</b> | <b>3901</b> |
| Rate of Growth ( <i>per cent</i> )                      | 5.31        | 12.6        | 12.77       | 19.08       | 18.18       |
| TE/GSDP ratio ( <i>per cent</i> )                       | 66.66       | 64.64       | 59.64       | 58.74       | 64.40       |
| RR/TE ratio ( <i>per cent</i> )                         | 90.20       | 82.99       | 95.71       | 89.79       | 73.19       |
| <b>Buoyancy of Total Expenditure with reference to:</b> |             |             |             |             |             |
| GSDP (ratio)  | 0.49        | 0.78        | 0.57        | 0.91        | 2.33        |
| RR (ratio)  | 0.28        | 3.49        | 0.42        | 1.63        | 4.94        |

The increase of ₹ 600 crore (18.18 *per cent*) in total expenditure in 2010-11 over 2009-10 was on account of an increase of ₹ 553 crore in revenue expenditure, ₹ 42 crore in capital expenditure and ₹ 5 crore in disbursement of Loans and Advances. During the current year, 73 *per cent* (₹ 2,855 crore) of the total expenditure was met from revenue receipts and the remaining (₹ 1,046 crore) from capital receipts and borrowed funds.

*The breakup of total expenditure in terms of plan and non-plan expenditure* during 2010-11 reveals that while the share of plan expenditure of ₹ 1,846 crore constituted 47.32 *per cent* of the Total Expenditure, the remaining 52.68 *per cent* (₹ 2,055 crore) was non-plan expenditure. Moreover, out of the increase of ₹ 600 crore in total expenditure, plan expenditure shared 57 *per cent* (₹ 342 crore) while non-plan expenditure contributed 43 *per cent* (₹ 258 crore) in 2010-11.

The decrease in ratio of revenue receipts to total expenditure from 89.79 *per cent* in 2009-10 to 73.19 *per cent* in 2010-11 is to be viewed in the light of the sudden decrease of Grants-in-Aid received from Government of India by ₹ 208.34 crore during 2010-11 over 2009-10 and also due to increase in total expenditure by ₹ 600 crore during the current year over the previous year. The buoyancy of total expenditure with reference to GSDP increased to 2.33 during 2010-11 from 0.91 in 2009-10 due to increase in the rate of growth of total expenditure (18.18 *per cent*) as compared to the rate of growth of GSDP (7.80 *per cent*). The buoyancy ratio of total expenditure with reference to revenue receipts in 2010-11 was minus 4.94 as rate of growth of revenue receipts was negative during the current year, whereas the rate of growth of total expenditure was positive.

### 1.6.2 Trends in total expenditure in terms of activities

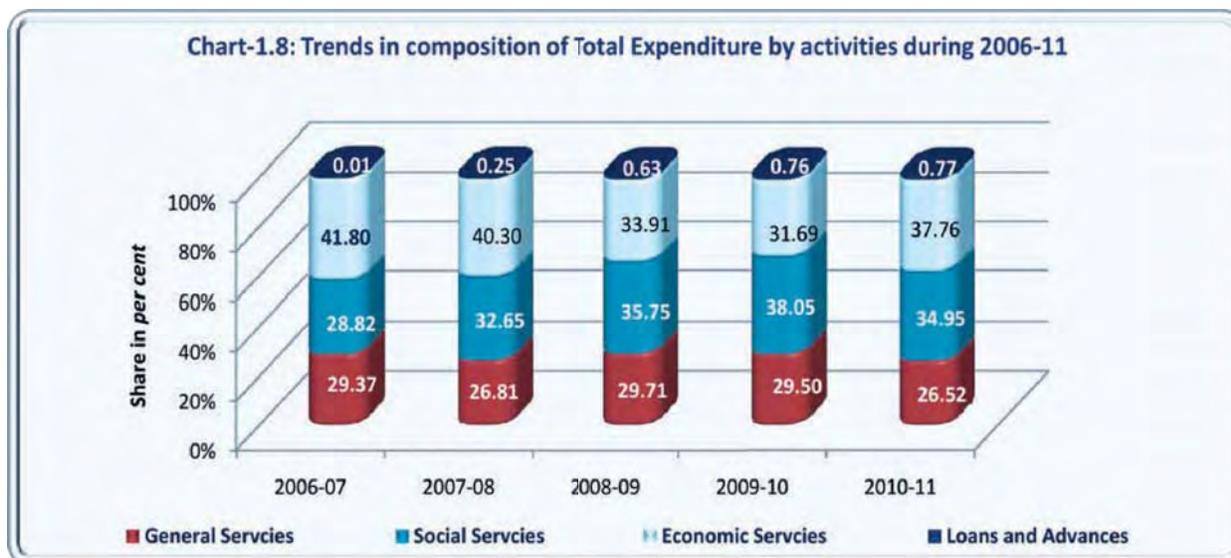
In terms of activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, Grants-in-Aid and Loans and advances. Relative shares of these components in the total expenditure are indicated in **Table-1.15** and **Chart-1.8**.

**Table-1.15: Components of expenditure – relative shares**

|                             | 2006-07       | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|-----------------------------|---------------|---------|---------|---------|---------|
|                             | (in per cent) |         |         |         |         |
| General Services            | 29.37         | 26.81   | 29.71   | 29.50   | 26.52   |
| Of which, Interest Payments | 10.47         | 8.46    | 8.14    | 7.71    | 2.71    |
| Social Services             | 28.82         | 32.65   | 35.75   | 38.05   | 34.95   |
| Economic Services           | 41.80         | 40.30   | 33.91   | 31.69   | 37.76   |
| Loans and Advances          | 0.01          | 0.25    | 0.63    | 0.76    | 0.77    |

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. But the expenditure on general services including interest payments, which are considered as non-developmental, together accounted for 26.52 *per cent* in 2010-11 as against 29.50 *per cent* in 2009-10. On the other hand development expenditure, i.e. expenditure on Social and Economic Services together accounted for 72.71 *per cent* in 2010-11 as against 69.74 *per cent* in 2009-10. This indicates that there was a moderate decrease in non-developmental expenditure and marginal increase in developmental expenditure in comparison to previous year.

The trends in composition of Total Expenditure by activities during 2006-11 are shown in the **Chart-1.8** below:



### 1.6.3 Revenue Expenditure

**Revenue Expenditure (RE)** is incurred to maintain the current level of services and payment of the past obligation and as such does not result in any addition to the State's infrastructure and service network. Revenue Expenditure had a predominant share of 78.62 per cent of total expenditure in 2006-07 which have since escalated to 83.47 per cent of total expenditure during the current year. The overall revenue expenditure of the State increased by 89.63 per cent from ₹ 1,717 crore in 2006-07 to ₹ 3,256 crore in 2010-11 at an annual average rate of 17.93 per cent. The revenue expenditure increased by 20.46 per cent from ₹ 2,703 crore in 2009-10 to ₹ 3,256 crore in 2010-11 in absolute terms.

A comparative position of Non Plan Revenue Expenditure (NPRE) *vis-à-vis* assessment made by XIII FC and FCP revealed that NPRE remained significantly higher than the normative assessment made in Thirteenth Finance Commission by 40.45 per cent (₹ 591.92 crore) and also higher than the projection made in FCP by 5.72 per cent (₹ 111.27 crore), as indicated in **Table-1.16:-**

**Table-1.16: Comparison of Non-plan revenue expenditure *vis-à-vis* XIII FC and FCP**

(₹ in crore)

|                              | Assessment/Projections |         | Actual  |
|------------------------------|------------------------|---------|---------|
|                              | XIII FC                | FCP     |         |
| Non Plan Revenue Expenditure | 1463.27                | 1943.92 | 2055.19 |

The Plan Revenue Expenditure (PRE) increased by ₹ 303.70 crore (33.84 per cent) from ₹ 897.35 crore in 2009-10 to ₹ 1,201.05 crore in 2010-11 mainly due to increase in Social Welfare (₹ 53.18 crore), Agriculture and Allied Activities (₹ 259.05 crore), Rural Development (₹ 24.38 crore) and Industry and Minerals (₹ 23.15 crore) which was offset by a decreased expenditure under Health and Family Welfare (₹ 93.61 crore) over the previous year.

The ratio of NPRE to GSDP decreased from 34.23 *per cent* in 2006-07 to 33.92 *per cent* during 2010-11, however, the ratio of NPRE to GSDP increased from 32.13 *per cent* in 2009-10 to 33.92 *per cent* in 2010-11. The buoyancy of NPRE to GSDP increased significantly from 0.71 in 2009-10 to 1.77 in 2010-11, and also the ratio of NPRE with reference to Revenue Receipts (RR) increased from 60.91 *per cent* in 2009-10 to 71.99 *per cent* in 2010-11 as indicated in the **Table-1.17**.

**Table-1.17: NPRE vis-à-vis GSDP and Revenue Receipt**

|                              | (₹ in crore) |         |         |         |         |
|------------------------------|--------------|---------|---------|---------|---------|
|                              | 2006-07      | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| Non Plan Revenue Expenditure | 1121.49      | 1259.31 | 1573.21 | 1805.35 | 2055.19 |
| Growth of NPRE               | 7.01         | 12.29   | 24.93   | 14.76   | 13.84   |
| GSDP                         | 3276.18      | 3802.42 | 4647.55 | 5619.41 | 6057.70 |
| Growth of GSDP               | 10.76        | 16.06   | 22.23   | 20.91   | 7.80    |
| Ratio of NPRE to GSDP        | 34.23        | 33.12   | 33.85   | 32.13   | 33.92   |
| Revenue Receipts             | 1969.00      | 2040.00 | 2653.00 | 2964.00 | 2855.00 |
| Ratio of NPRE to RR          | 56.96        | 61.73   | 59.30   | 60.91   | 71.99   |
| Buoyancy of NPRE w.r.t. GSDP | 0.65         | 0.77    | 1.12    | 0.71    | 1.77    |

#### 1.6.4 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table-1.18** and **Chart-1.9** present the trends in the expenditure on these components during 2006-11.

**Table-1.18: Components of Committed Expenditure**

| Components of Committed Expenditure | 2006-07        | 2007-08        | 2008-09        | 2009-10         | 2010-11           |                        |
|-------------------------------------|----------------|----------------|----------------|-----------------|-------------------|------------------------|
|                                     |                |                |                |                 | BE <sup>(@)</sup> | Actuals <sup>(@)</sup> |
| Salaries* & Wages , of which        | 623<br>(31.64) | 757<br>(37.11) | 906<br>(34.15) | 1079<br>(36.40) | 1126              | 1409<br>(49.35)        |
| Non-Plan Head                       | 473            | 602            | 737            | 888             | ---               | 1183                   |
| Plan Head**                         | 150            | 155            | 169            | 191             | ---               | 226                    |
| Interest Payments                   | 229<br>(11.63) | 208<br>(10.20) | 226<br>(8.52)  | 254<br>(8.57)   | 246               | 106<br>(3.71)          |
| Expenditure on Pensions             | 77<br>(3.91)   | 97<br>(4.75)   | 126<br>(4.75)  | 164<br>(5.53)   | 148               | 250<br>(8.76)          |
| Subsidies                           | --             | 8<br>(0.39)    | 6<br>(0.23)    | 4<br>(0.13)     | ---               | 2<br>(0.07)            |

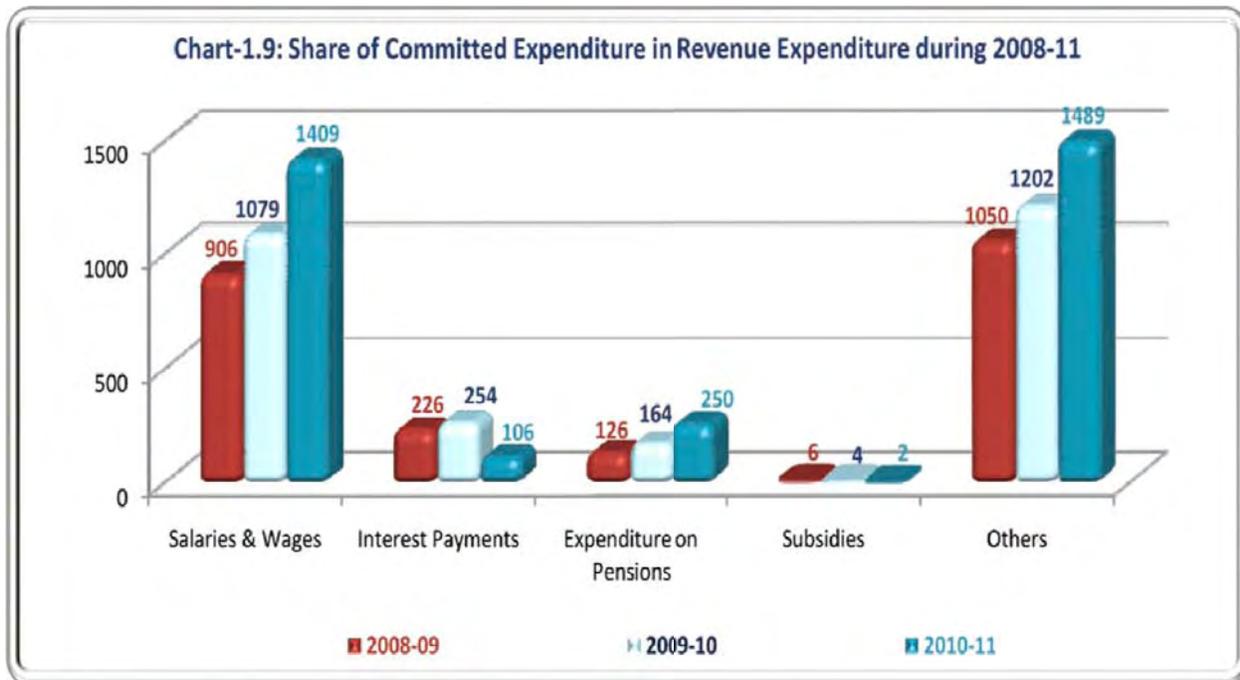
| Components of Committed Expenditure | 2006-07        | 2007-08        | 2008-09         | 2009-10         | 2010-11           |                        |
|-------------------------------------|----------------|----------------|-----------------|-----------------|-------------------|------------------------|
|                                     |                |                |                 |                 | BE <sup>(a)</sup> | Actuals <sup>(a)</sup> |
| Other Components                    | 788<br>(40.02) | 838<br>(41.08) | 1050<br>(39.58) | 1202<br>(40.55) | 1392              | 1489<br>(52.15)        |
| <b>Total Revenue Expenditure</b>    | <b>1717</b>    | <b>1908</b>    | <b>2314</b>     | <b>2703</b>     | <b>2912</b>       | <b>3256</b>            |
| <b>Revenue Receipt</b>              | <b>1969</b>    | <b>2040</b>    | <b>2653</b>     | <b>2964</b>     | <b>3253.87</b>    | <b>2855</b>            |

*Figures in the parentheses indicate percentage to Revenue Receipts*

\* Represents Salaries and wages and includes those spent from Grants-in-aid

\*\* Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes

<sup>(a)</sup> BE figures are gross figures sourced from Fiscal Policy Strategy Statement (FCP), Government of Mizoram, 2010-11, while Actuals are net figures sourced from Finance Accounts, 2010-11



**(A) Salaries**

Salaries and wages alone accounted for more than 49 per cent of revenue receipts and more than 68 per cent of the Non-Plan Revenue Expenditure of the State Government during the year. The expenditure on salaries and wages increased by more than 30 per cent from ₹ 1,079 crore in 2009-10 to ₹ 1,409 crore in 2010-11. Salary expenditure under Non-Plan head and Plan head during 2010-11 increased by ₹ 295 crore (33.22 per cent) and ₹ 35 crore (18.32 per cent) respectively over the previous year. Non-plan salary expenditure ranged from 75.92 per cent to 83.96 per cent of total expenditure on salaries during 2006-11. The expenditure on salaries during 2010-11 was significantly higher by ₹ 283 crore (25.13 per cent) than the projections (₹ 1,126 crore) made by the State Government in its FCP. The increase of ₹ 330 crore in salary expenditure over the previous year was attributable to payment of arrears on the basis of the recommendation of 6<sup>th</sup> Pay Commission by the State Government.

**(B) Interest Payments**

The major sources of borrowings of the State Government were (i) Loans from the Centre, (ii) Market loans, (iii) Loans from Banks and Financial Institutions, (iv) Loans from Small Savings Fund. Interest payments decreased by 58.27 *per cent* from ₹ 254 crore in 2009-10 to ₹ 106 crore in 2010-11. The interest payments decreased mainly due to decrease in Internal Debt (₹ 65.73 crore), Loans and Advances from Central Government (₹ 11.45 crore) and Small Savings, Provident Fund, etc. (₹ 71.59 crore).

**Table-1.19: Interest Payments vis-à-vis XIII FC assessment and State Projections**

(₹ in crore)

| Year    | Assessment made by the Thirteenth Finance Commission (XIII FC) | Assessment made by the State Government (BE) | Actual |
|---------|--|--|--------|
| 2010-11 | 281  | 246  | 106    |

The interest payment was ₹ 140 crore lower than the assessment (₹ 246 crore) made by the State Government in its Fiscal Correction Path (FCP) for the year 2010-11 and also lower by ₹ 175 crore than the projection (₹ 281 crore) made as per the Thirteenth Finance Commission.

**(C) Pension Payments**

Pension payments grew at an annual average rate of 45 *per cent* from ₹ 77 crore in 2006-07 to ₹ 250 crore in 2010-11. Pension payment (₹ 250 crore) alone account for nearly 9 *per cent* of revenue receipts (₹ 2,855 crore) of the State during the year and increased by ₹ 86 crore (52.44 *per cent*) over the previous year. The increase was mainly due to increase in expenditure under Superannuation and Retirement Allowances by ₹ 36.71 crore, Commuted value of Pensions by ₹ 14.34 crore, Gratuities by ₹ 16.55 crore, Family Pensions by ₹ 4.37 crore and Leave Encashment Benefits by ₹ 11.18 crore. The State Government had introduced 'The New Defined Contribution Pension Scheme' on 1 September 2010, however, contribution of employees covered under the scheme commenced from the salary of January 2011 and no amount towards employees contribution and employers share has been deposited under the head 8342 – Other deposits – 117 – Defined Contribution Pension Scheme for Government employees during the year 2010-11, as salaries, for the period from January 2011 to March 2011 were paid during the month of April 2011 by the State Government. **Table-1.20** shows the actual pension payments with reference to assessment made by the Thirteenth Finance Commission and projection of the State Government.

**Table-1.20: Actual Pension Payments vis-à-vis XIII FC assessment and State Projections**

(₹ in crore)

| Year    | Assessment made by the XIII FC | Assessment made by the State Government (BE) | Actual |
|---------|--------------------------------|--|--------|
| 2010-11 | 146                            | 148  | 250    |

*Pension payments were higher than the assessment made by the Thirteenth Finance Commission by ₹ 104 crore (71.23 per cent) as well as the State Government Projections made in its budget by ₹ 102 crore (68.92 per cent).*

#### (D) Subsidies

**Table-1.18** indicates that subsidies as a percentage of revenue receipts decreased from 0.13 per cent in 2009-10 to 0.07 per cent in 2010-11. The expenditure on subsidies has progressively decreased from ₹ eight crore during 2007-08 to ₹ two crore during the current year. During the current year the Departments, which received subsidy, include Co-Operation accounting for 11.89 per cent of total subsidies (₹ 25.50 lakh) and Crop Husbandry 88.11 per cent (₹ 189 lakh).

#### 1.6.5 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table-1.21**.

**Table-1.21: Financial Assistance to Local Bodies etc.**

|  | (₹ in crore)  |               |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|
| Financial Assistance to Institutions   | 2006-07       | 2007-08       | 2008-09       | 2009-10       | 2010-11       |
| Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.) | 27.00         | 29.20         | 33.34         | 31.47         | 30.97         |
| PRIs/ULBs  | 71.05         | 85.50         | 90.50         | 2.60          | 3.62          |
| Consumer Co-operative Societies/MIZOFED                                      | 2.10          | 2.66          | 2.46          | 0.95          | 1.00          |
| Other Institutions <sup>2</sup>  | 28.22         | 30.42         | 13.44         | 412.21        | 614.58        |
| <b>Total</b>   | <b>128.37</b> | <b>147.78</b> | <b>139.74</b> | <b>447.23</b> | <b>650.17</b> |
| Assistance as percentage of RE   | 7.48          | 7.75          | 6.04          | 16.55         | 19.97         |

Source: Finance Account, 2010-11

The grants extended to local bodies and other institutions with inter-year variations increased by 45.38 per cent from ₹ 447.23 crore in 2009-10 to ₹ 650.17 crore in 2010-11. The share of grants and loans to the revenue expenditure increased from 7.48 per cent in 2006-07 to 19.97 per cent during the current year. The increase of financial assistance to local bodies by ₹ 202.94 crore was due to increase in financial assistance to PRIs/ULBs by ₹ 1.02 crore, Consumer Co-operative Societies/MIZOFED by ₹ 0.05 crore and a substantial increase of assistance to Other Institutions by ₹ 202.37 crore, however, there was a decrease of financial assistance to Educational Institutions by ₹ 0.50 crore.

<sup>2</sup> (Figures for 2010-11) Apex Bank (₹ 0.07 crore), Emergency Management Research Institute (₹ 13 crore), Pollution Control Board (₹ 0.30 crore), State Library (₹ 0.26 crore), NREGS (₹ 19.95 crore), Sports Council (₹ 10.61 crore), Lai Autonomous District Council (₹ 72.47 crore), Mara Autonomous District Council (₹ 64.03 crore), Chakma Autonomous District Council (₹ 40.70 crore), MUCO Bank (₹ 0.07 crore) and others (₹ 393.13 crore)

## 1.7 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, *viz.*, adequacy of the expenditure (*i.e.* adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

### 1.7.1 Adequacy of Public Expenditure

The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure. The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like education and health etc. **Table-1.22** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2007-08 and 2010-11.

**Table-1.22: Fiscal Priority and Fiscal capacity of the State during 2007-08 and 2010-11**

| Fiscal Priority by the State            | AE/GSDP | DE/AE | SSE/AE | CE/AE | Education/AE | Health/AE |
|---|---------|-------|--------|-------|--------------|-----------|
| Mizoram State's Average (Ratio) 2007-08 | 64.66   | 73.11 | 32.81  | 22.13 | 13.75        | 4.02      |
| Mizoram State's Average (Ratio) 2010-11 | 64.39   | 72.89 | 35.08  | 15.76 | 15.86        | 4.46      |

*AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure  
# Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.*

*Source: For GSDP, the information was collected from the State's Directorate of Economic and Statistics*

The AE to GSDP ratio of the Government of Mizoram had marginally decreased by 0.27 *per cent* from 64.66 *per cent* in 2007-08 to 64.39 *per cent* in 2010-11. The DE to AE and CE to AE decreased by 0.22 *per cent* and 6.37 *per cent* respectively, whereas, SSE to AE ratio increased by 2.27 *per cent* as compared to 2007-08. Further, the expenditure on Education as proportion of aggregate expenditure was 15.86 *per cent* and the expenditure on Health as proportion of aggregate expenditure was only 4.46 *per cent* in 2010-11.

### 1.7.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit

goods<sup>3</sup>. Apart from improving the allocation towards development expenditure, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table-1.23** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and the previous years, **Table-1.24** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

**Table-1.23: Development Expenditure**

(₹ in crore)

| Components of Development Expenditure | 2006-07  | 2007-08  | 2008-09  | 2009-10  | 2010-11 |          |
|---------------------------------------|----------|----------|----------|----------|---------|----------|
|                                       |          |          |          |          | BE@     | Actuals  |
| Development Expenditure (a to c)      | 1543(71) | 1798(73) | 1943(70) | 2307(70) | 2366    | 2850(73) |
| a. Development Revenue Expenditure    | 1101(50) | 1263(51) | 1510(54) | 1755(53) | 1849    | 2245(58) |
| b. Development Capital Expenditure    | 442(20)  | 531(22)  | 421(15)  | 547(17)  | 512     | 591(15)  |
| c. Development Loans and Advances     | 0        | 4(0)     | 12(0)    | 5(0)     | 5       | 7(0)     |

*Figures in parentheses indicate percentage to aggregate expenditure*  
 (e) BE figures are gross figures sourced from Annual Financial Statement (budget), Government of Mizoram, 2010-11, while Actuals are net figures sourced from Finance Accounts, 2010-11

Development Expenditure on socio-economic services increased from ₹ 1,543 crore in 2006-07 to ₹ 2,850 crore in 2010-11. As a percentage of aggregate expenditure, the share of Development Expenditure ranged between 70 per cent and 73 per cent registering a moderate growth during 2006-11 and increased by 23.54 per cent (₹ 543 crore) during 2010-11 over the previous year. During the current year, the State Government earmarked ₹ 2,366 crore out of the estimated aggregate expenditure for development expenditure, this assessment was exceeded by ₹ 484 crore at the end of the year. Development Revenue and Capital expenditure showed increasing trend since 2006-07 at an annual growth rate of 20.78 per cent and 6.74 per cent respectively.

- The development revenue expenditure increased by ₹ 490 crore from ₹ 1,755 crore in 2009-10 to ₹ 2,245 crore in 2010-11. Expenditure on Social sector increased by 11.84 per cent (₹ 131 crore) from ₹ 1,106 crore in 2009-10 to ₹ 1,237 crore in 2010-11, while the Economic sector increased by 55.32 per cent (₹ 359 crore) from ₹ 649 crore in 2009-10 to ₹ 1,008 crore in 2010-11. The actual development revenue expenditure was more than the State's projection in budget by ₹ 396 crore.

<sup>3</sup> As defined in Appendix 1.1.C

- The Development Capital Expenditure increased by ₹ 44 crore from ₹ 547 crore in 2009-10 to ₹ 591 crore in the current year. The increase of ₹ 44 crore in development capital expenditure was due to increase in expenditure under economic services by ₹ 68 crore, however, there was a decrease in expenditure under social services by ₹ 24 crore over the previous year. The actual development capital expenditure was more than the State's projection in budget by ₹ 79 crore.
- The Expenditure on Development Loans and Advances increased by ₹ two crore from ₹ five crore in 2009-10 to ₹ seven crore in 2010-11. The actual expenditure on development loans and advances was also more than the State's assessment in budget by ₹ two crore.

Access to basic education, health services and drinking water and sanitation facilities are strong indicators of socio-economic progress. Further, expenditure on Economic services includes all such services that promote directly and indirectly productive capacity within the State by improving the quality of human resources. Therefore, it is pertinent to make an assessment with regard to expansion and efficient provision of these services in the State. **Table-1.24** summarizes percentage of expenditure under different components of economic and social services sector incurred by the State Government in expanding and maintaining social and economic services in the State during 2009-10 and 2010-11.

**Table-1.24: Efficiency of Expenditure Use in Selected Social and Economic Services**

| Social/ Economic Infrastructure           | 2009-10                        |                     |              |                          | 2010-11                        |                     |              |                          |
|---|--------------------------------|---------------------|--------------|--------------------------|--------------------------------|---------------------|--------------|--------------------------|
|   | Ratio of CE to TE <sup>@</sup> | In RE, the share of |              | Non-Salary<br>₹ in crore | Ratio of CE to TE <sup>@</sup> | In RE, the share of |              | Non-Salary<br>₹ in crore |
|   |                                | S & W               |              |                          |                                | S & W               |              |                          |
|   |                                | ₹ in crore          | In per cent  |                          |                                | ₹ in crore          | In per cent  |                          |
| <b>Social Services (SS)</b>               |                                |                     |              |                          |                                |                     |              |                          |
| <b>Education, Sports, Art and Culture</b> | 7.28                           | 337.37              | 69.06        | 151.12                   | 4.84                           | 443.33              | 75.31        | 145.35                   |
| <b>Health and Family Welfare</b>          | 0.00                           | 95.55               | 37.94        | 156.28                   | 0.03                           | 125.00              | 71.81        | 49.07                    |
| <b>WS, Sanitation &amp; HUD</b>           | 43.53                          | 23.24               | 16.69        | 116.04                   | 37.75                          | 31.14               | 20.47        | 120.99                   |
| <b>Other Social Services</b>              | 0.26                           | 31.21               | 13.80        | 194.87                   | 0.20                           | 9.75                | 3.02         | 312.75                   |
| <b>Total (SS)</b>                         | <b>11.91</b>                   | <b>487.37</b>       | <b>44.08</b> | <b>618.31</b>            | <b>9.20</b>                    | <b>609.22</b>       | <b>49.23</b> | <b>628.16</b>            |

| Social/ Economic Infrastructure | 2009-10                        |                     |              |                          | 2010-11                        |                     |              |                          |
|---------------------------------|--------------------------------|---------------------|--------------|--------------------------|--------------------------------|---------------------|--------------|--------------------------|
|                                 | Ratio of CE to TE <sup>@</sup> | In RE, the share of |              | Non-Salary<br>₹ in crore | Ratio of CE to TE <sup>@</sup> | In RE, the share of |              | Non-Salary<br>₹ in crore |
|                                 |                                | S & W               |              |                          |                                | S & W               |              |                          |
|                                 |                                | ₹ in crore          | In per cent  | ₹ in crore               |                                | In per cent         |              |                          |
| <b>Economic Services (ES)</b>   |                                |                     |              |                          |                                |                     |              |                          |
| Agri. & Allied Activities       | 31.85                          | 93.41               | 38.17        | 151.34                   | 19.94                          | 118.88              | 23.70        | 382.72                   |
| Irrigation and Flood Control    | 89.31                          | 2.84                | 53.28        | 2.49                     | 88.66                          | 5.34                | 72.26        | 2.05                     |
| Power & Energy                  | 32.88                          | 43.52               | 25.49        | 127.21                   | 26.72                          | 57.91               | 29.19        | 140.47                   |
| Transport                       | 61.07                          | 43.99               | 56.83        | 33.41                    | 65.62                          | 16.10               | 20.65        | 61.88                    |
| Other Economic Services         | 17.73                          | 54.62               | 36.14        | 96.52                    | 21.52                          | 180.10              | 81.05        | 42.12                    |
| <b>Total (ES)</b>               | <b>37.91</b>                   | <b>238.38</b>       | <b>36.71</b> | <b>410.97</b>            | <b>31.55</b>                   | <b>378.33</b>       | <b>37.55</b> | <b>629.24</b>            |
| <b>Grand Total (SS+ES)</b>      | <b>23.70</b>                   | <b>725.75</b>       | <b>41.35</b> | <b>1029.28</b>           | <b>20.80</b>                   | <b>987.55</b>       | <b>43.99</b> | <b>1257.40</b>           |

*TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages*

<sup>@</sup> *Total Revenue and Capital Expenditure of the services concerned*

The trends in the above table reveal that development capital expenditure as a percentage of total expenditure decreased from 23.70 per cent in 2009-10 to 20.80 per cent. The ratio of salary and wage component under Social and Economic Services to revenue expenditure during the current year was 43.99 per cent, a slight increase of 2.64 per cent over the previous year. The salary and wage component under revenue expenditure in Social Sector increased by ₹ 121.85 crore from ₹ 487.37 crore in 2009-10 to ₹ 609.22 crore in 2010-11, showing an increase by 5.15 per cent over the previous year; while non-salary component marginally increased by 1.59 per cent over the previous year from ₹ 618.31 crore in 2009-10 to ₹ 628.16 crore in 2009-10. Again, within the revenue expenditure under economic services, the salary and wage component increased by ₹ 139.95 crore (an increase of 0.84 per cent) from ₹ 238.38 crore in 2009-10 to ₹ 378.33 crore in 2010-11 and also non-salary component increased by 53.11 per cent from ₹ 410.97 crore in 2009-10 to ₹ 629.24 crore in 2010-11.

The salary and wages expenditure under Education, Sports, Art & Culture increased by ₹ 105.96 crore (an increase of 6.25 per cent) from ₹ 337.37 crore in 2009-10 to ₹ 443.33 crore in 2010-11; while the increase in expenditure on Health and Family Welfare was ₹ 29.45 crore from ₹ 95.55 crore in 2009-10 to ₹ 125.00 crore in 2010-11, showing a significant increase by 33.87 per cent over the previous year. Trends in expenditure under Education, Sports, Art & Culture revealed that the salary and wage component increased by 31 per cent and non-salary and wage decreased by four per cent over 2009-10.

During 2010-11, the salary & wage component under Economic Services registered a decrease in Agriculture and Allied Activities by 14.47 *per cent* Transport by 36.18 *per cent*, however, there was a major increase in salary component in Irrigation & Flood Control by 18.98 *per cent*, Energy by 3.70 *per cent* and Other Economic Services by 44.91 *per cent*.

The expenditure on Economic Services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. The trend in revenue and capital expenditure on Economic Services indicate that revenue expenditure increased by 55.17 *per cent* from ₹ 649.35 crore in 2009-10 to ₹ 1,007.57 crore in 2010-11 and capital expenditure increased by 17.35 *per cent* from ₹ 396.59 crore in 2009-10 to ₹ 465.41 crore in 2010-11 (Detailed in **Appendix-1.6 Part-A & Part-B**).

### 1.7.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

Besides, stepping up the expenditure on key social and economic services, enhancing human development requires the State to improve the delivery mechanism to obtain the desired outcomes. The State Government is expected to relate expenditure to outcomes in terms of quality, reach and the impact of Government expenditure. Performance reviews indicating the outlay-outcome relationship are *inter alia* included in the State Audit Report. The effectiveness of the expenditure as brought out in Chief Controlling based Audit of the Public Health Engineering Department taken up during May-July 2011 is summarized below:

Public Health Engineering Department is responsible for providing adequate and safe drinking water to the rural and urban population as well as hygienic sanitation facilities in the State. Apart from the coverage of remaining uncovered habitations with safe drinking water system, the Department is committed to promote sustainability of safe drinking water system and to institutionalize water quality monitoring and surveillance system. The Department is also engaged in improving the quality of life of the rural people and also to provide privacy and dignity to women through Total Sanitation Campaign.

A performance review of Chief Controlling based Audit on Public Health Engineering Department revealed shortfalls in achieving the programme objectives owing largely to the deficiency in planning. Deficiency in planning in turn impinged on the financial management of the schemes and projects, which was conspicuously apparent in the persistent recurrence of savings in each successive years between 2006-11 revealing the Departments incapacity to absorb funds released by GoI as evidenced by the trend of rush of expenditure in the last quarter of the financial year, and worse still, leading to huge amounts being parked in PW Deposits. Diversion of funds towards operations and maintenance revealed that the Department had digressed in its application of funds for purposes it was sanctioned thereby affecting vital programme elements like Water Quality measures, which has serious public health implications. There were cases of manpower remaining virtually idle during 2006-11 in the Ground Water and Quality Control Division arising out of the failure of the Department to plan and provide the requisite and laboratory equipment for the technical hands in position to work on is an obvious instance of inefficiencies in HR management.

There were some positives in the effort of the Department in program execution especially with reference to capacity building and sensitisation drive through IEC strategies, however, the review has flagged glaring aberration in the material procurement process and serious deviation from the basic canons of financial propriety especially with reference to purchase of GI pipes by the Department. Materials were procured and payments made beyond the scope of delegated powers by the Head of Department and without obtaining the approval of the State Purchase Advisory Board. Absence of independent program evaluation, poor and deficient monitoring activity and absence of internal control mechanism revealed shortfalls in achieving the programme objectives of the Department.

## 1.8 Financial Analysis of Government Expenditures and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

### 1.8.1 Incomplete projects

The department-wise information pertaining to incomplete time overrun projects as on 31 March 2011 is given in **Table-1.25** below:

**Table-1.25: Department-wise Profile of Incomplete Projects**

(₹ in crore)

| Department                      | No. of Incomplete Projects | Initial Budgeted Cost | Revised Total Cost of Projects | Cost Over Runs | Cumulative actual expenditure as on 31 March 2011 |
|---------------------------------|----------------------------|-----------------------|--------------------------------|----------------|---|
| Public Works (Roads)            | 24                         | 212.61                | --                             | --             | 158.21  |
| Public Works (Buildings)        | 3                          | 49.65                 | --                             | --             | 36.21   |
| Power and Electricity (P&E)     | 3                          | 410.35                | 191.13                         | 55.93          | 415.41  |
| Public Health Engineering (PHE) | 6                          | 110.34                | 113.47                         | 41.67          | 130.09  |
| <b>Total</b>                    | <b>36</b>                  | <b>782.95</b>         | <b>304.60</b>                  | <b>97.60</b>   | <b>739.92</b>                                     |

Source: Appendix X (Finance Account 2010-11)

Out of 164 projects, there were 36 incomplete projects as of March 2011, which were started with initial budgeted cost of ₹ 782.95 crore under Public Works (Roads) (₹ 212.61 crore), Public Works (Buildings) (₹ 49.65 crore), Public Health Engineering (₹ 110.34 crore) and Power & Electricity Departments (₹ 410.35 crore) and the projects were to be completed on or before March 2011.

The delay in completion in respect of two projects has resulted in a cost overrun of ₹ 97.60 crore at the close of the current year. Due to non-completion of the projects (March 2011), an amount of ₹ 739.92 crore booked against these projects remained blocked. Out of these projects, one project under Power and Electricity (Construction of Serlui 'B' SHP – 12 MW) which was to be completed at a cost of ₹ 135.20 crore had subsequently been revised at ₹ 191.13 crore and one project under Public Health Engineering (Greater Aizawl Water Supply, Phase II) whose initial budgeted cost was ₹ 71.80 crore had been later revised to ₹ 113.47 crore. Due to delay in completion of the projects, not only the benefits to be accrued to the society got delayed but also the cost to the exchequer increased due to time overruns involved in their completion.

### 1.8.2 Investment and returns

As of 31 March 2011, Government had invested ₹ 19.27 crore in Government Companies and Co-operatives, out of which an amount of ₹ 3.03 crore was invested in Government Companies and ₹ 16.24 crore was invested in Co-operative Societies. During the current year, State Government invested only ₹ 0.27 crore in Public Sector and other Undertakings of Government Companies. No dividend was received during 2010-11. **The average return on this investment was Nil in the last five years while the Government paid an average interest rate ranging from 2.60 per cent to 7.56 per cent on its borrowings during 2006-11 (Table-1.26).**

**Table-1.26: Return on Investment**

|   | (₹ in crore) |         |         |         |         |
|---|--------------|---------|---------|---------|---------|
| Investment/ Return/ Cost of Borrowings                      | 2006-07      | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
| Investment at the end of the year (₹ in crore)              | 15.37        | 17.21   | 18.73   | 19.00   | 19.27   |
| Return (₹ in crore)   | --           | --      | --      | --      | --      |
| Return (per cent)   | --           | --      | --      | --      | --      |
| Average rate of interest on Government borrowing (per cent) | 7.56         | 6.43    | 6.45    | 7.02    | 2.60    |
| Difference between interest rate and return (per cent)      | 7.56         | 6.43    | 6.45    | 7.02    | 2.60    |

Five Working Government Companies have registered accumulated losses of ₹ 49.20 crore (*Mizoram Electronic Development Corporation Ltd ₹ 3.09 crore up to 2001-20; Mizoram Food and Allied Industries Corporation Ltd. ₹ 18.33 crore during 2007-2008 to 2009-2010; Mizoram Handloom and Handicraft Development Corporation Ltd. ₹ 3.53 crore up to 1999-2000; Zoram Industrial Development Corporation Ltd. ₹ 19.61 crore up to 2008-2009 and Mizoram Agricultural Marketing Corporation Ltd. ₹ 4.64 crore during 2005-2006 to 2008-2009*).

A performance-based system of accountability should be put in place in the Government Companies/ Statutory Corporations so as to increase profitability and improve efficiency in service. The Government should ensure better value for money in investments by identifying the Companies/

Corporations which are endowed with low financial but high socio-economic returns and see if high cost borrowings need to be invested in those Companies/Corporations.

### 1.8.3 Loans and Advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. **Table-1.27** presents the outstanding loans and advances as on 31 March 2011, interest receipts *vis-à-vis* interest payments during the last three years.

**Table-1.27: Average Interest Received on Loans Advanced by the State Government**

| Quantum of Loans/Interest Receipts/Cost of Borrowings   | 2008-09       | 2009-10       | 2010-11       |
|---|---------------|---------------|---------------|
|   |               |               | Actual        |
| <b>Opening Balance</b>  | <b>248.96</b> | <b>241.51</b> | <b>241.14</b> |
| Amount advanced during the year   | 17.41         | 24.94         | 29.87         |
| Amount repaid during the year   | 24.86         | 25.31         | 25.97         |
| <b>Closing Balance</b>  | <b>241.51</b> | <b>241.14</b> | <b>245.04</b> |
| <b>Of which Outstanding balance for which terms and conditions have been settled</b>            |               |               |               |
| Net addition  | (-) 7.45      | (-) 0.37      | (+)3.90       |
| Interest Receipts   | 5.36          | 1.70          | 0.06          |
| Interest receipts as <i>per cent</i> to outstanding Loans and advances                          | 2.22          | 0.70          | 0.02          |
| Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government. | 6.24          | 7.01          | 2.35          |
| Difference between interest payments and interest receipts ( <i>per cent</i> )                  | 4.02          | 6.31          | 2.33          |

The total amount of outstanding Loans and Advances as on 31 March 2011 was ₹ 245.04 crore. The amount of loans disbursed during the year increased from ₹ 24.94 crore in 2009-10 to ₹ 29.87 crore in 2010-11. Out of the total amount of loans advanced during the year, ₹ five crore went to social services, ₹ 2.15 crore to economic services and ₹ 22.72 crore to Government servants. Under the social services, the amount of ₹ 5 crore was disbursed to Housing only and in economic services the amount of ₹ 2.15 crore was disbursed to Co-operation (₹ 0.51 crore) and Village and Small Industries (₹ 1.64 crore). The recovery of loans and advances increased marginally from ₹ 25.31 crore in 2009-10 to ₹ 25.97 crore in 2010-11 mainly on account of recovery under Housing (₹ 19.99 crore) from Government Servants (₹ 5.56 crore). As the current level of recovery on loans advanced by the States is extremely poor, the XIII FC projected the interest receipts of States on a normative basis without linking it to the current level. Outstanding loans and advances at the end of 2009-10 have been projected by XIII FC as constant over the projection period and applied an interest rate of seven *per cent* to these outstanding loans and taken as the interest receipt in each of the years.

*Interest received against these loans and advances further decreased by 96.47 per cent from ₹ 1.71 crore in 2009-10 to an almost negligible amount of ₹ 0.06 crore in 2010-11 and as a result the interest receipt to outstanding loans stood at 0.02 per cent during 2010-11.*

#### 1.8.4 Cash Balances and Investment 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 mismatch in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances from RBI has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three years average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by the RBI from time to time depending on the holding of Government securities. The limit for ordinary Ways and Means Advances to the State Government was ₹ 55 crore with effect from 1 April 2006. The limit for Special Ways and Means Advances is being revised by the RBI from time to time. Under an agreement with the Reserve Bank of India, the State Government has to maintain a minimum daily cash balance of ₹ 0.20 crore with the Bank. If the balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary and special ways and means advances/overdrafts from time to time.

The position of Ways and Means Advances and Overdraft is shown in the table below:

**Table-1.28: Ways and Means Advances and Overdraft**

|   | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---------|---------|---------|---------|---------|
| (₹ in crore)  |         |         |         |         |         |
| <b>Ordinary and Special Ways &amp; Means Advances</b> |         |         |         |         |         |
| Availed in the year                                   | 19.59   | 23.98   | --      | 1.37    | 163.36  |
| Outstanding WMAs                                      | 31.72   | 12.13   | 12.13   | 12.13   | 27.21   |
| Interest paid   | --      | 0.02    | --      | 8.63    | --      |
| Number of days  | 8       | 3       | --      | 19      | 21      |
| <b>Overdraft</b>                                      |         |         |         |         |         |
| Availed in the year                                   | --      | --      | --      | --      | --      |
| Outstanding Overdraft                                 | 15.08   | 15.08   | 15.08   | 15.08   | 15.08   |
| Number of days  | --      | --      | --      | --      | --      |
| Interest paid   | --      | --      | --      | --      | --      |

The State availed Ordinary and Special Ways & Means Advances during the period 2006-07 to 2010-11 except during 2008-09 against which an interest of ₹ 8.63 crore was paid. The State however did not avail any overdraft facility during 2006-11.

**Table-1.29** depicts the cash balances and investments made by the State Government out of cash balances<sup>4</sup> during the year.

<sup>4</sup> The General cash balance represents the combined balances of the Consolidated Fund of India and the Public Account. As per the agreement with the Reserve Bank of India, the State Government has to maintain with the Bank on all days a minimum balance. (Explanatory Notes on Appendix-I, Finance Accounts, Vol. I)

**Table-1.29: Cash Balances and Investment of Cash balances**

| Particulars   | (₹ in crore)           |                        |                              |
|---|------------------------|------------------------|------------------------------|
|   | As on<br>01 April 2010 | As on<br>31 March 2011 | Increase (+)/<br>Decrease(-) |
| <b>Cash Balances</b>  | 317                    | 221                    | (-)96                        |
| <b>Investments from Cash Balances (a to d)</b>                  | 345                    | 307                    | (-)38                        |
| a. GoI Treasury Bills   | 266                    | 211                    | (-)55                        |
| b. GoI Securities   | --                     | --                     | --                           |
| c. Other Securities, if any specify                             | --                     | --                     | --                           |
| d. Other Investments  | 79                     | 96                     | (+)17                        |
| <b>Fund-wise Break-up of Investment from Earmarked balances</b> |                        |                        |                              |
| a. Sinking Fund   | 79                     | 96                     | (+)17                        |
| <b>Interest Realized</b>  | 12                     | 5.74                   | (-)6.26                      |

Cash balance of the State Government at the end of the current year decreased by ₹ 96 crore from ₹ 317 crore in 2009-10 to ₹ 221 crore in 2010-11. The investment from cash balances decreased by 11.01 *per cent* from ₹ 345 crore in 2009-10 to ₹ 307 crore in 2010-11. An amount of ₹ 5.74 crore was earned as interest during 2010-11 on the amount invested. Further, during the year, the Government appropriated an amount of ₹ 16.50 crore from revenue and credited to Consolidated Sinking Fund, constituted during 2000-2001 for redemption of open market loans, for investment in the Government of India Securities. As a result the balance as on 31 March 2011 was ₹ 95.75 crore for amortisation of long term loans.

## 1.9 Assets and Liabilities

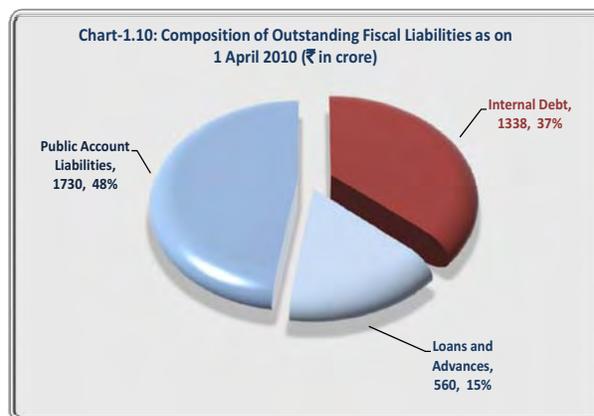
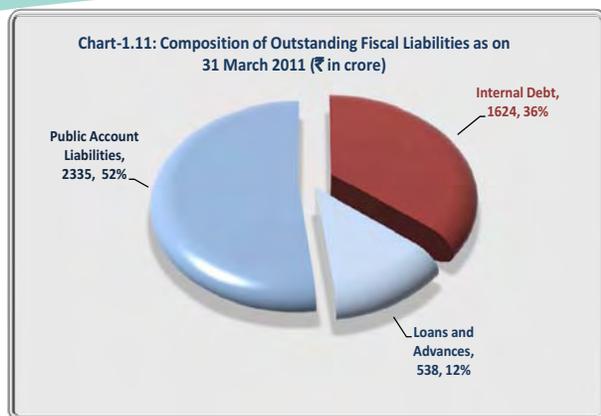
### 1.9.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the 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. **Appendix-1.3** gives an abstract of such liabilities and the assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

The FRBM Act, 2006 of the State defined the total liabilities as “The explicit liabilities under the Consolidated Fund of the State and the Public Account of the State including General Provident Fund”.

### 1.9.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix-1.4**. The compositions of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in **Chart-1.10** and **1.11**.



**Table-1.30** gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP, to revenue receipts and to State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

**Table-1.30: Fiscal Liabilities – Basic Parameters**

|  | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|--|---------|---------|---------|---------|---------|
| Fiscal Liabilities <sup>#</sup> (₹ in crore)             | 3095.52 | 3378.04 | 3614.06 | 3627.69 | 4496.86 |
| Rate of Growth ( <i>per cent</i> )                       | 4.83    | 9.13    | 6.99    | 0.38    | 23.96   |
| <b>Ratio of Fiscal Liabilities to:</b>                   |         |         |         |         |         |
| GSDP ( <i>per cent</i> )                                 | 94.49   | 88.84   | 77.76   | 64.56   | 74.23   |
| Revenue Receipts ( <i>per cent</i> )                     | 157.22  | 165.61  | 136.22  | 122.41  | 157.49  |
| Own Resources ( <i>per cent</i> )                        | 1540.06 | 1625.39 | 1426.85 | 1549.7  | 1622.48 |
| <b>Buoyancy of Fiscal Liabilities with reference to:</b> |         |         |         |         |         |
| GSDP (ratio)   | 0.45    | 0.57    | 0.31    | 0.02    | 3.07    |
| Revenue Receipts (ratio)                                 | 0.25    | 2.53    | 0.23    | 0.03    | (-)6.52 |
| Own Resources (ratio)                                    | 0.33    | 2.69    | 0.32    | (-)0.05 | 1.30    |

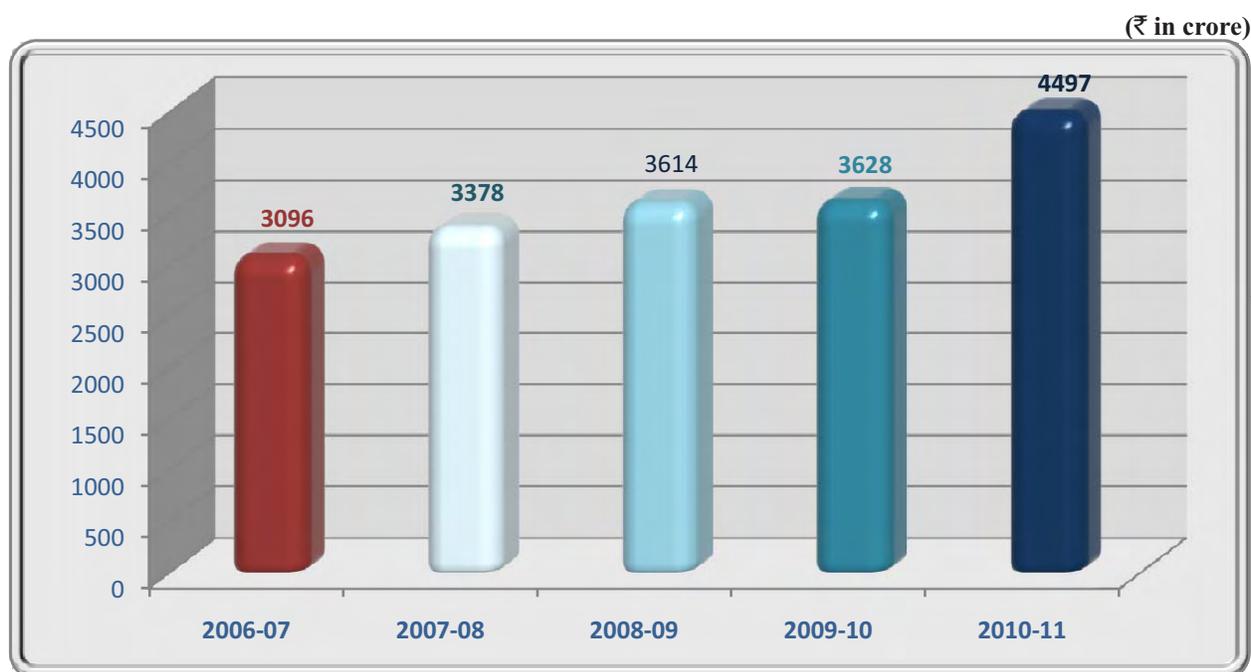
<sup>#</sup> Includes Internal Debt, Loans and Advances from GoI, Small Savings, Provident Fund etc., Reserve Funds (Gross) and Deposits

The overall fiscal liabilities of the State increased at an average annual rate of 9.05 *per cent* during the period 2006-11. During the current year, the overall fiscal liabilities of the State Government increased by ₹ 869.17 crore (23.96 *per cent*) from ₹ 3,627.69 crore in 2009-10 to ₹ 4,496.86 crore in 2010-11. The increase in fiscal liabilities was mainly due to increase in the internal debt by

₹ 286.71 crore and Public Account liabilities by ₹ 604.50 crore, offset marginally by decrease in loans and advances from GoI by ₹ 22.04 crore. **The ratio of fiscal liabilities to GSDP has increased from 64.56 per cent in 2009-10 to 74.23 per cent in 2010-11. These fiscal liabilities stood at nearly 1.57 times the revenue receipts and 16.22 times of the State's own resources at the end of 2010-11.** The buoyancy of these liabilities with respect to GSDP during the year was 3.07 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 3.07 *per cent*. As per Thirteenth Finance Commission recommendations the State Government should bring the Fiscal Liabilities-GSDP ratio to around 25 *per cent* in the next five years. In line with the recommendation of the Twelfth Finance Commission, the State Government has set up sinking fund for amortisation of market borrowings as well as other loans and debt obligations. As of 31 March 2011, the balance in the sinking fund was ₹ 95.75 crore. During 2009-10, ₹ 16.50 crore has been invested in the sinking fund.

The increasing position of fiscal liabilities during 2006-11 is depicted in the bar chart below:

**Chart-1.12: Trend showing Fiscal Liabilities during 2006-11**



### 1.9.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. In compliance with the Twelfth Finance Commission recommendations regarding creation of Guarantee Redemption Fund (GRF), the State Government has set up the fund during May 2009 with initial corpus fund of ₹ 50 lakh. Also during 2010-11, an additional fund of ₹ 50 lakh has been transferred to Guarantee Redemption Fund (GRF). A ceiling has been laid down in its Medium Term Fiscal Policy Strategy Statement

stipulating that fresh guarantees in a year should not exceed three *per cent* of GSDP. However, information regarding Guarantee Commission or fee has not been received from the State Government<sup>5</sup>.

As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table-1.31**.

**Table-1.31: Guarantees given by the Government of Mizoram**

| Guarantees  | ₹ in crore) |         |         |
|---|-------------|---------|---------|
|   | 2008-09     | 2009-10 | 2010-11 |
| Maximum amount guaranteed                                   | 305         | 189     | 189     |
| Outstanding amount of guarantees                            | 134         | 103     | 103     |
| Revenue Receipts  | 2653        | 2964    | 2855    |
| Total Receipts in Consolidated Fund of the State            | 2784        | 3215    | 3418    |
| Percentage of maximum amount guaranteed to revenue receipts | 11.50       | 6.38    | 6.62    |

The State Government had guaranteed loans raised by various corporations and others which at the end of 2010-11 stood at ₹ 103 crore. No fresh guarantees were extended in the current year. The outstanding guarantees were 3.61 *per cent* of the revenue receipts of the Government and it is pertinent to note that if the liabilities arising out of the outstanding guarantees are added to the fiscal liabilities of the State Government at the close of the current year, the ratio of total liabilities to GSDP would increase from 74.23 *per cent* to 75.93 *per cent*.

### 1.10 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability<sup>6</sup> of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation<sup>7</sup>, sufficiency of non-debt receipts<sup>8</sup>, net availability of borrowed funds<sup>9</sup>, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table-1.32** analyzes the debt sustainability of the State according to these indicators for the period of five years beginning from 2006-07.

<sup>5</sup> Source: Notes to Finance Account, 2010-11, Vol.-I

<sup>6</sup> As defined in Appendix 1.1.C

<sup>7</sup> As defined in Appendix 1.1.C

<sup>8</sup> As defined in Appendix 1.1.C

<sup>9</sup> It indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds

**Table-1.32: Debt Sustainability: Indicators and Trends**

| Indicators of Debt Sustainability                            | 2006-07         | 2007-08            | 2008-09         | 2009-10           | 2010-11               |
|--|-----------------|--------------------|-----------------|-------------------|-----------------------|
| <b>Debt Stabilization (Quantum Spread + Primary Deficit)</b> | 94 + 38<br>=132 | 298+(-)183<br>=115 | 533+131<br>=664 | 502+(-)57<br>=445 | 189+(-)914<br>=(-)725 |
| <b>Sufficiency of Non-debt Receipts (Resource Gap)</b>       | (+) 205         | (-) 200            | (+) 297         | (-) 218           | (-)709                |
| <b>Net Availability of Borrowed Funds</b>                    | (-) 86          | 75                 | 10              | (-) 241           | 764                   |
| <b>Burden of Interest Payments (IP/RR Ratio)</b>             | 11.62           | 10.20              | 8.50            | 8.58              | 3.71                  |
| <b>Maturity Profile of State Debt (In Years)</b>             |                 |                    |                 |                   | <b>(₹ in crore)</b>   |
| <b>Maturity Profile<sup>(a)</sup></b>                        |                 |                    |                 | <b>Amount</b>     | <b>Per cent</b>       |
| <b>0 – 1</b>   |                 |                    |                 | 1160.70           | 15.06                 |
| <b>1 – 3</b>   |                 |                    |                 | 1165.52           | 15.13                 |
| <b>3 – 5</b>   |                 |                    |                 | 1064.92           | 13.82                 |
| <b>5 – 7</b>   |                 |                    |                 | 1230.73           | 15.97                 |
| <b>7 – 9</b>   |                 |                    |                 | 981.74            | 12.74                 |
| <b>9 – 11</b>  |                 |                    |                 | 863.73            | 11.21                 |
| <b>11 – 13</b>   |                 |                    |                 | 636.22            | 8.26                  |
| <b>13 – 15</b>   |                 |                    |                 | 275.22            | 3.57                  |
| <b>15 and above</b>  |                 |                    |                 | 326.98            | 4.24                  |
| <b>Total</b>   |                 |                    |                 | <b>7705.76</b>    | <b>100</b>            |

<sup>(a)</sup> As per Finance Accounts.

**Table-1.32** reveals that quantum spread together with primary deficit/surplus has been positive during the period from 2006-07 to 2009-10. However, during the current year sum of quantum spread and primary deficit turned negative indicating that the debt-GSDP ratio is unstable and eventually the ratio would rise. The sum of quantum spread and primary deficit at ₹ (-) 725 crore during 2010-11 against ₹ 445 crore in 2009-10 is a negative sign towards fiscal balances in the forthcoming years.

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. Negative resource gap indicates incremental non-debt receipts are not sufficient to cover the incremental interest liabilities and incremental primary expenditure. Widening of resource gap from ₹ (-) 218 crore in 2009-10 to ₹ (-) 709 crore during 2010-11 indicates worsening capacity of the State to sustain the debt in the medium to long run.

The Public Debt Receipts of the State increased from ₹ 236.56 crore in 2006-07 to ₹ 537.22 crore in 2010-11 Public Debt receipts jumped by 238 per cent in the current year from ₹ 225.89 crore

in 2009-10. The cash balance also came down to ₹ 221.31 crore in 2010-11 from ₹ 316.78 crore in 2009-10. This calls for serious efforts towards raising non-debt receipts to maintain debt stability.

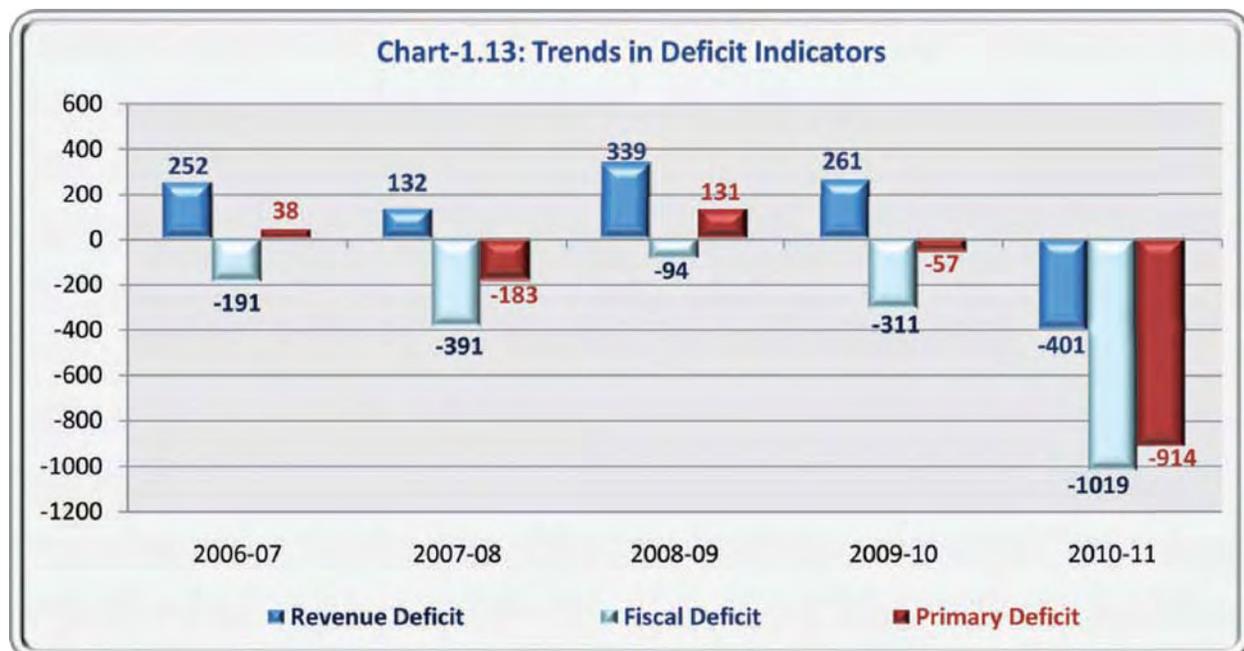
The maturity profile of the State's debt during the current year indicates that out of the outstanding debt stock of ₹ 7,705.76 crore, around 60 per cent (₹ 4,621.87 crore) is payable within the next seven years while the remaining 40 per cent (₹ 3,083.89 crore) are to be paid in more than seven years time. Since there was no fiscal surplus during the last five years (2006-11), the Government will have to borrow further to discharge the expenditure obligations unless there is adequate fiscal surplus. Ideally, further borrowings in future should be made in such a way that there is no bunching of repayments in any particular year as that will cause undue stress on the budget.

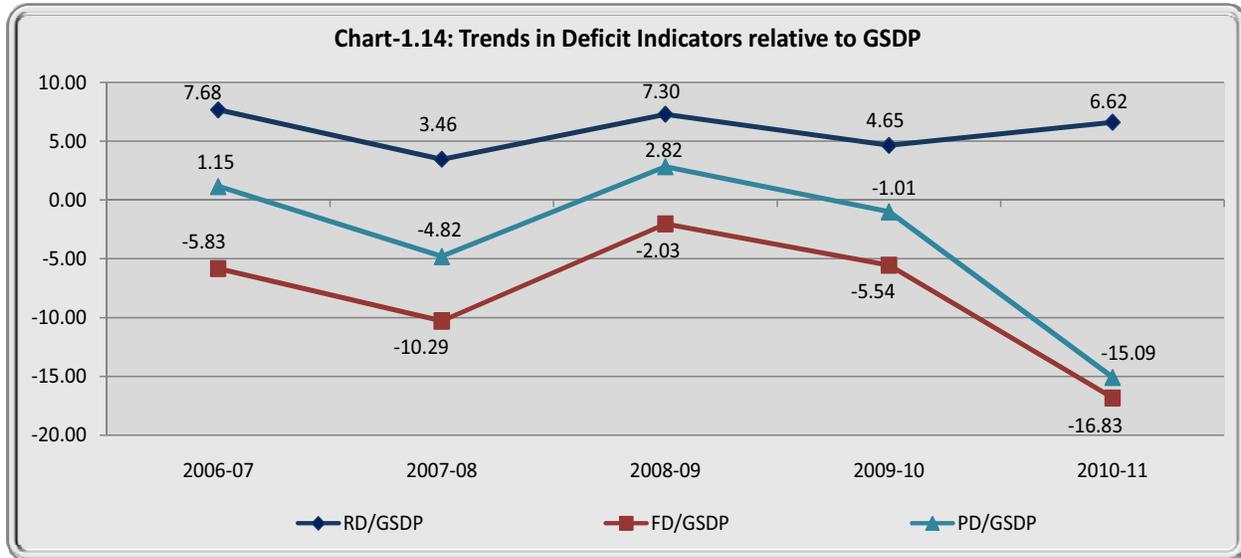
### 1.11 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government Accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised and applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2010-11.

#### 1.11.1 Trends in Deficits

Chart-1.13 and 1.14 presents the trends in deficit indicators over the period 2006-11.





**Chart-1.13** reveals that the revenue account experienced a huge deficit of ₹ 401 crore during 2010-11. The State had a revenue surplus during the period from 2006-07 to 2009-10 and the revenue surplus steeply increased from ₹ 252 crore in 2006-07 to ₹ 339 crore in 2008-09 and declined to ₹ 261 crore during 2009-10. *The large deficit in revenue account during the current year was mainly on account of decrease in revenue receipts by ₹ 108 crore (- 3.65 per cent) against an increase of ₹ 553 crore (20.46 per cent) in revenue expenditure over the previous year.* Despite the fact that State's own resources increased by ₹ 43 crore from ₹ 234 crore in 2009-10 to ₹ 277 crore during 2010-11 and central transfers of taxes by ₹ 57 crore from ₹ 395 crore in 2009-10 to ₹ 452 crore during the current year, the decrease in revenue account in the current year was primarily on account less receipt of Grants-in-Aid received from Government of India by ₹ 208 crore from ₹ 2,335 crore in 2009-10 to ₹ 2,126 crore in 2010-11.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap increased to the level of ₹ 1,019 crore in 2010-11 from fiscal deficit of ₹ 311 crore in 2009-10. *The substantial revenue deficit of ₹ 401 crore during the current year as against revenue surplus of ₹ 261 crore in previous year along with increase in capital expenditure by ₹ 42 crore from ₹ 573 crore in 2009-10 to ₹ 615 crore in 2010-11 resulted in a fiscal deficit of ₹ 1,019 crore in 2010-11 as against fiscal deficit of ₹ 311 crore during the previous year.*

The primary surplus of ₹ 38 crore during 2006-07 took a turnaround from 2007-08 onwards and resulted into primary deficit of ₹ 57 crore in 2009-10 and drastically increased to ₹ 914 crore during the current year. *The radical increase in fiscal deficit despite decrease of ₹ 148 crore in interest payment resulted in primary deficit<sup>10</sup> of ₹ 914 crore during the current year as against a primary deficit of ₹ 57 crore in 2009-10.*

<sup>10</sup> Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit, which is an outcome of the fiscal transactions of the State's during the course of the year

### 1.11.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table-1.33**.

**Table-1.33: Components of Fiscal Deficit and its Financing Pattern**

|  |  | (₹ in crore)                   |                                 |                               |                                |                                  |
|--|--|--------------------------------|---------------------------------|-------------------------------|--------------------------------|----------------------------------|
| Particulars  |  | 2006-07                        | 2007-08                         | 2008-09                       | 2009-10                        | 2010-11                          |
| <b>Decomposition of Fiscal Deficit</b>   |  | <b>(-191)</b>                  | <b>(-391)</b>                   | <b>(-94)</b>                  | <b>(-311)</b>                  | <b>(-1019)</b>                   |
| 1.   | Revenue Surplus/Deficit                    | 252                            | 132                             | 339                           | 261                            | (-401)                           |
| 2.   | Net Capital Expenditure                    | 466                            | 544                             | 441                           | 573                            | 614                              |
| 3.   | Net Loans and Advances                     | (-23)                          | (-21)                           | (-8)                          | (-) 0.40                       | 4                                |
| <b>Financing Pattern of Fiscal Deficit*</b>  |  |                                |                                 |                               |                                |                                  |
| 1.   | Market Borrowings                          | 108                            | 129                             | 29                            | (-)59                          | 256                              |
| 2.   | Loans from GoI                             | (-26)                          | (-7)                            | (-12)                         | 13                             | (-22)                            |
| 3.   | Special Securities Issued to NSSF          | 8                              | (-1)                            | (-2)                          | 8                              | 19                               |
| 4.   | Loans from Financial Institutions          | 40                             | (-36)                           | (-2)                          | (-98)                          | 16                               |
| 5.   | Compensation and other Bonds               | (-4)                           | (-4)                            | (-3)                          | (-4)                           | (-5)                             |
| 6.   | Small Savings, PF etc.                     | 143                            | 172                             | 188                           | 44                             | 276                              |
| 7.   | Deposits and Advances                      | (-128)                         | 36                              | 37                            | 105                            | 333                              |
| 8.   | Suspense and Misc.                         | 112                            | 32                              | (-78)                         | 292                            | 210                              |
| 9.   | Remittances                                | (-26)                          | 26                              | (-72)                         | (-40)                          | (-36)                            |
| 10.  | Reserve Fund                               | 2                              | (-6)                            | 1                             | 4                              | (-4)                             |
| 11.  | Increase/decrease in Cash balance with RBI | (-38)                          | 50                              | 8                             | 46                             | (-24)                            |
| <b>12.</b>   | <b>Overall Deficit (1 to 11)</b>           | <b>(-191)</b><br><b>(5.83)</b> | <b>(-391)</b><br><b>(10.28)</b> | <b>(-94)</b><br><b>(2.02)</b> | <b>(-311)</b><br><b>(5.53)</b> | <b>(-1019)</b><br><b>(16.84)</b> |
| <p><i>Figures in brackets indicate the per cent to revised GSDP of base year 2004-05</i></p> <p><i>* All these figures are net of disbursements/outflows during the year</i></p> |  |                                |                                 |                               |                                |                                  |

It can be seen from **Table-1.33** that there was *fiscal deficit during the last five years with a slight improvement during 2008-09 (₹ 94.39 crore), however, the fiscal deficit drastically deteriorated during the current year to the level of ₹ 1,019 crore (16.83 per cent of GSDP)*. During 2010-11, fiscal deficit was primarily financed by market borrowings, Special Securities issued to NSSF, Loans from Financial Institutions, Small Savings, PF etc., Deposits and Advances and Suspense and Miscellaneous balances.

*The solution to the Government debt problem lies in the method of application of borrowed funds i.e., whether they are being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy which may result in increase in Government revenue in future, making debt payments manageable.*

### 1.11.3 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table-1.34**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which might be necessary to improve the productive capacity of the State's economy.

**Table-1.34: Primary deficit/Surplus – Bifurcation of factors**

| (₹ in crore) |                   |                             |                     |                    |                     |   |                                 |
|--------------|-------------------|-----------------------------|---------------------|--------------------|---------------------|---|---------------------------------|
| Year         | Non-debt receipts | Primary Revenue Expenditure | Capital Expenditure | Loans and Advances | Primary Expenditure | Primary revenue deficit (-)/surplus (+) | Primary deficit (-)/surplus (+) |
| 1            | 2                 | 3                           | 4                   | 5                  | 6 (3+4+5)           | 7 (2-3)                                 | 8 (2-6)                         |
| 2006-07      | 1993              | 1489                        | 466                 | --                 | 1955                | (+) 504                                 | (+) 38                          |
| 2007-08      | 2067              | 1700                        | 544                 | 6                  | 2250                | (+) 367                                 | (-) 183                         |
| 2008-09      | 2678              | 2088                        | 441                 | 17                 | 2546                | (+) 590                                 | (+)132                          |
| 2009-10      | 2989              | 2449                        | 573                 | 25                 | 3047                | (+) 540                                 | (-) 58                          |
| 2010-11      | 2881              | 3150                        | 615                 | 30                 | 3795                | (-) 270                                 | (-)914                          |

The non-debt receipts of the State during 2006-07 to 2009-10 were sufficient to meet the primary revenue expenditure. However, during the current year the non-debt receipts was inadequate to cover the primary revenue expenditure. The non-debt receipts of the State decreased by more than three *per cent* from ₹ 2,989 crore in 2009-10 to ₹ 2,881 crore in 2010-11 which was less than primary expenditure by ₹ 914 crore. Over the period 2006-2011, there has been an increase in the proportion of capital expenditure in primary expenditure however, during 2008-09, the proportion reduced considerably. Though the proportion of capital expenditure increased during the current year over the previous years, the State Government should further focus on increasing the productive capacity of the State's economy and containing unproductive expenditure.

## 1.12 Conclusion and Recommendations

### Conclusion

**Revenue receipts** decreased to ₹ 2,855.37 crore in 2010-11 from ₹ 2,963.51 crore in 2009-10 (3.65 per cent); mainly due to decrease in Grants-in-Aid (₹ 208.34 crore) offset by increase in Tax Revenue (₹ 22.86 crore), Non Tax Revenue (₹ 20.21 crore) and Central share of Taxes (₹ 57.13 crore). The revenue receipt (₹ 2,855.37 crore) was, however, lesser by ₹ 398.50 crore (13.14 per cent) than the assessment of the State Government in its Fiscal Correction Path (FCP) (₹ 3,253.87 crore).

### Revenue Expenditure and Capital Expenditure

**Revenue Expenditure and Capital Expenditure** increased by ₹ 553.54 crore (20.48 per cent) and ₹ 41.91 crore (7.32 per cent) respectively over the previous year. **Revenue expenditure was higher by ₹ 344.01 crore (11.81 per cent) than the assessment made by the State Government in its FCP (₹ 2,912.23 crore). Also, Capital expenditure was higher by ₹ 226.23 crore (58.23 per cent) than the projection made by the State Government in its FCP (₹ 388.48 crore).**

**The total expenditure of the State increased from ₹ 2,184 crore in 2006-07 to ₹ 3,901 crore in 2010-11 at an annual average rate of 15.73 per cent and increased by 18.18 per cent during the current year over the previous year.** Of the total expenditure during 2010-11, the revenue expenditure (₹ 3,256 crore) constituted 83.47 per cent while capital expenditure (₹ 615 crore) constituted 15.77 per cent and loans and advances (₹ 30 crore) formed 0.77 per cent.

**The breakup of total expenditure in terms of plan and non-plan expenditure** during 2010-11 reveals that while the share of plan expenditure of ₹ 1,846 crore constituted 47.32 per cent of the Total Expenditure, the remaining 52.68 per cent (₹ 2,055 crore) was non-plan expenditure. Moreover, of the increase of ₹ 600 crore in total expenditure, plan expenditure shared 57 per cent (₹ 342 crore) while non-plan expenditure contributed 43 per cent (₹ 258 crore) in 2010-11.

### Funds directly transferred to State Implementing Agencies

**Funds transferred directly from the Union Government to the State Implementing Agencies run the risk of poor oversight and therefore, unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers. It also inhibits the Fiscal Responsibility and Budget Management (FRBM) requirement of transparency in fiscal operations and thus bypasses accountability. During the current year GoI transferred ₹ 984.09 crore (approximate) directly to State Implementing Agencies for implementation of various schemes/programmes.**

### *Fiscal liabilities*

The overall fiscal liabilities of the State increased at an average annual rate of 9.05 per cent during the period 2006-11. During the current year, the overall fiscal liabilities of the State Government increased by ₹ 869.17 crore (23.96 per cent) from ₹ 3,627.69 crore in 2009-10 to ₹ 4,496.86 crore in 2010-11. The increase in fiscal liabilities was mainly due to increase in the internal debt by ₹ 286.71 crore and Public Account liabilities by ₹ 604.50 crore, offset marginally by decrease in loans and advances from GoI by ₹ 22.04 crore. **The ratio of fiscal liabilities to GSDP has increased from 64.56 per cent in 2009-10 to 74.23 per cent in 2010-11. These fiscal liabilities stood at nearly 1.57 times the revenue receipts and 16.22 times of the State's own resources at the end of 2010-11.**

### *Investment and Returns*

As of March 2011, the State Government invested ₹ 19.27 crore, out of which ₹ 3.03 crore was invested in Government Companies and ₹ 16.24 crore was invested in Co-operative Societies. During the current year, State Government invested only ₹ 0.27 crore in Public Sector and other Undertakings of Government Companies however, no dividend were received during 2010-11. As of March 2011, five Working Government Companies have registered accumulated loss of ₹ 49.20 crore.

### *Debt sustainability*

During the current year, the sum of quantum spread and primary deficit turned negative indicating that the debt-GSDP ratio is unstable and eventually the ratio would rise. The sum of quantum spread and primary deficit at ₹ (-) 725 crore during 2010-11 against ₹ 445 crore in 2009-10 is a negative sign towards fiscal balances in the forthcoming years.

Negative resource gap indicates incremental non-debt receipts are not sufficient to cover the incremental interest liabilities and incremental primary expenditure. Weakening of resource gap from ₹ (-) 218 crore in 2009-10 to ₹ (-) 709 crore during 2010-11 indicates worsening capacity of the State to sustain the debt in the medium to long run.

### *Fiscal Imbalances*

The large deficit in revenue account during the current year was mainly on account of decrease in revenue receipts by ₹ 108 crore (- 3.65 per cent) against an increase of ₹ 553 crore (20.46 per cent) in revenue expenditure over the previous year.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap increased to the level of ₹ 1,019 crore in 2010-11 from fiscal deficit of ₹ 311 crore in 2009-10.

The primary surplus of ₹ 38 crore during 2006-07 took a turnaround from 2007-08 onwards and resulted in primary deficit of ₹ 57 crore in 2009-10 and drastically increased to ₹ 914 crore during the current year.

**Recommendations**

- ❖ **Revenue Receipts:** *The State Government should mobilize additional resources both through tax and non-tax sources by expanding the tax base and rationalizing the user charges. It should also make efforts to collect revenue arrears. Efforts should also be made to increase tax compliance, reduce tax administration costs, etc. so that deficits are contained. The State Government should ensure that the Government of India releases all grants due to the State by taking timely action on all conditionalities that are pre-requisite to the release. There is an urgent need to improve collection of tax and non-tax revenues so that dependence on borrowed funds could be reduced.*
  
- ❖ **Prioritisation of Expenditure:** *The Government should also focus on expenditure management to bring about qualitative improvement in the public spending. The State Government should initiate action to restrict the components of non-plan revenue expenditure by phasing out implicit subsidies and resort to need-based borrowings to curb interest and principal payments. In view of the substantial increase in Revenue deficit and Fiscal deficit, there is an urgent need to apply due prudence in expenditure pattern so that the resource gap remains within manageable controls of the fiscal capability of the State.*
  
- ❖ **Debt Sustainability:** *Recourse to borrowed funds in future should be carefully assessed and managed so that the recommendations of the Thirteenth Finance Commission to bring Fiscal Liabilities-GSDP ratio to around 25 per cent could be achieved in the next four years. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year will ensure that market borrowings are sourced optimally. A clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.*  
  
*The State should make efforts to return to Primary surplus as in the previous year to widen the scope of fiscal manoeuvre towards more productive and capital creation expenditure.*
  
- ❖ **Government Investments:** *A performance-based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service. The Government should ensure better value for money in investments by identifying the Companies/Corporations which are endowed with low financial but high socio-economic returns and justify the use of high cost borrowed funds for non-revenue generating investments through a clear and transparent guideline.*