

## Profile of Mizoram

Mizoram 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 2011-12 was ₹ 6,991.40 crore (base year 2004-05) (**Appendix-1.1 Part-D**). GSDP of the State registered a higher growth of 15.41 *per cent* in 2011-12 as against a growth of 7.80 *per cent* in 2010-11.

The State Government presented its Budget for 2011-12 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 2011-12, 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 (2011-12) *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 (2011-12)**

(₹ in crore)

2010-11	Receipts	2011-12	2010-11	Disbursements	2011-12		
					Non-Plan	Plan	Total
<b>Section-A: Revenue</b>							
2,855.37	<b>Revenue receipts</b>	3,824.90	3,256.24	<b>Revenue expenditure</b>	2,381.22	1,316.11	3,697.33
130.44	Tax revenue	179.07	1,011.29	General services	1,185.32	41.06	1,226.38
146.72	Non-tax revenue	168.03	1,237.38	Social services	667.60	687.09	1,354.69
451.66	Share of Union Taxes/Duties	827.38	1,007.57	Economic services	528.30	587.96	1,116.26
2,126.55	Grants from Government of India	2,650.42	---	Grants-in-aid and Contributions	---	---	---
<b>Section-B: Capital</b>							
---	<b>Misc. Capital Receipts</b>	---	614.71	<b>Capital Outlay</b>	65.73	534.54	600.27
25.97	Recoveries of Loans and Advances	27.80	29.87	Loans and Advances disbursed			33.52
537.22	Public Debt receipts	225.70	272.55	Repayment of Public Debt			251.67
---	Contingency Fund	---	---	Contingency Fund			---
3,332.56	Public Account receipts	3,297.52	2,482.28	Public Account Disbursement			2,766.79
(-)316.78	Opening Cash Balance	(-)221.31	(-)221.31	Closing Cash Balance			(-)194.97
6,434.34	<b>Total</b>	7,154.61	6,434.34	<b>Total</b>			7,154.61

The following are the significant changes during 2011-12 over the previous year:

- **Revenue receipts** increased to ₹ 3,824.90 crore in 2011-12 from ₹ 2,855.37 crore in 2010-11 (33.95 *per cent*); mainly due to increase in Grants-in-Aid (₹ 523.87 crore)

and Central share of Taxes (₹ 375.72 crore). The revenue receipt (₹ 3,824.90 crore) was also higher by ₹ 76.60 crore (2.04 *per cent*) than the assessment made by the State Government in its Fiscal Correction Path (FCP) (₹ 3,748.30 crore).

- **Revenue Expenditure** increased by ₹ 441.09 crore (13.55 *per cent*) while **Capital Expenditure** decreased by ₹ 14.44 crore (2.35 *per cent*) over the previous year. Revenue expenditure was higher by ₹ 271.07 crore (7.91 *per cent*) than the assessment made by the State Government in its FCP (₹ 3,426.26 crore). Also, Capital expenditure was higher by ₹ 103.32 crore (20.79 *per cent*) than the projection made by the State Government in its FCP (₹ 496.95 crore).
- **Disbursement of Loans and Advances** increased by ₹ 3.65 crore (12.22 *per cent*) and **recoveries** of the same, increased by ₹ 1.83 crore (7.05 *per cent*) over the previous year.
- **Public Debt receipts** decreased by ₹ 311.52 crore (57.99 *per cent*) and **repayments** also decreased by ₹ 20.88 crore (7.66 *per cent*) over the previous year.
- **Public Account receipts** decreased by ₹ 35.04 crore (1.05 *per cent*) and **disbursements** increased by ₹ 284.51 crore (11.46 *per cent*) over the previous year.
- **Cash balance** of the State decreased by ₹ 26.34 crore (11.90 *per cent*) over the previous year, however, the investments from cash balances increased from ₹ 211.45 crore in 2010-11 to ₹ 292.51 crore in 2011-12.

## 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.
- (4) Reduce aggregate debt stock of the Central and State Government to 68 *per cent* of GSDP by end of the award period (2014-15). The Central Government's debt will

come down to 45 *per cent* of GSDP and combined debt of the State Government at 25 *per cent*.

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 2011-12 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 2011-12**

(₹ in crore)

Fiscal variables	Targets as per FRBM Act	Projections made in		Actual
		FCP	MTFPS	
Revenue Deficit/ Surplus	Maintain Revenue Surplus throughout 13 <sup>th</sup> Finance Commission award period	(+) 322.30	(+) 322.30	(+) 127.57
Fiscal Deficit		(-) 172.86	(-) 172.86	(-) 478.42
Fiscal Deficit/GSDP ( <i>per cent</i> )	6.40 <i>per cent</i> of GSDP in 2011-12	(-) 2.47	(-) 2.47	(-)6.84
State's Outstanding Liabilities	Reduce total outstanding debt at a percentage of Gross Domestic Products so as to reach the annual target of 85.70 <i>per cent</i> in 2011-12	3,975.73	3,975.73	4,548.45 (65.06 % of GSDP)

The State managed to turn around to Revenue Surplus as per the target set in the FRBM Act from a Revenue Deficit of ₹ 400.87 crore in 2010-11. Against the target of ₹ 322.30 crore revenue surplus set in FCP and MTFPS, the revenue surplus was ₹ 127.57 crore in the current

year. The State Government should therefore, endeavor to maintain this revenue surplus in the following years 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 2011-12 was ₹ 478.42 crore which was ₹ 305.56 crore higher than the assessment made in the FCP and MTFPS (₹ 172.86 crore), however, the fiscal deficit declined by ₹ 541.06 crore during 2011-12 in comparison to 2010-11. The decrease in fiscal deficit in the current year was mainly due to increase in Revenue Receipt (₹ 969.53 crore) and decrease in Capital expenditure (₹ 14.44 crore) over the previous year. The Government should pursue a policy of increasing the revenue receipt without relying on the devolution of funds from the Central Government and also by reducing non- plan revenue expenditure so as to confine the fiscal deficit to the target set for the State.

While the State's outstanding liabilities (₹ 4,548.45 crore) in 2011-12 was within the prescribed limit of 85.70 *per cent* of GSDP as per MZFRBM Act, it was more than the assessment of ₹ 3,975.73 crore made in FCP by ₹ 572.72 crore (14.41 *per cent*). The State's outstanding liabilities increased by ₹ 51.59 crore (1.15 *per cent*) in the current year over 2010-11. The State Government should pursue a sustainable debt management to confine the State's outstanding liabilities within the annual prescribed limit.

### 1.2.1 Reforms/Measures in Tax Administration

The Thirteenth Finance Commission introduced the new roadmaps for State fiscal consolidation by projecting the growth rate of State's GSDP at 9.70 *per cent* during 2010-11, 10.05 *per cent* in 2011-12, and 10.34 *per cent* of GSDP during the next successive three years. In order to augment the State's Own Receipt, the State Government introduced various new tax policies as discussed below:

#### *Tax Measures*

**(a) Sales Tax/VAT:** The State Government adopted upward revision of the existing sales tax on various Petroleum Products with respect to LPG, Motor Spirit (Petrol) and High Speed Diesel from 2 *per cent* to 4 *per cent*, 18 *per cent* to 20 *per cent* and 10 *per cent* to 12 *per cent* respectively.

**(b) Professional Tax:** The State Government revised and increased the rate of tax payable by any person under the Mizoram Professions, Trades, Callings and Employment Taxation Act, 1995 with effect from the assessment year 2011-12.

**(c) Stamps and Registration:** The State Government imposed through notification (February 2011) levying of Stamp Duty on monthly payment of Salaries to all regular Government officials (Stamp duty of ₹ 10 per bill for Gazetted officers and

₹ 5 for Non-Gazetted officers per bill) and on all bills in respect of payment made by various Departments and offices to private parties.

### Non-Tax Measures

**(a) User Charges on Water Supply:** The State Government amended the Mizoram Water Supplies (Control) Act (September 2011) for upward revision of water tariff on water supplied to the public through all types of Water Supply Schemes.

## 1.3 Budget Analysis

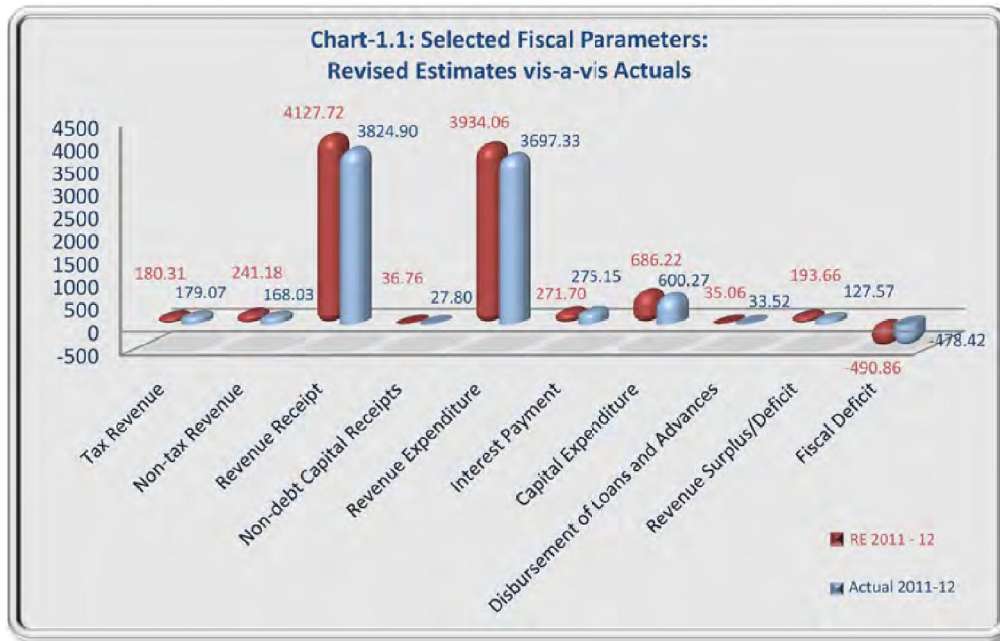
The budget papers presented by State Government provide descriptions of projections or estimates of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies 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 and Chart-1.1** presents the consolidated picture of Budget estimates *vis-à-vis* actual of the State Finances during 2011-12.

**Table-1.3: Variation in Major items – 2011-12 (Accounts) over 2011-12  
Budget Estimates & Revised Estimates**

Parameters	2011-12			Percentage of excess (+)/ shortfall (-) w.r.t. Revised Estimate
	Budget Estimate	Revised Estimate	Actual	
Tax Revenue	173.17	180.31	179.07	(-) 0.69
Non-Tax Revenue	237.58	241.18	168.03	(-) 30.33
Revenue Receipts	3,748.30	4,127.72	3,824.90	(-) 7.34
Non-debt Capital Receipts	36.76	36.76	27.80	(-) 24.37
Revenue Expenditure	3,426.26	3,934.06	3,697.33	(-) 6.02
Interest Payment	271.24	271.70	275.15	(+) 1.27
Capital Expenditure	496.95	686.22	600.27	(-) 12.53
Disbursement of Loans and Advances	34.71	35.06	33.52	(-) 4.39
Revenue Deficit/ Surplus	(+) 322.04	(+) 193.66	(+) 127.57	(-) 34.13
Fiscal Deficit/ Surplus	(-) 172.86	(-) 490.86	(-) 478.42	(-) 2.53



The Chart below presents the revised estimates and actuals for some important fiscal parameters during 2011-12.



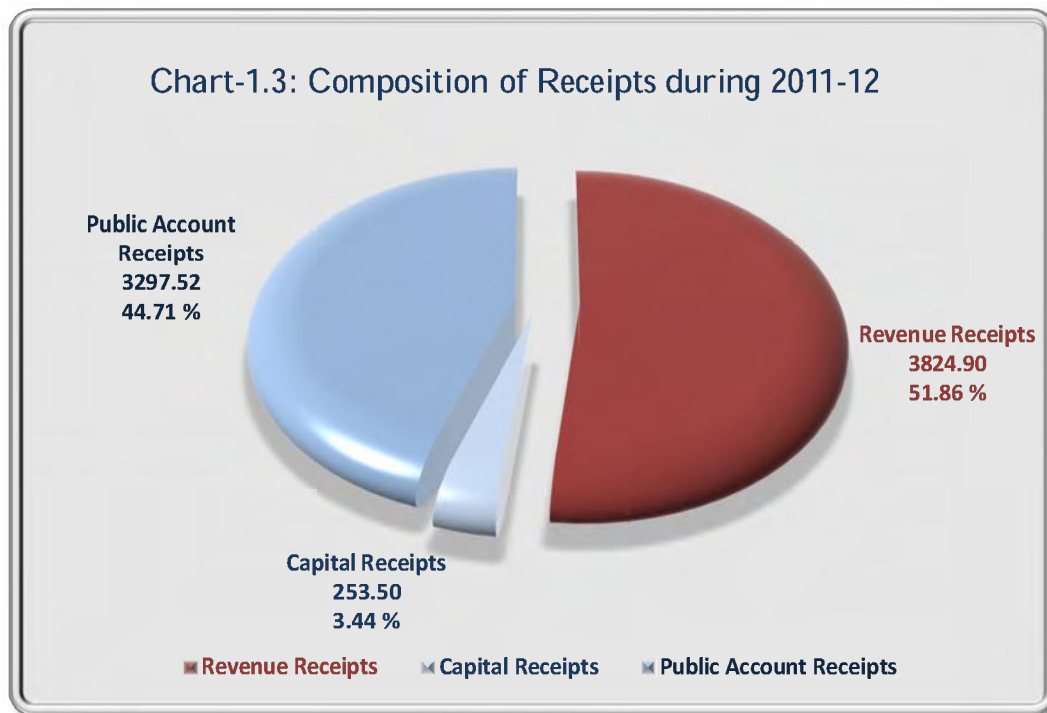
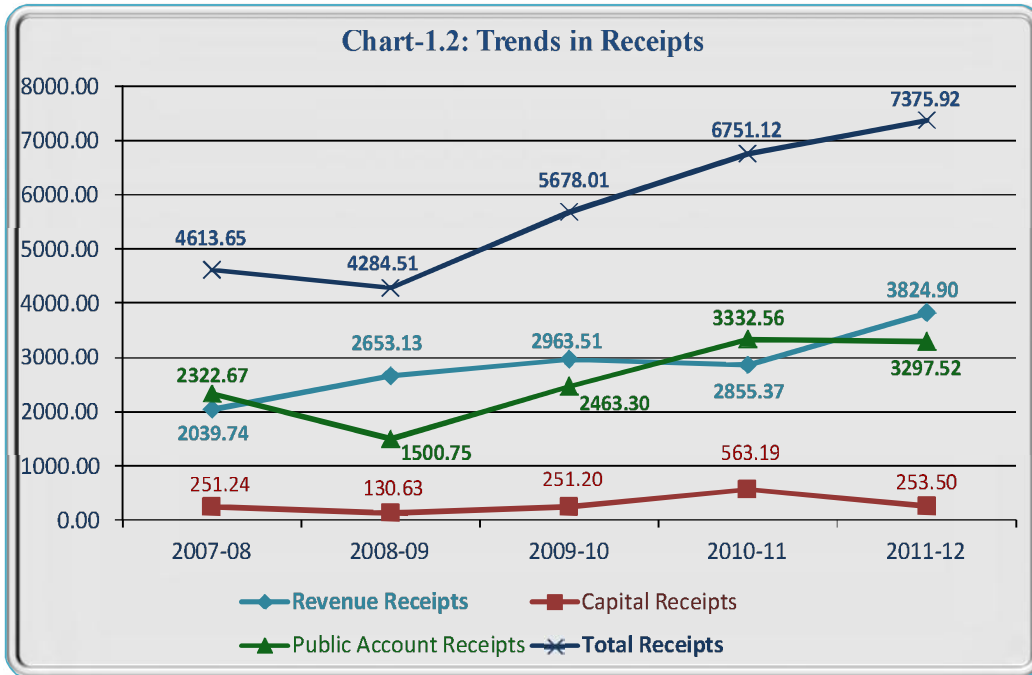
**Chart-1.1** depicts that revenue receipts decreased by ₹ 302.82 crore over the estimated amount of ₹ 4,127.72 crore. Revenue expenditure was ₹ 3,697.33 crore during 2011-12 against the estimated amount of ₹ 3,934.06 crore. Against the estimation of revenue surplus of ₹ 193.66 crore, there was revenue surplus of ₹ 127.57 crore during 2011-12. There was fiscal deficit of ₹ 478.42 crore against the estimated fiscal deficit of ₹ 490.86 crore during 2011-12. The budget projections of Tax Revenue, Revenue Receipts, Revenue Expenditure, Interest Payments and Disbursement of Loans and Advances were relatively accurate as there was marginal difference with the actual (*i.e.* within 10 *per cent* variations). The key parameters of deficits indications *viz.* Revenue Surplus, Fiscal Deficit and Primary Deficit were healthier than the budget projections.

## 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 2007-12. **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	2007-08	2008-09	2009-10	2010-11	2011-12
<b>I Revenue Receipts</b>	<b>2,039.74</b>	<b>2,653.13</b>	<b>2,963.51</b>	<b>2,855.37</b>	<b>3,824.90</b>
<b>II Capital Receipts (CR)</b>	<b>251.24</b>	<b>130.63</b>	<b>251.20</b>	<b>563.19</b>	<b>253.50</b>
Miscellaneous Capital Receipts	0	0	0	0	0
Recovery of Loans and Advances	27.53	24.86	25.31	25.97	27.80
Public Debt Receipts	223.71	105.77	225.89	537.22	225.70
Rate of growth of debt capital receipts	(-)5.49	(-)52.72	113.57	137.82	(-)57.99
Rate of growth of non-debt capital receipts	16.67	(-)9.70	1.81	2.61	7.05
Rate of growth of GSDP	16.06	22.23	20.81	7.80	15.41
Rate of growth of CR ( <i>per cent</i> )	(-)3.58	(-)48.01	92.3	124.20	(-)54.99
<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>2,322.67</b>	<b>1,500.75</b>	<b>2,463.30</b>	<b>3,332.56</b>	<b>3,297.52</b>
<b>Total Receipts</b>	<b>4,613.65</b>	<b>4,284.51</b>	<b>5,678.01</b>	<b>6,751.12</b>	<b>7,375.92</b>

The total receipts of the State Government for 2011-12 was ₹ 7,375.92 crore of which ₹ 3,824.90 crore (52 *per cent*) came from revenue receipts and balance ₹ 3,551.02 crore (48 *per cent*) from borrowings, Public Account and Capital Receipts.

The share of revenue receipt of the State to total receipts increased from 44 *per cent* in 2007-08 to 52 *per cent* in 2011-12. 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 ₹ 2,039.74 crore in 2007-08 to ₹ 2,963.51 crore in 2009-10, however, there was a decrease in revenue receipt to ₹ 2,855.37 crore in 2010-11, followed by an increase in revenue receipt by ₹ 969.53 crore (34 *per cent*) during the current year (₹ 3,824.90 crore). The Capital receipts which create future repayment obligation with inter year fluctuation decreased from ₹ 251.24 crore (five *per cent* of total receipts) in 2007-08 to ₹ 130.63 crore (three *per cent* of total receipts) in 2008-09 and again increased to ₹ 563.19 crore (eight *per cent* of total receipts) in 2010-11, which however, decreased to ₹ 253.50 crore (three *per cent* of total receipts) during 2011-12. The percentage share of Public Account receipts showed inter year variation ranging from 35 *per cent* to 50 *per cent* of total receipt during 2007-12 and stood at 45 *per cent* in the current year.

The rate of growth of debt capital receipts decreased from 137.82 *per cent* in 2010-11 to a negative growth of 57.99 *per cent* in 2011-12, while the ratio of growth of non-debt capital receipts increased from 2.61 *per cent* in 2010-11 to 7.05 *per cent* in 2011-12. The rate of growth of capital receipts decreased from 124.20 *per cent* in 2010-11 to a negative growth of 54.99 *per cent* in 2011-12, while the negative growth rate of revenue receipts in 2010-11 (3.65 *per cent*) improved to a positive growth rate of 33.95 *per cent* in 2011-12.

The rate of growth of GSDP also increased from 7.80 *per cent* in 2010-11 to 15.41 *per cent* in 2011-12.

### **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 ₹ 668.43 crore (**Appendix-1.5**) for implementation of various Centrally Sponsored Plan Schemes which among others included ₹ 311.95 crore (NREGS), ₹ 108.14 crore (SSA), ₹ 33.95 crore (NRHM) and ₹ 37.14 crore (NRDWP). With this huge transfer of fund from Government of India to State Implementing Agencies, the total availability of State resources increased from ₹ 7,375.92 crore to ₹ 8,044.35 crore in 2011-12. Considering that the direct transfers are so large (17.48 *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.

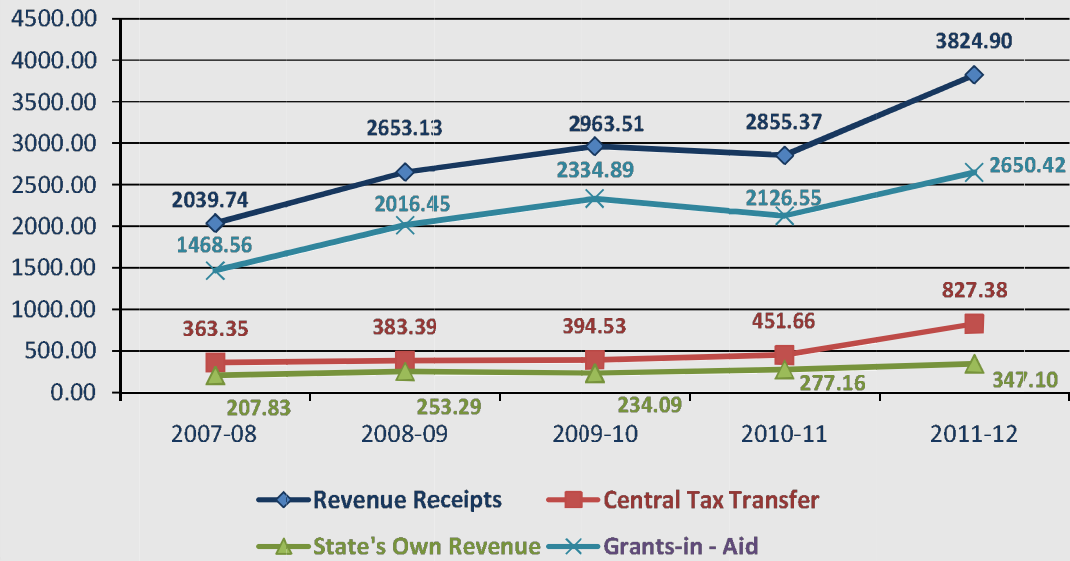
*There was no single agency monitoring the funds directly transferred by the GoI and there was no readily available data on how much was actually spent in any particular year on major flagship schemes and other important schemes being implemented by the State Implementing Agencies and funded directly 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**

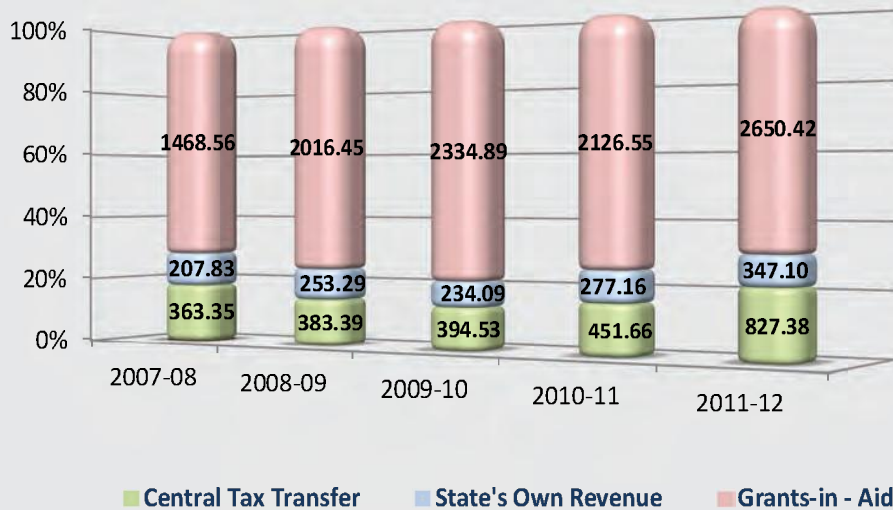
Statement 11 of the Finance Accounts depicts the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from the GoI.

The trends and composition of revenue receipts over the period 2007-12 are presented in **Appendix-1.4** and also depicted in **Chart-1.4** and **1.5** respectively.

**Chart-1.4: Trends in Revenue Receipts**



**Chart-1.5: The Composition of Revenue Receipts during 2007-12**



During 2011-12, revenue receipts of the State increased by ₹ 969.53 crore (33.95 per cent) over the previous year. The Revenue receipts of the State showed progressive growth from ₹ 2,039.74 crore in 2007-08 to ₹ 3,824.90 crore in 2011-12, although, during 2010-11 it registered a drop in revenue receipts to ₹ 2,855.37 crore. About 91 per cent (₹ 3,477.80 crore)

of revenue receipt have been contributed by central tax transfers and grants-in-aid together while only 9 per cent (₹ 347.10 crore) accrued from State's Own resources during the year.

**Tax Revenue:** Tax revenue constituted 4.68 per cent of the total revenue receipts and increased by ₹ 48.63 crore during 2011-12 recording a growth rate of 37.28 per cent over the previous year. The percentage of tax revenue to total revenue receipts ranged between 3.57 to 4.68 per cent during 2007-12. The increase in tax revenue during 2011-12 over previous year was mainly due to increase in taxes on Sales, Trade, etc. by ₹ 37.46 crore (increase of 35.78 per cent over previous year) and taxes on Vehicles by ₹ 8.99 crore (increase of 116 per cent over previous year).

**Non-Tax Revenue:** Non-tax revenue constituted 4.39 per cent of total revenue receipts and increased by ₹ 21.31 crore during 2011-12 recording a growth rate of 14.52 per cent over the previous year. The increase in non-tax revenue during 2011-12 over previous year was mainly due to increase in receipts under Power sector (₹ 36.88 crore), more receipts under Interest Receipts etc. (₹ 2.88 crore), mineral concession fees, rents and royalties (₹ 1.98 crore) and Forestry & Wildlife (₹ 2.34 crore) which was, however, offset by a decrease mainly due to less receipts under state lotteries and other receipts (₹ 8.97 crore), Roads & Bridges (₹ 8.09 crore) and less receipts under Police (₹ 6.38 crore).

**Central Tax Transfer:** Central tax revenue increased by ₹ 375.72 crore from ₹ 451.66 crore in 2010-11 to ₹ 827.38 crore in 2011-12 and constituted 21.63 per cent of revenue receipts during the year. The increase was mainly due to increase in Corporation tax by ₹ 135.49 crore (73.96 per cent), Taxes on Income other than Corporation Tax by ₹ 84.20 crore (95.76 per cent), Customs by ₹ 71.46 crore (94.52 per cent), Union Excise Duties by ₹ 35.27 crore (60.23 per cent) and Service tax by ₹ 49.00 crore (106.59 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 increased by ₹ 523.87 crore (24.63 per cent) from ₹ 2,126.55 crore in 2010-11 to ₹ 2,650.42 crore in 2011-12 mainly due to increase in Grants for State/Union Territory Plan Schemes by ₹ 258.23 crore (21.86 per cent), Grants for Central and Centrally Sponsored Plan Schemes by ₹ 176.80 crore (104.87 per cent), Grants for Non-Plan grants by ₹ 72.27 crore (9.97 per cent) and Grants for Special Plan Schemes by ₹ 16.57 crore (32.01 per cent).

The trends in revenue receipts relative to Gross State Domestic Product (GSDP) are presented in **Table-1.5**.

**Table-1.5: Trends in revenue receipts relative to GSDP**

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Revenue Receipts (RR) (₹ in crore)</b>	<b>2,039.74</b>	<b>2,653.13</b>	<b>2,963.51</b>	<b>2,855.37</b>	<b>3,824.90</b>
Rate of growth of RR ( <i>per cent</i> )	3.61	30.07	11.70	(-)3.65	33.95
RR/GSDP ( <i>per cent</i> )	53.64	57.09	52.74	47.14	54.71
<b>Buoyancy Ratios<sup>1</sup></b>					
Revenue Buoyancy w.r.t. GSDP	0.22	1.35	0.56	(-)0.47	2.20
State's Own Tax Buoyancy w.r.t. GSDP	0.92	0.99	0.66	2.72	2.42
Revenue Buoyancy with reference to State's own taxes	0.25	1.36	0.85	(-)0.17	0.91
<b>Gross State Domestic Product (₹ in crore)</b>	<b>3,802.42</b>	<b>4,647.55</b>	<b>5,619.41</b>	<b>6,057.70</b>	<b>6,991.40</b>
Rate of growth of GSDP ( <i>per cent</i> )	16.06	22.23	20.91	7.80	15.41

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

The GSDP at current prices was estimated to increase from ₹ 6,057.70 crore in 2010-11 to ₹ 6,991.40 crore in 2011-12, representing an increase of 15.41 *per cent*. The revenue receipts of the State registered increase from ₹ 2,039.74 crore in 2007-08 to ₹ 2,963.51 crore in 2009-10, however, during 2010-11, the revenue receipts decreased to ₹ 2,855.37 crore followed by an increase in the current year to ₹ 3,824.90 crore. The revenue receipts remained buoyant *vis-à-vis* GSDP and grew at more than twice the rate of GSDP during the current year. In the last five years, the buoyancy of State's own taxes with reference to GSDP and revenue receipt fluctuated widely. However, during 2010-11 and 2011-12 buoyancy of State's Own Taxes with reference to GSDP was more than two indicating that State's Own Taxes grew at more than twice the rate of growth of GSDP.

### 1.5.1 State's Own Resources

The State's performance in mobilization 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 2011-12 was as shown in **Table-1.6**:

**Table-1.6: 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	149.81	173.17	179.07
State's own Non-tax Revenue	87.56	237.58	168.03

Source: Finance Accounts-2011-12, Thirteenth Finance Commission and Fiscal Policy Strategy Statement-2011-12

<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 increase by 1.24 percentage points, if the GSDP increases by one *per cent*

*The above table indicates that tax revenue recorded an increase of 19.53 per cent and 3.41 per cent over the normative assessment made in the XIII FC and FCP respectively. Also, the Non-tax revenue increased significantly by 91.90 per cent over the assessment made in the XIII FC, however, it was lesser by 29.27 per cent over the normative assessment made in the FCP.*

#### (a) Tax Revenue

The tax revenue increased by ₹ 48.63 crore from ₹ 130.44 crore in 2010-11 to ₹ 179.07 crore in 2011-12. The tax revenue of the State showed progressive increase from ₹ 77.53 crore in 2007-08 to ₹ 179.07 crore in 2011-12 at an annual average rate of 26.19 per cent. The major sources in the State's own tax during 2011-12 are sales tax ₹ 142.16 crore (79.39 per cent of tax revenue), other taxes ₹ 12.63 crore (7.05 per cent of tax revenue), taxes on vehicles ₹ 16.71 crore (9.33 per cent of tax revenue) and land revenue ₹ 2.52 crore (1.41 per cent of tax revenue). Collection of sales tax increased by ₹ 37.46 crore in 2011-12 over previous year; mainly due to increase of ₹ 42.76 crore in Receipts under State Sales Tax and ₹ 10.06 crore under other receipts which was partly offset by decrease of ₹ 16.26 crore in Tax on Sale of Motor Spirits and Lubricants. The increase in Tax revenue was mainly attributed due to the upward revision of Sales Tax and Professional Tax which contributed to the yield in revenue by ₹ 33.10 crore and ₹ 11.68 crore respectively. The sector wise components of Tax revenue is given in Table-1.7:

**Table-1.7: Sector-wise component of tax revenue for the year 2007-12**

(₹ in crore)

Name of component	Year				2011-12		
	2007-08	2008-09	2009-10	2010-11	BE	Actuals	Variation of Actual over BE (in per cent)
Sales Tax	62.04	77.51	85.94	104.70	135.23	142.16	(+)5.12
State Excise	1.69	1.87	2.10	2.39	2.30	2.31	(+)0.43
Taxes on vehicles	5.37	5.50	6.71	7.72	8.76	16.71	(+)90.75
Land Revenue	1.48	1.63	2.76	4.33	10.64	2.52	(-)76.32
Stamps & Registration fees	0.23	0.46	0.39	0.34	2.50	0.69	(-)72.40
Taxes on Goods & Passengers	1.07	1.43	1.39	1.72	3.22	2.05	(-)36.34
Other Taxes	5.65	6.22	8.29	9.24	10.52	12.63	(+)20.06
<b>Total</b>	<b>77.53</b>	<b>94.62</b>	<b>107.58</b>	<b>130.44</b>	<b>173.17</b>	<b>179.07</b>	<b>(+)3.41</b>

Source: Statement II (Finance Accounts of the respective years) and Annual Financial Statement-2011-12

There was variation of Actual figures over Budget Estimates on Sales tax by (+) 5.12 per cent, taxes on vehicles by (+) 90.75 per cent, land revenue by (+) 76.32 per cent and other taxes by (+) 20.06 per cent.



**(b) Non-Tax Revenue**

The non-tax revenue, which constituted four to six *per cent* of the total revenue receipts during the last five years, increased by ₹ 21.31 crore during the current year recording an increase of 14.52 *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 ₹ 168.04 crore from ₹ 146.72 crore in 2010-11. The major contributors in State's non-tax revenue during 2011-12 are Power (₹ 109.52 crore), Interest Receipts, Dividends & Profits (₹ 15.60 crore), Non-ferrous Mining and Metallurgical Industries (₹ 6.95 crore) and Water Supply & Sanitation (₹ 8.82 crore).

The composition of non-tax revenue for the year 2007-12 is given in **Table-1.8** below:

**Table-1.8: Composition of Non-Tax Revenue for the year 2007-12**

(₹ in crore)

Name of component	Year				2011-12		
	2007-08	2008-09	2009-10	2010-11	BE	Actuals	Variation of Actual over BE (in per cent)
General Services	6.48	12.13	18.05	23.19	15.02	9.14	(-)39.15
Social Services	8.80	8.25	9.60	10.66	24.28	12.42	(-)48.85
Economic Services	99.42	105.38	81.00	100.15	166.28	130.87	(-)21.30
Interest received and dividends & profits	15.60	32.91	17.85	12.72	32.00	15.60	(-)51.25
<b>Total</b>	<b>130.30</b>	<b>158.67</b>	<b>126.50</b>	<b>146.72</b>	<b>237.58</b>	<b>168.03</b>	<b>(-)29.27</b>

Source: Statement 11 (Finance Accounts of the respective years) and Annual Financial Statement-2011-12

As can be seen from the above table, there was huge shortfall in collection of non-tax revenue all components compared with Budget estimates.

**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-1.9: Cost of recovery of socio-economic services during 2010-12**

(₹ in crore)

Name of services	2010-11			2011-12		
	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	72.63	162.35	44.74	109.52	248.94	43.99
Water Supplies and Sanitation	7.64	49.44	15.45	8.82	55.99	15.75
Transport	13.94	63.50	21.95	4.95	81.25	6.09
<b>Total</b>	<b>94.21</b>	<b>275.29</b>	<b>34.22</b>	<b>123.29</b>	<b>386.18</b>	<b>31.93</b>

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

As can be seen from the above table, overall NTR as percentage of NPRES decreased during 2011-12 (31.93 *per cent*) over the previous year (34.22 *per cent*). The drop in cost of recovery in 2011-12 was largely due to decrease in Non-tax Revenue Receipts under Transport by ₹ 8.99 crore. Also, the drop in cost of recovery in 2011-12 was mainly due to increase in Non-Plan Revenue Expenditure under Power by ₹ 86.59 crore and under Transport by ₹ 17.75 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 (2009-10 to 2011-12) along with relevant All India Average percentage of expenditure on collection to gross collection for 2011-12 are mentioned in the table below:

**Table-1.10: 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 2010-11
Taxes/VAT on sales, trade etc.	2009-10	85.94	6.84	7.96	0.88
	2010-11	104.70	8.49	8.11	0.96
	2011-12	142.16	9.69	6.82	0.75
State Excise	2009-10	2.10	Cost of collection has not been segregated	---	3.66
	2010-11	2.39			3.64
	2011-12	2.31			3.05
Stamp duties and registration fees	2009-10	0.39	0.17	43.59	2.77
	2010-11	0.34	0.12	35.29	2.47
	2011-12	0.69	0.30	43.48	1.60
Taxes on vehicles	2009-10	6.71	3.68	54.84	2.93
	2010-11	7.72	5.39	69.82	3.07
	2011-12	16.71	4.92	29.44	3.71

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 2006-12 is given below:

**Table-1.11: Outstanding Revenue Arrears**

(₹ in lakh)

Sl. No.	Department	Type of Revenue	Amount outstanding as on						Total
			2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	
1.	PWD	Rent	201.96	45.32	201.64	15.22	--	--	464.14
2.	PWD	Tolls and other charges	25.32	21.76	11.25	42.83	--	--	101.16
3.	Taxation	Sales Tax	128.73	143.23	268.45	466.33	14.99	1470.13	2,491.86
4.	Land Revenue	Land Revenue	--	3.40	9.24	--	--	--	12.64
5.	Forest	Forest Revenue	10.99	6.20	0.20	--	--	--	17.39
6.	Transport	Taxes on Vehicles	--	--	--	--	2.19	--	2.19
7.	Local Administration Department	Interest Receipt	0.32	0.45	0.43	0.62	1.21	57.86	60.89
<b>Total</b>			<b>367.32</b>	<b>220.36</b>	<b>491.21</b>	<b>525.00</b>	<b>18.39</b>	<b>1,527.99</b>	<b>3,150.27</b>

Source: Information furnished by the Departments

The total outstanding arrears in respect of some principal heads of revenue from 2006-07 to 2011-12 amounted to ₹ 31.50 crore of which ₹ 25.53 crore was outstanding for five years. The outstanding arrears in respect of PWD was ₹ 1.01 crore, Sales Tax was ₹ 24.92 crore, Land Revenue was ₹ 0.13 crore, Forest Revenue was ₹ 0.17 crore, Taxes on vehicles was ₹ 0.02 crore and interest receipt was ₹ 0.61 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.

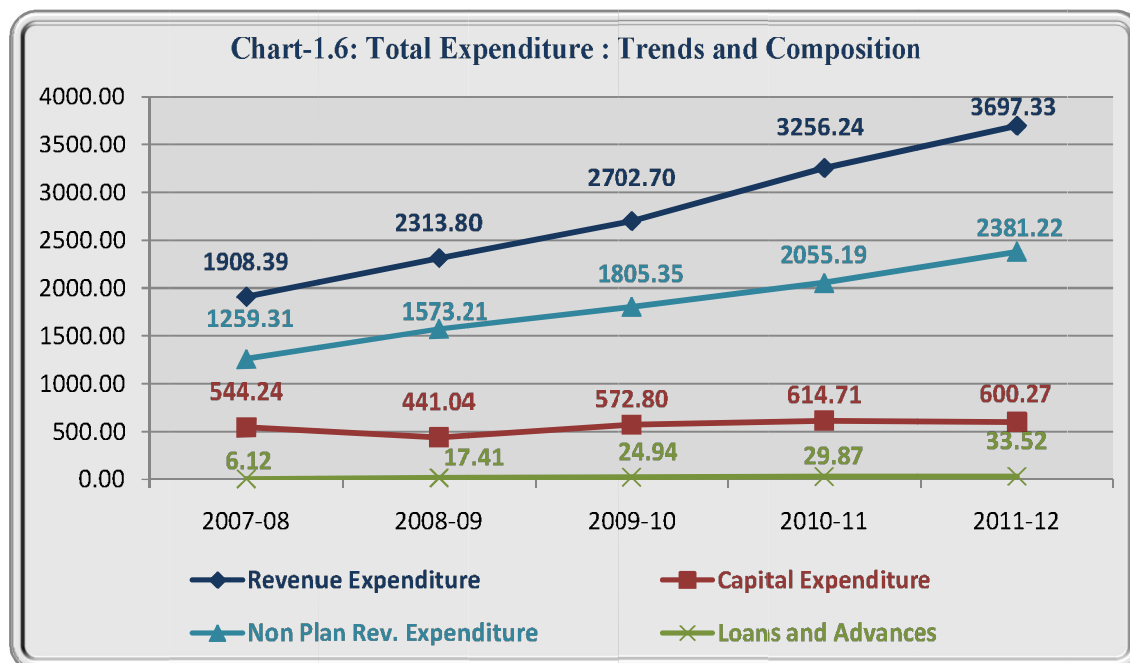
### 1.6.1 Growth and Composition of Expenditure

The total expenditure and its compositions during the years 2007-08 to 2011-12 are presented in the **Table-1.12**.

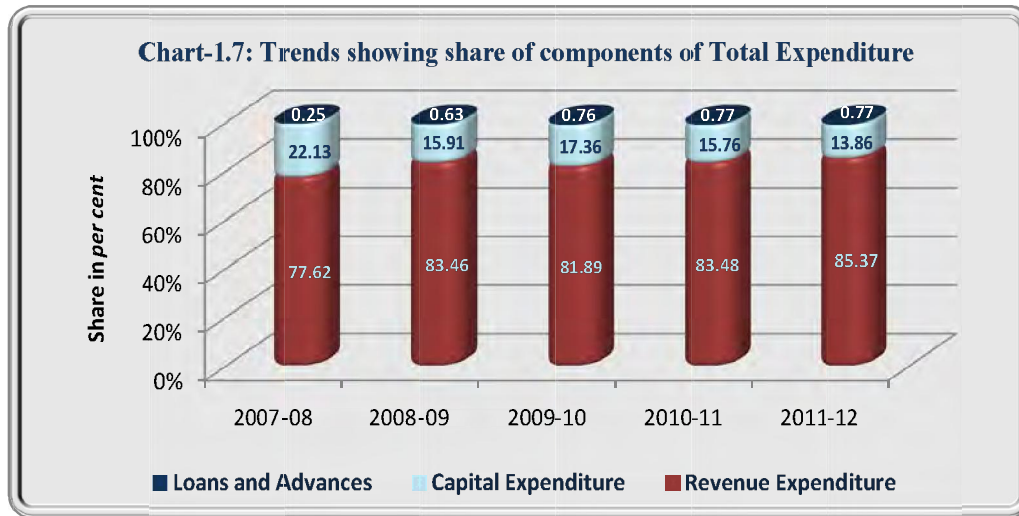
Table-1.12: Total expenditure and its compositions

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Total Expenditure</b>	<b>2,458.75</b>	<b>2,772.25</b>	<b>3,300.44</b>	<b>3,900.82</b>	<b>4,331.12</b>
Revenue Expenditure	1,908.39	2,313.80	2,702.70	3,256.24	3,697.33
<i>Of which, Non-plan Revenue Expenditure</i>	<i>1,259.31</i>	<i>1,573.21</i>	<i>1,805.35</i>	<i>2,055.19</i>	<i>2,381.22</i>
Capital Expenditure	544.24	441.04	572.80	614.71	600.27
Loans and Advances	6.12	17.41	24.94	29.87	33.52

**Chart-1.6** presents the trends in total expenditure over a period of five years (2007-12) 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 2007-12 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 progressively from ₹ 2,458.75 crore in 2007-08 to ₹ 4,331.12 crore in 2011-12 at an annual average rate of 14.72 *per cent* and increased by 11.02 *per cent* from ₹ 3,900.82 crore in 2010-11 to ₹ 4,331.12 crore in 2011-12. Of the total expenditure during 2011-12, the revenue expenditure (₹ 3,697.33 crore) constituted 85.37 *per cent* while capital expenditure (₹ 600.27 crore) constituted 13.85 *per cent* and loans and advances (₹ 33.52 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-1.13**.

**Table-1.13: Total Expenditure – basic parameters**

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Total Expenditure (TE) (₹ in crore)</b>	<b>2,458.75</b>	<b>2,772.25</b>	<b>3,300.44</b>	<b>3,900.82</b>	<b>4,331.12</b>
Rate of Growth ( <i>per cent</i> )	12.60	12.75	19.05	18.19	11.03
TE/GSDP ratio ( <i>per cent</i> )	64.65	59.65	58.73	64.39	61.95
RR/TE ratio ( <i>per cent</i> )	82.96	95.70	89.79	73.20	88.31
<b>Buoyancy of Total Expenditure with reference to:</b>					
GSDP (ratio)	0.78	0.57	0.91	2.33	0.72
RR (ratio)	3.49	0.42	1.63	4.94	0.32

The increase of ₹ 430.30 crore (11.02 *per cent*) in total expenditure in 2011-12 over 2010-11 was on account of an increase of ₹ 441.09 crore in revenue expenditure and ₹ 3.65 crore in disbursement of Loans and Advances offset by a decrease of ₹ 14.44 crore in Capital Expenditure. During the current year, 88.31 *per cent* (₹ 3,824.90 crore) of the total expenditure was met from revenue receipts and the remaining (₹ 506.22 crore) from capital receipts and borrowed funds.

*The breakup of total expenditure in terms of plan and non-plan expenditure* during 2011-12 reveals that while the share of plan expenditure of ₹ 1,884.17 crore constituted 43.50 *per cent* of the total expenditure, the remaining 56.50 *per cent* (₹ 2,446.95 crore) was non-plan expenditure. Moreover, out of the increase of ₹ 430.30 crore in total expenditure, plan expenditure shared 34.52 *per cent* (₹ 148.55 crore) while non-plan expenditure contributed 65.48 *per cent* (₹ 281.75 crore) in 2011-12.

The increase in ratio of revenue receipts to total expenditure from 73.20 *per cent* in 2010-11 to 88.31 *per cent* in 2011-12 is to be viewed in the light of the sudden increase of Grants-in-Aid received from Government of India by ₹ 523.87 crore and State's share of Union taxes and duties by ₹ 375.72 crore during 2011-12 over 2010-11. The buoyancy of total expenditure with reference to GSDP decreased to 0.72 during 2011-12 from 2.33 in 2010-11 due to decrease in the rate of growth of total expenditure by 7.16 *per cent* and increase in the rate of growth of GSDP by 7.61 *per cent*. The buoyancy ratio of total expenditure with reference to revenue receipts in 2011-12 was 0.32 as rate of growth of revenue receipts (33.95 *per cent*) was more than the rate of growth of total expenditure (11.02 *per cent*) during the current year.

### 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-1.14** and **Chart-1.8**.

**Table-1.14: Components of expenditure – relative shares**

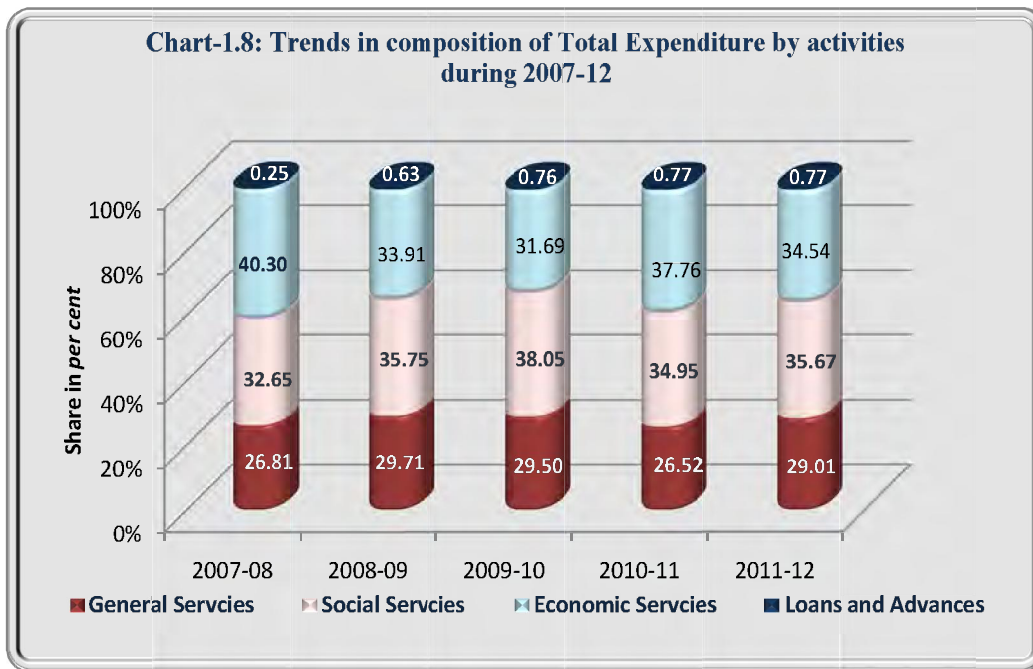
	2007-08	2008-09	2009-10	2010-11	2011-12
	(in <i>per cent</i> )				
<b>General Services</b>	26.81	29.71	29.50	26.52	29.01
<b>Of which, Interest Payments</b>	8.46	8.14	7.71	2.71	6.35
<b>Social Services</b>	32.65	35.75	38.05	34.95	35.67
<b>Economic Services</b>	40.30	33.91	31.69	37.76	34.54
<b>Loans and Advances</b>	0.25	0.63	0.76	0.77	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 29.01 *per cent* in 2011-12 as against 26.52 *per cent* in 2010-11. On the other hand development expenditure, *i.e.* expenditure on Social and Economic Services together accounted for 70.21 *per cent* in 2011-12 as against 72.71 *per cent* in 2010-11. This indicates that there was an increase in non-developmental expenditure and marginal decrease in developmental expenditure in comparison to previous year.

The trends in composition of Total Expenditure by activities during 2007-12 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 77.62 *per cent* of total expenditure in 2007-08 which have since escalated to 85.37 *per cent* of total expenditure during the current year. The overall revenue expenditure of the State increased by 93.74 *per cent* from ₹ 1,908.39 crore in 2007-08 to ₹ 3,697.33 crore in 2011-12 at an annual average rate of 18.75 *per cent*. The revenue expenditure increased by 13.55 *per cent* from ₹ 3,256.24 crore in 2010-11 to ₹ 3,697.33 crore in 2011-12 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 52.23 *per cent* (₹ 817.02 crore) and also higher than the projection made in FCP by 7.26 *per cent* (₹ 161.14 crore), as indicated in **Table-1.15**:

**Table-1.15: Comparison of Non-plan revenue expenditure vis-à-vis XIII FC and FCP**

(₹ in crore)

	Assessment/Projections		Actual
	XIII FC	FCP	
<b>Non-Plan Revenue Expenditure</b>	1,564.20	2,220.08	2,381.22

The Plan Revenue Expenditure (PRE) increased by ₹ 115.06 crore (9.58 per cent) from ₹ 1,201.05 crore in 2010-11 to ₹ 1,316.11 crore in 2011-12 mainly due to increase in Education, Sports, Art and Culture (₹ 129.42 crore) and Agriculture and Allied Activities (₹ 28.76 crore) which was offset by a decreased expenditure under Social Welfare and Nutrition (₹ 29.44 crore), Rural Development (₹ 21.03 crore) and Industry and Minerals (₹ 10.80 crore) over the previous year.

The ratio of NPRE to GSDP increased from 33.12 per cent in 2007-08 to 34.06 per cent during 2011-12, and also, the ratio of NPRE to GSDP increased from 33.93 per cent in 2010-11 to 34.06 per cent in 2011-12. The ratio of NPRE with reference to Revenue Receipts (RR) decreased from 71.98 per cent in 2010-11 to 62.26 per cent in 2011-12. The buoyancy of NPRE to GSDP decreased significantly from 1.77 in 2010-11 to 1.03 in 2011-12 which signifies that the rate of growth of NPRE was marginally higher than the rate of GSDP as indicated in the **Table-1.16**.

**Table-1.16: NPRE vis-à-vis GSDP and Revenue Receipt**

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Non-Plan Revenue Expenditure	1,259.31	1,573.21	1,805.35	2,055.19	2,381.22
Growth of NPRE	12.29	24.93	14.76	13.84	15.86
GSDP	3,802.42	4,647.55	5,619.41	6,057.70	6,991.40
Growth of GSDP	16.06	22.23	20.91	7.80	15.41
Ratio of NPRE to GSDP	33.12	33.85	32.13	33.92	34.06
Revenue Receipts	2,039.74	2,653.13	2,963.51	2,855.37	3,824.90
Ratio of NPRE to RR	61.74	59.30	60.92	71.98	62.26
Buoyancy of NPRE w.r.t. GSDP	0.77	1.12	0.71	1.77	1.03

#### 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-1.17** and **Chart-1.9** present the trends in the expenditure on these components during 2007-12.

Table-1.17: Components of Committed Expenditure

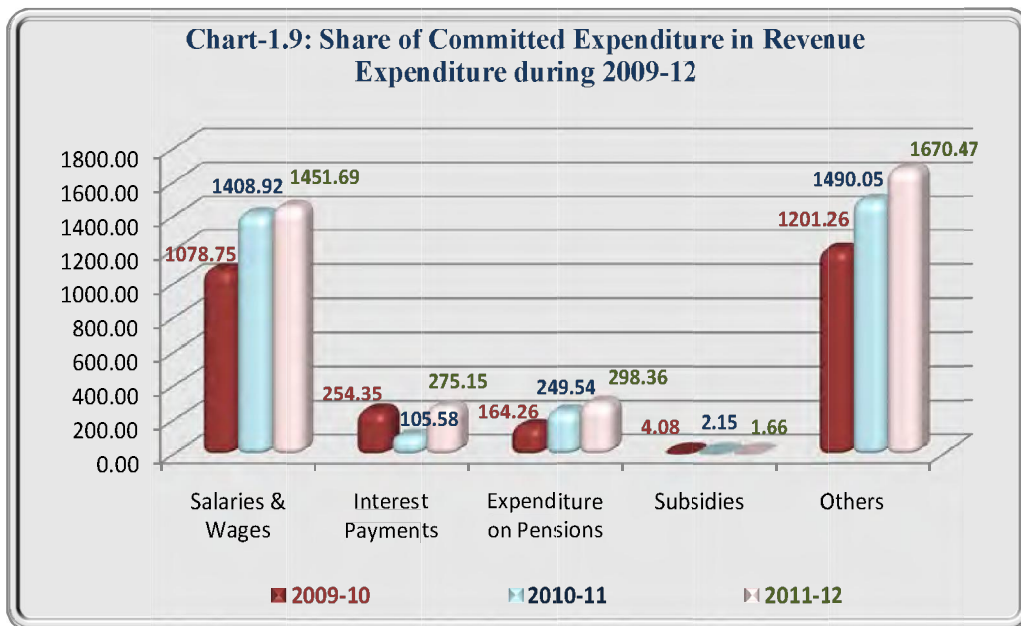
Components of Committed Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE <sup>(a)</sup>	Actuals <sup>(a)</sup>
Salaries* & Wages, of which	735.12 (36.04)	906.41 (34.16)	1,078.75 (36.40)	1,408.92 (49.34)	1,223.55	1,451.69 (37.95)
Non-Plan Head	588.06	737.61	887.85	1,183.24	---	1,156.55
Plan Head**	147.06	168.80	190.90	225.68	---	295.14
Interest Payments	208.01 (10.20)	225.61 (8.50)	254.35 (8.58)	105.58 (3.70)	271.24	275.15 (7.19)
Expenditure on Pensions	97.93 (4.80)	126.98 (4.79)	164.26 (5.54)	249.54 (8.74)	219.01	298.36 (7.80)
Subsidies	7.54 (0.37)	5.88 (0.22)	4.08 (0.14)	2.15 (0.08)	---	1.66 (0.04)
Other Components	859.79 (42.15)	1,048.92 (39.54)	1,201.26 (40.54)	1,490.05 (52.18)	1,712.46	1,670.47 (43.67)
<b>Total Revenue Expenditure</b>	<b>1,908.39</b>	<b>2,313.80</b>	<b>2,702.70</b>	<b>3,256.24</b>	<b>3,426.26</b>	<b>3,697.33</b>
<b>Revenue Receipt</b>	<b>2,039.74</b>	<b>2,653.13</b>	<b>2,963.51</b>	<b>2,855.37</b>	<b>3,748.30</b>	<b>3,824.90</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*

*(a) BE figures are gross figures sourced from Fiscal Policy Strategy Statement (FCP), Government of Mizoram, 2012-13, while Actuals are net figures sourced from Finance Accounts, 2011-12*

**(A) Salaries**

Salaries and wages alone accounted for more than 37.95 per cent of revenue receipts and 60.96 per cent of the Non-Plan Revenue Expenditure of the State Government during the year. The expenditure on salaries and wages increased by 3.04 per cent from ₹ 1,408.92 crore in 2010-11 to ₹ 1,451.69 crore in 2011-12. Salary expenditure under Non-Plan head decreased

by ₹ 26.69 crore (2.26 per cent), however, salary expenditure under Plan head during 2011-12 increased by ₹ 69.46 crore (30.78 per cent) over the previous year. Non-plan salary expenditure ranged from 79.67 per cent to 83.98 per cent of total expenditure on salaries during 2007-12. The expenditure on salaries during 2011-12 was significantly higher by ₹ 228.14 crore (18.65 per cent) than the projections (₹ 1,223.55 crore) made by the State Government in its FCP.

### (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 increased significantly by 160.61 per cent from ₹ 105.58 crore in 2010-11 to ₹ 275.15 crore in 2011-12. The interest payments increased mainly due to increase in Interest on Internal Debt by ₹ 86.91 crore and Interest on Small Savings, Provident Fund etc. by ₹ 83.05 crore.

**Table-1.18: 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
2011-12	304.96	271.24	275.15

The interest payment (₹ 275.15 crore) was marginally higher by ₹ 3.91 crore than the assessment (₹ 271.24 crore) made by the State Government in its Fiscal Correction Path (FCP) for the year 2011-12 and also lower by ₹ 29.81 crore than the projection (₹ 304.96 crore) made as per the Thirteenth Finance Commission.

### (C) Pension Payments

Pension payments grew from ₹ 97.93 crore in 2007-08 to ₹ 298.36 crore in 2011-12. Pension payment (₹ 298.36 crore) alone accounted for nearly 7.80 per cent of revenue receipts (₹ 3,824.90 crore) of the State during the year and increased by ₹ 48.82 crore (19.56 per cent) over the previous year. The increase was mainly due to increase in expenditure under Superannuation and Retirement Allowances by ₹ 30.79 crore, Gratuities by ₹ 14.18 crore, Family Pensions by ₹ 6.83 crore and Pensions to Legislature by ₹ 2.92 crore offset by a decrease in expenditure under Commuted value of Pensions by ₹ 3.88 crore and Other Pensions by ₹ 2.65 crore. The State Government had introduced 'The New Defined Contribution Pension Scheme' on 1 September 2010, however, no deposit was made under the head 8342 – Other Deposit – 117 – Defined Contribution Pension Scheme, instead employees contribution recovered from monthly salary were credited under the head 0071 – Contribution and Recoveries towards Pension and Other retirement Benefits. Under this account the State Government has a liability of ₹ 0.41 crore which was due to the fact that some of the employees contribution already recovered and credited to the concerned head of account cannot be matched and transferred to pension fund manager due to non-allotment of PRAN by National Securities Depository Limited (NSDL). An amount of

₹ 0.17 crore has been accounted for and booked under the head 2071 – Pensions and Other Retirement Benefits – 117 – Government Contribution for Defined Contribution Pension Scheme which was not reconciled. **Table-1.19** shows the actual pension payments with reference to assessment made by the Thirteenth Finance Commission and projection of the State Government.

**Table-1.19: 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
2011-12	160.69	219.01	298.36

*Pension payments were higher than the assessment made by the Thirteenth Finance Commission by ₹ 137.67 crore (85.67 per cent) as well as the State Government Projections made in its budget by ₹ 79.35 crore (36.23 per cent).*

#### (D) Subsidies

**Table-1.17** indicates that subsidies as a percentage of revenue receipts decreased from 0.08 per cent in 2010-11 to 0.04 per cent in 2011-12. The expenditure on subsidies has progressively decreased from ₹ 7.54 crore during 2007-08 to ₹ 1.66 crore during the current year. During the current year, the Departments which received subsidy include Co-Operation accounting for 6.55 per cent of total subsidies (₹ 10.87 lakh) and Crop Husbandry 93.45 per cent (₹ 155.00 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-1.20**.

**Table-1.20: Financial Assistance to Local Bodies etc.**

(₹ in crore)					
Financial Assistance to Institutions	2007-08	2008-09	2009-10	2010-11	2011-12
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	29.20	33.34	31.47	30.97	20.86
PRIs/ULBs	85.50	90.50	2.60	3.62	4.08
Consumer Co-operative Societies/MIZOFED	2.66	2.46	0.95	1.00	--
Other Institutions <sup>2</sup>	30.42	13.44	412.21	614.58	196.35
<b>Total</b>	<b>147.78</b>	<b>139.74</b>	<b>447.23</b>	<b>650.17</b>	<b>221.29</b>
Assistance as percentage of RE	7.74	6.04	16.55	19.97	5.99

Source: Finance Accounts, 2011-12

<sup>2</sup> (Figures for 2011-12) Aizawl Development Authority (₹ 1.80 crore), Aizawl Municipal Council (₹ 2.28 crore), Sports Council (₹ 2.01 crore), Lai Autonomous District Council (₹ 66.33 crore), Mara Autonomous District Council (₹ 61.13 crore), Chakma Autonomous District Council (₹ 36.16 crore), Khadi & Village Industry (₹ 5.28 crore), Non-Govt. High School (₹ 10.86 crore), SSA Matching Share (₹ 10.00 crore) and Others (₹ 25.45 crore)

The grants extended to local bodies and other institutions with inter-year variations decreased by 65.96 per cent from ₹ 650.17 crore in 2010-11 to ₹ 221.29 crore in 2011-12. The share of grants and loans to the revenue expenditure decreased from 7.75 per cent in 2007-08 to 5.99 per cent during the current year. The decrease of financial assistance to Institutions by ₹ 428.88 crore was mainly due to decrease in financial assistance to Other Institutions by ₹ 418.23 crore and Educational Institutions by ₹ 10.11 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-1.21** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2008-09 and 2011-12.

**Table-1.21: Fiscal Priority and Fiscal capacity of the State during 2008-09 and 2011-12**

Fiscal Priority by the State	AE/ GSDP	DE/ AE	SSE/ AE	CE/ AE	Education/ AE	Health/ AE
Mizoram State's Average (Ratio) 2008-09	59.65	70.10	35.87	15.91	14.63	6.31
Mizoram State's Average (Ratio) 2011-12	61.95	70.41	35.86	13.86	17.64	4.39

*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 increased by 2.30 per cent from 59.65 per cent in 2008-09 to 61.95 per cent in 2011-12. The DE to AE ratio marginally increased by 0.31 per cent, however, the SSE to AE ratio and CE to AE ratio decreased by



0.01 per cent and 2.05 per cent respectively as compared to 2008-09. Further, the expenditure on Education as proportion of aggregate expenditure increased from 14.63 per cent in 2008-09 to 17.64 per cent in 2011-12 and the expenditure on Health as proportion of aggregate expenditure decreased from 6.31 per cent in 2008-09 to 4.39 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-1.22** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted expenditure and the previous years, **Table-1.23** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

**Table-1.22: Development Expenditure**

(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE@	Actuals
<b>Development Expenditure (a to c)</b>	<b>1,797.61 (73.11)</b>	<b>1,943.43 (70.10)</b>	<b>2,307.01 (69.90)</b>	<b>2,843.45 (72.89)</b>	<b>2,822.60</b>	<b>3,049.41 (70.41)</b>
a. Development Revenue Expenditure	1,262.73 (51.36)	1,510.05 (54.47)	1,755.03 (53.18)	2,244.95 (57.55)	2,189.50	2,470.95 (57.05)
b. Development Capital Expenditure	530.74 (21.59)	421.25 (15.20)	546.81 (16.57)	591.35 (15.16)	623.39	570.15 (13.16)
c. Development Loans and Advances	4.14 (0.17)	12.13 (0.44)	5.17 (0.16)	7.15 (0.18)	9.71	8.31 (0.19)

*Figures in parentheses indicate percentage to aggregate expenditure*

*@ BE figures are gross figures sourced from Annual Financial Statement (budget), Government of Mizoram, 2011-12, while Actuals are net figures sourced from Finance Accounts, 2011-12*

Development Expenditure on socio-economic services increased from ₹ 1,797.61 crore in 2007-08 to ₹ 3,049.41 crore in 2011-12. As a percentage of aggregate expenditure, the share

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

of Development Expenditure ranged between 69.90 *per cent* and 73.11 *per cent* with inter year variations. Though Development Expenditure registered an increase of 7.24 *per cent* (₹ 205.96 crore) during 2011-12 over the previous year. During the current year, the State Government earmarked ₹ 2,822.60 crore out of the estimated aggregate expenditure for development expenditure, and this assessment was less than the actual development expenditure by ₹ 226.81 crore at the end of the year. Development Revenue and Capital expenditure showed increasing trend since 2007-08 at an annual growth rate of 19.14 *per cent* and 1.49 *per cent* respectively.

- The development revenue expenditure increased by ₹ 226.00 crore from ₹ 2,244.95 crore in 2010-11 to ₹ 2,470.95 crore in 2011-12. Expenditure on Social sector increased by 9.48 *per cent* (₹ 117.31 crore) from ₹ 1,237.38 crore in 2010-11 to ₹ 1,354.69 crore in 2011-12, while the Economic sector increased by 10.79 *per cent* (₹ 108.69 crore) from ₹ 1,007.57 crore in 2010-11 to ₹ 1,116.26 crore in 2011-12. The actual development revenue expenditure was more than the State's projection in budget by ₹ 281.45 crore.
- The Development Capital Expenditure decreased by ₹ 21.20 crore from ₹ 591.35 crore in 2010-11 to ₹ 570.15 crore in the current year. The decrease of ₹ 21.20 crore in development capital expenditure was due to decrease in expenditure under economic services by ₹ 85.59 crore, however, there was an increase in expenditure under social services by ₹ 64.39 crore over the previous year. The actual development capital expenditure was significantly less than the State's projection in budget by ₹ 53.24 crore.
- The Expenditure on Development Loans and Advances increased by ₹ 1.16 crore from ₹ 7.15 crore in 2010-11 to ₹ 8.31 crore in 2011-12. The actual expenditure on development loans and advances was less than the State's assessment in budget by ₹ 1.40 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-1.23** 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 2010-11 and 2011-12.

**Table-1.23: Efficiency of Expenditure Use in Selected Social and Economic Services**

Social/ Economic Infrastructure	2010-11				2011-12			
	Ratio of CE to TE <sup>@</sup>	In RE, the share of S & W		Non-Salary	Ratio of CE to TE <sup>@</sup>	In RE, the share of S & W		Non-Salary
		₹ in crore	In per cent	₹ in crore		₹ in crore	In per cent	₹ in crore
<b>Social Services (SS)</b>								
Education, Sports, Art and Culture	4.84	443.33	75.31	145.35	8.63	484.88	69.48	212.99
Health and Family Welfare	0.03	125.00	71.81	49.07	1.76	128.13	68.59	58.68
WS, Sanitation & HUD	37.75	31.14	20.47	120.99	44.31	29.91	19.73	121.72
Other Social Services	0.20	9.75	3.02	312.75	0.13	43.98	13.81	274.40
<b>Total (SS)</b>	<b>9.20</b>	<b>609.22</b>	<b>49.23</b>	<b>628.16</b>	<b>12.32</b>	<b>686.90</b>	<b>50.71</b>	<b>667.79</b>
<b>Economic Services (ES)</b>								
Agri. & Allied Activities	19.94	118.88	23.70	382.72	13.48	120.80	22.74	410.33
Irrigation and Flood Control	88.66	5.34	72.26	2.05	84.54	5.16	57.08	3.88
Power & Energy	26.72	57.91	29.19	140.47	20.81	54.59	18.87	234.78
Transport	65.62	16.10	20.65	61.88	54.21	15.44	15.38	84.94
Other Economic Services	21.52	180.10	81.05	42.12	22.05	113.04	60.66	73.30
<b>Total (ES)</b>	<b>31.55</b>	<b>378.33</b>	<b>37.55</b>	<b>629.24</b>	<b>25.39</b>	<b>309.03</b>	<b>27.68</b>	<b>807.23</b>
<b>Grand Total (SS+ES)</b>	<b>20.80</b>	<b>987.55</b>	<b>43.99</b>	<b>1,257.40</b>	<b>18.75</b>	<b>995.93</b>	<b>40.31</b>	<b>1,475.02</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 20.80 per cent in 2010-11 to 18.75 per cent in current year.

The ratio of salary and wage component under Social and Economic Services to revenue expenditure during the current year was 40.31 per cent, a decrease of 3.68 per cent over the previous year. The salary and wage component under revenue expenditure in Social Sector increased by ₹ 77.68 crore from ₹ 609.22 crore in 2010-11 to ₹ 686.90 crore in 2011-12, showing an increase by 12.75 per cent over the previous year; while non-salary component marginally increased by 6.31 per cent over the previous year from ₹ 628.16 crore in 2010-11 to ₹ 667.79 crore in 2011-12.

Again, within the revenue expenditure under economic services, the salary and wage component decreased by ₹ 69.30 crore (a decrease of 18.32 per cent) from ₹ 378.33 crore in 2010-11 to ₹ 309.03 crore in 2011-12 while non-salary component increased by 28.29 per cent from ₹ 629.24 crore in 2010-11 to ₹ 807.23 crore in 2011-12.

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 on Social and Economic Services indicate that revenue expenditure increased by 10.07 *per cent* from ₹ 2,244.95 crore in 2010-11 to ₹ 2,470.95 crore in 2011-12 whereas capital expenditure decreased by 3.59 *per cent* from ₹ 591.35 crore in 2010-11 to ₹ 570.15 crore in 2011-12. Similarly, expenditure of salary portion on Social and Economic Services increased by 0.85 *per cent* from ₹ 987.55 crore in 2010-11 to ₹ 995.93 crore in 2011-12 and on Non-Salary by 17.31 *per cent* from ₹ 1,257.40 crore in 2010-11 to ₹ 1,475.02 crore in 2011-12 (Detailed in **Appendix-1.6 Part-A & Part-B**).

## 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 2012 is given in **Table-1.24** below:

**Table-1.24: Department-wise Profile of Incomplete Projects**

(₹ in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Cost Over Runs (No. of Projects)	Cumulative actual expenditure as on 31 March 2012
Public Works (Roads)	17	192.18	7.11 (2)	112.10
Public Works (Buildings)	23	65.09	--	45.00
Power and Electricity (P&E)	2	35.17	--	26.37
Public Health Engineering (PHE)	5	93.16	41.67 (1)	122.78
<b>Total</b>	<b>47</b>	<b>385.60</b>	<b>48.78 (3)</b>	<b>306.25</b>

Source: Appendix X (Finance Account 2011-12)

Out of 81 projects, which were to be completed on or before March 2012, there were 47 incomplete projects as of March 2012, which were started with initial budgeted cost of ₹ 385.60 crore under Public Works (Roads), Public Works (Buildings), Public Health Engineering and Power & Electricity Departments which resulted in cost overrun of

₹ 48.78 crore in three projects at the close of the current year. Due to non-completion of the projects (March 2012), an amount of ₹ 128.13 crore booked against these projects remained blocked. 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

<sup>4</sup>The Thirteenth Finance Commission recommended completion of a roadmap for closure of non-working PSUs by March 2011 and for which a task force and a steering committee was to be put in place to oversee sale or closure of such non-functioning PSUs.

As of 31 March 2012, Government had invested ₹ 19.77 crore in Government Companies and Co-operatives, out of which an amount of ₹ 3.28 crore was invested in Government Companies and ₹ 16.49 crore was invested in Co-operative Societies. During the current year, State Government invested only ₹ 0.50 crore in Public Sector and other Undertakings of Government Companies. No dividend was received during 2011-12. **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 7.02 per cent on its borrowings during 2007-12 (Table-1.25).**

**Table-1.25: Return on Investment**

	(₹ in crore)				
Investment/ Return/ Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	17.21	18.73	19.00	19.27	19.77
Return (₹ in crore)	--	--	--	--	--
Return (per cent)	--	--	--	--	--
Average rate of interest on Govt. borrowing (per cent)	6.43	6.45	7.02	2.60	6.08
Difference between interest rate and return (per cent)	6.43	6.45	7.02	2.60	6.08

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

<sup>4</sup> Source: Fiscal Policy Strategy Statement, Government of Mizoram, 2012-13

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.

<sup>5</sup>Although the Government could not comply with the Thirteenth Finance Commission recommendation, as a positive step in that direction, the Finance Department has engaged specialist for restructuring the PSUs for specific recommendations to the State Government to rebuild some of the PSUs.

### 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-1.26** presents the outstanding loans and advances as on 31 March 2012, interest receipts *vis-à-vis* interest payments during the last three years.

**Table-1.26: Average Interest Received on Loans Advanced by the State Government**

(₹ in crore)

Quantum of Loans/ Interest Receipts/ Cost of Borrowings	2009-10	2010-11	2011-12
Opening Balance	241.51	241.14	245.04
Amount advanced during the year	24.94	29.87	33.52
Amount repaid during the year	25.31	25.97	27.80
Closing Balance	241.14	245.04	250.76
<i>Of which Outstanding balance for which terms and conditions have been settled</i>			
Net addition	(-) 0.37	(+)3.90	(+) 5.72
Interest Receipts	1.70	0.06	3.03
Interest receipts as <i>per cent</i> to outstanding Loans and advances (a)	0.70	0.02	1.21
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government (b)	7.01	2.35	6.05
Difference between interest payments and interest receipts ( <i>per cent</i> ) (c) = (b) – (a)	6.31	2.33	4.84

The total amount of outstanding Loans and Advances as on 31 March 2012 was ₹ 250.76 crore. The amount of loans disbursed during the year increased from ₹ 29.87 crore in 2010-11 to ₹ 33.52 crore in 2011-12. Out of the total amount of loans advanced during the year, ₹ eight crore went to social services, ₹ 0.31 crore to economic services and ₹ 25.21 crore to Government servants. Under the social services, the amount of ₹ eight crore was disbursed to Housing only and in economic services the amount of ₹ 0.31 crore was disbursed to Co-operation. The recovery of loans and advances increased marginally from ₹ 25.97 crore in 2010-11 to ₹ 27.80 crore mainly on account of recovery under Housing (₹ 18.50 crore) and Government Servants (₹ 8.81 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

<sup>5</sup> Source: Fiscal Policy Strategy Statement, Government of Mizoram, 2012-13



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 significantly increased from ₹ 0.06 crore in 2010-11 to ₹ 3.03 crore in 2011-12 and as a result the interest receipt to outstanding loans stood at 1.21 per cent during 2011-12.***

#### **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-1.27: Ways and Means Advances and Overdraft**

	2007-08	2008-09	2009-10	2010-11	2011-12
(₹ in crore)					
<b>Ordinary and Special Ways &amp; Means Advances</b>					
Availed in the year	23.98	--	1.37	163.36	71.39
Outstanding WMAs	12.13	12.13	12.13	27.21	46.45
Interest paid	0.02	--	8.63	--	--
Number of days	3	--	19	21	11
<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 2007-08 to 2010-11 except during 2008-09 against which an interest of ₹ 8.63 crore was paid and during the current year, the state availed only Special Ways & Means Advances. The State, however, did not avail any overdraft facility during 2007-12.

**Table-1.28** depicts the cash balances and investments made by the State Government out of cash balances<sup>6</sup> during the year.

**Table-1.28: Cash Balances and Investment of Cash balances**

(₹ in crore)			
Particulars	As on 31 March 2011	As on 31 March 2012	Increase (+)/ Decrease(-)
<b>Cash Balances</b>	221.31	194.97	(-) 26.34
<b>Investments from Cash Balances (a to d)</b>	307.20	410.01	(+) 102.81
a. GOI Treasury Bills	211.45	292.51	(+) 81.06
b. GOI Securities	--	--	--
c. Other Securities, if any specify	--	--	--
d. Other Investments	95.75	117.25	(+) 21.75
<b>Fund-wise Break-up of Investment from Earmarked balances</b>			
a. Sinking Fund	95.75	117.50	(+) 21.75
<b>Interest Realized</b>	5.74	8.37	(+) 2.63

Cash balance of the State Government at the end of the current year decreased by ₹ 26.34 crore from ₹ 221.31 crore in 2010-11 to ₹ 194.97 crore in 2011-12. The investment from cash balances increased by 33.47 *per cent* from ₹ 307.20 crore in 2010-11 to ₹ 410.01 crore in 2011-12. An amount of ₹ 8.37 crore was earned as interest during 2011-12 on the amount invested. Further, during the year, the Government appropriated an amount of ₹ 21.75 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 2012 was ₹ 117.50 crore for amortisation of long term loans.

## 1.9 Assets and Liabilities

### 1.9.1 Growth and composition of Assets and Liabilities

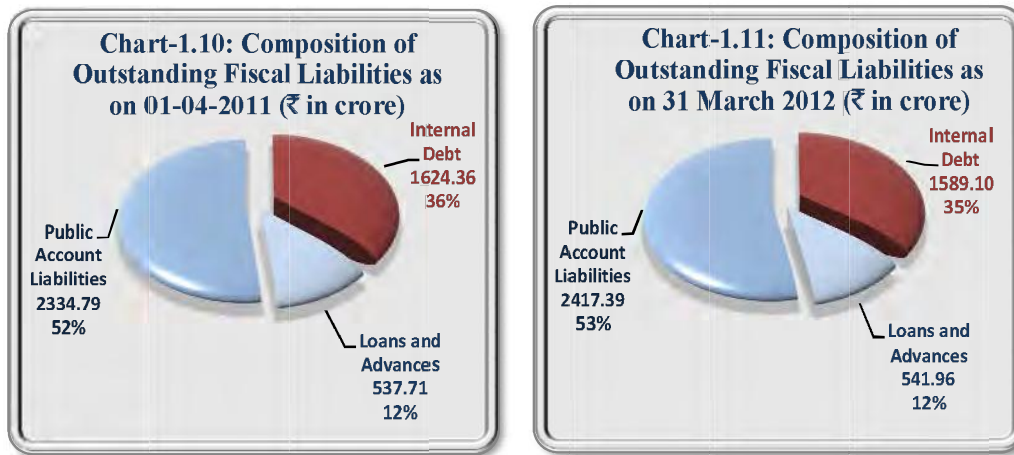
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix-1.3** gives an abstract of such liabilities and the assets as on 31 March 2012, compared with the corresponding position on 31 March 2011. 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.

<sup>6</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**)

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-1.29** gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP, revenue receipts and to State’s own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

**Table-1.29: Fiscal Liabilities – Basic Parameters**

	2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal Liabilities <sup>#</sup> (₹ in crore)	3,378.04	3,614.06	3,627.69	4,496.86	4,548.45
Rate of Growth ( <i>per cent</i> )	9.13	6.99	0.38	23.96	1.15
<b>Ratio of Fiscal Liabilities to:</b>					
GSDP ( <i>per cent</i> )	88.84	77.76	64.56	74.23	65.06
Revenue Receipts ( <i>per cent</i> )	165.61	136.22	122.41	157.49	118.92
Own Resources ( <i>per cent</i> )	1,625.39	1,426.85	1,549.70	1,622.48	1,310.41
<b>Buoyancy of Fiscal Liabilities with reference to:</b>					
GSDP (ratio)	0.57	0.31	0.02	3.05	0.07
Revenue Receipts (ratio)	2.53	0.23	0.03	(-) 6.51	0.03
Own Resources (ratio)	2.69	0.32	(-) 0.05	1.30	0.05

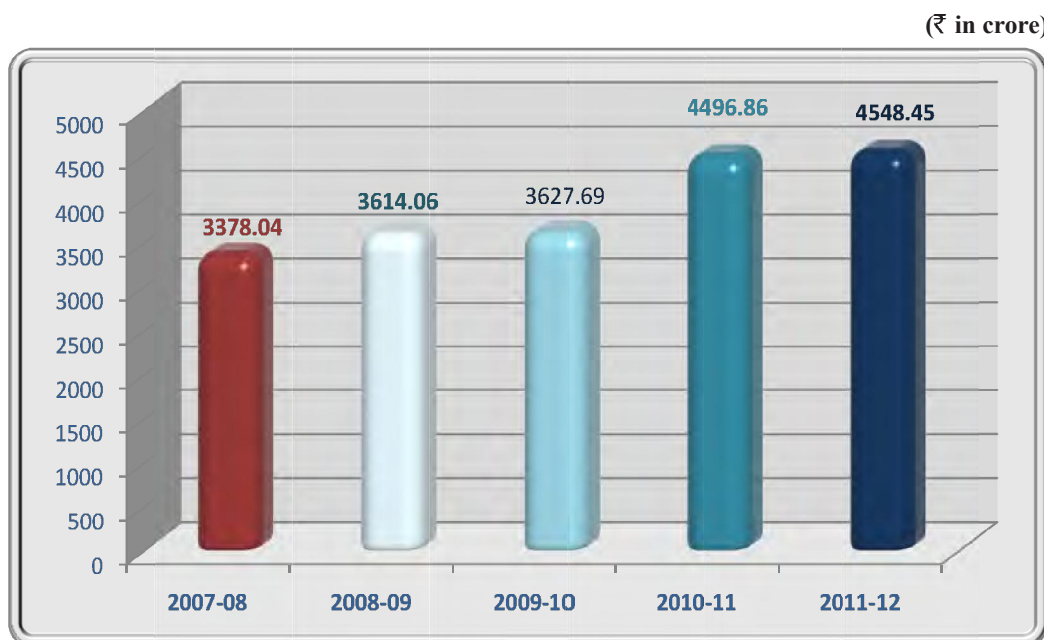
<sup>#</sup> Includes Internal Debt, Loans and Advances from GOI, Small Savings, Provident Fund etc., Reserve Funds (Gross) and Deposits

The overall fiscal liabilities of the State increased at an average annual rate of 6.93 *per cent* during the period 2007-12. During the current year, the overall fiscal liabilities of the State Government increased by ₹ 51.59 crore (1.15 *per cent*) from ₹ 4,496.86 crore in 2010-11 to ₹ 4,548.45 crore in 2011-12. The increase in fiscal liabilities was mainly due to increase in the

Public Account liabilities by ₹ 82.60 crore and Loans and Advances by ₹ 4.25 crore, offset by a decrease in Internal Debt by ₹ 35.26 crore. *The ratio of fiscal liabilities to GSDP has decreased from 74.23 per cent in 2010-11 to 65.06 per cent in 2011-12. These fiscal liabilities stood at nearly 1.19 times the revenue receipts and 13.10 times of the State's own resources at the end of 2011-12.* The buoyancy of these liabilities with respect to GSDP during the year was 0.07 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.07 *per cent*. As per Thirteenth Finance Commission recommendations the State Government should bring the Fiscal Liabilities-GSDP ratio to around 25 *per cent* by 2014-15 which seems most unlikely in the present scenario unless some drastic steps are taken to reduce debt. 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 2012, the balance in the sinking fund was ₹ 117.50 crore. During 2011-12, ₹ 21.75 crore has been invested in the sinking fund.

The increasing position of fiscal liabilities during 2007-12 is depicted in the bar chart below:

**Chart-1.12: Trend showing Fiscal Liabilities during 2007-12**



### 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. Although, in 2010-11, an additional fund of ₹ 50 lakh had been transferred to Guarantee Redemption Fund (GRF), however, no amount was transferred to the fund during

the accounting period of 2011-12. Information regarding Guarantee Commission or fee has not been received from the State Government<sup>7</sup> and no investment has been made in Guarantee Redemption Fund during 2011-12.

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-1.30**.

**Table-1.30: Guarantees given by the Government of Mizoram**

(₹ in crore)

Guarantees	2009-10	2010-11	2011-12
Maximum amount guaranteed	189.03	189.02	243.34
Outstanding amount of guarantees	102.75	102.72	232.18
Revenue Receipts	2,963.51	2,855.37	3,824.90
Total Receipts in Consolidated Fund of the State	3,214.71	3,418.56	4,078.40
Percentage of maximum amount guaranteed to revenue receipts	6.38	6.62	6.36

The State Government had guaranteed loans raised by various corporations and others which at the end of 2011-12 stood at ₹ 232.18 crore. No fresh guarantees were extended in the current year. The outstanding guarantees were 6.07 *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 65.06 *per cent* to 68.38 *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>8</sup> of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation<sup>9</sup>, sufficiency of non-debt receipts<sup>10</sup>, net availability of borrowed funds<sup>11</sup>, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table-1.31** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2007-08.

<sup>7</sup> Source: Notes to Finance Account, 2011-12 (Vol.-I)

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

<sup>9</sup> As defined in Appendix 1.1.C

<sup>10</sup> As defined in Appendix 1.1.C

<sup>11</sup> It indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds

**Table-1.31: Debt Sustainability: Indicators and Trends**

Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Debt Stabilization (Quantum Spread + Primary Deficit)</b>	298.29 + (-) 183.47 = 114.82	532.81 + (+) 131.35 = 664.16	501.87 + (-) 57.27 = 444.60	188.66 + (-) 913.90 = (-) 725.24	419.54 + (-) 203.27 = 216.27
<b>Sufficiency of Non-debt Receipts (Resource Gap)</b>	(-) 200.48	(+) 297.22	(-) 217.36	(-) 707.86	(+) 541.06
<b>Net Availability of Borrowed Funds</b>	74.52	10.40	(-) 240.73	763.60	(-) 218.50
<b>Burden of Interest Payments (IP/RR Ratio)</b>	10.20	8.50	8.58	3.70	7.19
<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>			728.05	11.72	
<b>1 – 3</b>			1,070.81	17.24	
<b>3 – 5</b>			1,267.51	20.41	
<b>5 – 7</b>			981.01	15.79	
<b>Sub-total (A)</b>			<b>4,047.38</b>	<b>65.16</b>	
<b>7 – 9</b>			866.28	13.95	
<b>9 – 11</b>			688.71	11.09	
<b>11 – 13</b>			272.63	4.39	
<b>13 – 15</b>			215.50	3.47	
<b>15 and above</b>			120.67	1.94	
<b>Sub-total (B)</b>			<b>2,163.79</b>	<b>34.84</b>	
<b>Total (A+B)</b>			<b>6,211.17</b>	<b>100.00</b>	

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

During the current year, the sum of quantum spread and primary deficit turned positive indicating that the debt-GSDP ratio is stable and eventually the ratio would fall. The sum of quantum spread and primary deficit at ₹ 216.27 crore during 2011-12 against ₹ (-) 725.24 crore in 2010-11 is a positive sign towards fiscal balances in the forthcoming years.

Despite the increase in the quantum of expenditure in 2011-12, the buoyancy in revenue receipt had a positive impact in the debt scenario of the economy of the State and to some



extent reverse deteriorating debt scenario experienced in the previous year as compared to primary deficit of ₹ 913.90 crore in 2010-11, the primary deficit in 2011-12 decreased to ₹ 203.27 crore, which had resulted in positive indications that the debt was again being stabilized in the current year.

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. Narrowing of the resource gap from ₹ (-) 707.86 crore in 2010-11 to ₹ (+) 541.06 crore during 2011-12 indicates improving capacity of the State to sustain the debt in the medium to long run.

During 2011-12, against debt receipt of ₹ 1,375.25 crore, debt redemption and interest payment was ₹ 1,593.75 crore, leaving no borrowed funds for purposes other than debt redemption. Thus, the debt receipt of 2011-12 was insufficient even for servicing of past liabilities of the State. With the proportionate increase in revenue receipt as well as interest payment in the current year, the ratio of interest payment – revenue receipts have increased to 7.19 *per cent* in 2011-12 from 3.71 *per cent* in the previous year; increasing the burden of interest payment on revenue receipt by 3.48 *per cent* in the current year.

The maturity profile of the State's debt during the current year indicates that out of the outstanding debt stock of ₹ 6,211.17 crore, around 65.16 *per cent* (₹ 4,047.38 crore) is payable within the next seven years while the remaining 34.84 *per cent* (₹ 2,163.79 crore) are to be paid in more than seven years' time. Since there was no fiscal surplus during the last five years (2007-12), 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 of 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 2011-12.

1.11.1 Trends in Deficits

Chart-1.13 and 1.14 presents the trends in deficit indicators over the period 2007-12.

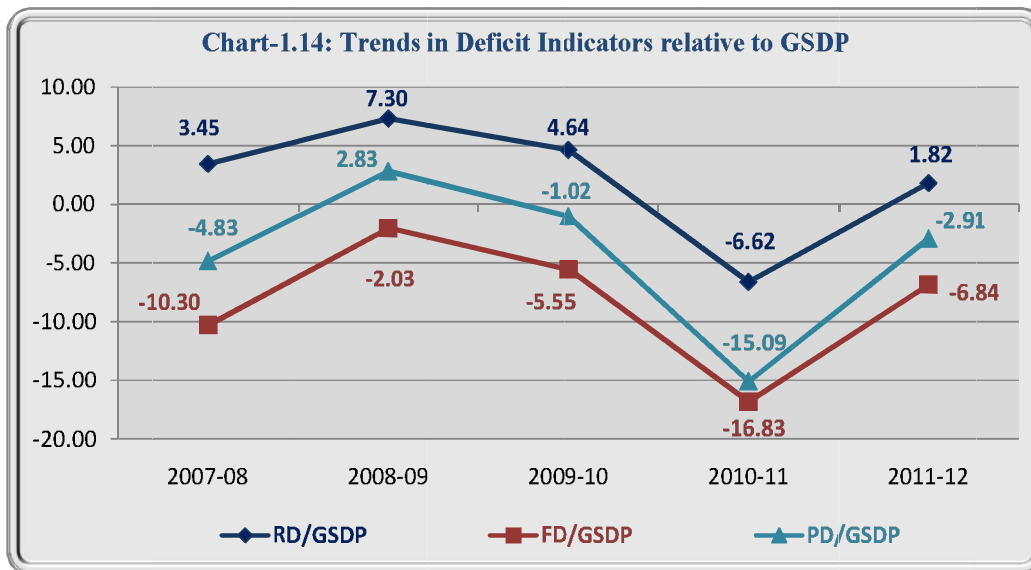
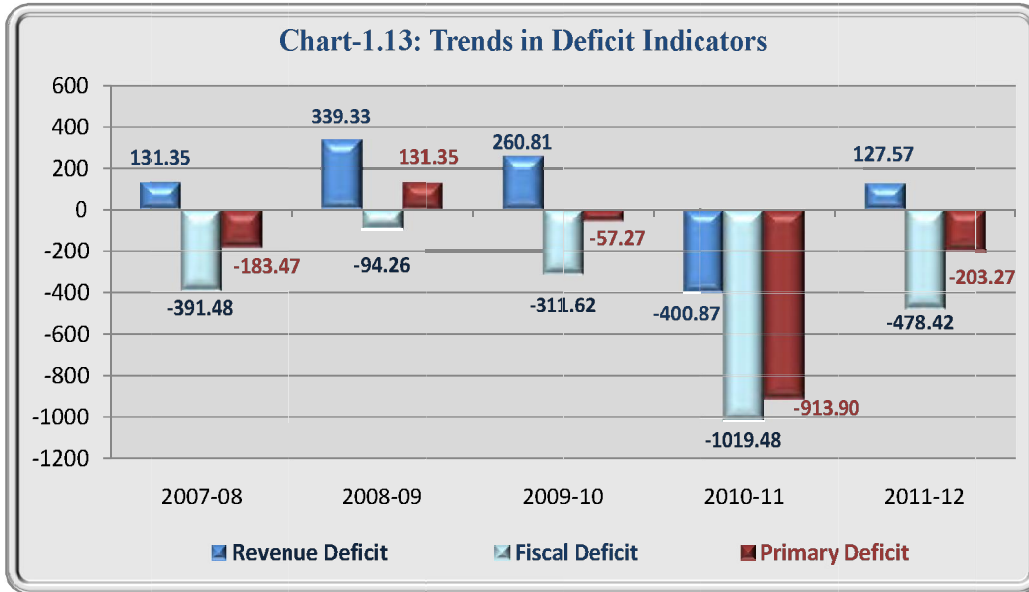


Chart-1.13 reveals that the significant improvement in revenue surplus by ₹ 528.44 crore in 2011-12 over the previous year served as a harbinger in controlling the harsh financial deficit situation experienced by the State in the previous year. Despite increase of ₹ 430.30 crore in total expenditure in 2011-12 over the previous year, both fiscal deficit and primary deficit were restrained as a result of improvement of revenue receipts by ₹ 969.53 crore. While fiscal deficit decreased by ₹ 541.06 crore, primary deficit had decreased by ₹ 710.63 crore over the

previous year. Interest payment (₹ 275.15 crore) alone accounted for 57.51 per cent of the fiscal deficit (₹ 478.42 crore) and as such obligations of past liabilities formed major portion of the fiscal deficit in the current year. Interest bearing borrowing<sup>12</sup> of ₹ 225.70 crore in 2011-12 as compared to ₹ 537.22 crore in the previous year may ease out interest burden in coming years; provided such a trend is followed in the future. Though there are signs of recovery of the financial deficit situation of the State, a cautious and prudent management of expenditure and revenue mobilization needs to be addressed so that financial position returns to a comfortable state.

### 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-1.32**.

**Table-1.32: Components of Fiscal Deficit and its Financing Pattern**

		(₹ in crore)				
Particulars		2007-08	2008-09	2009-10	2010-11	2011-12
<b>Decomposition of Fiscal Deficit</b>		<b>(-)391.48</b>	<b>(-)94.26</b>	<b>(-)311.62</b>	<b>(-)1,019.48</b>	<b>(-)478.42</b>
1.	Revenue Surplus/Deficit	131.35	339.33	260.81	(-)400.87	(+) 127.57
2.	Net Capital Expenditure	(-)544.24	(-)441.04	(-)572.80	(-)614.71	(-)600.27
3.	Net Loans and Advances	(+)21.41	(+)7.45	(+) 0.37	(-)3.90	(-)5.72
<b>Financing Pattern of Fiscal Deficit*</b>						
1.	Market Borrowings	128.71	29.63	(-) 58.61	256.56	9.92
2.	Loans from GOI	(-) 7.07	(-) 12.05	13.30	(-) 22.04	4.25
3.	Special Securities Issued to NSSF	(-) 1.23	(-) 2.42	8.18	18.71	7.11
4.	Loans from Financial Institutions	(-) 36.55	(-) 2.95	(-) 97.76	16.01	(-) 42.68
5.	Compensation and other Bonds	(-) 4.12	(-) 2.71	(-) 4.56	(-) 4.56	(-) 4.55
6.	Small Savings, PF etc.	172.27	187.88	43.58	275.91	115.72
7.	Deposits and Advances	36.55	37.65	105.49	333.44	(-) 32.42
8.	Suspense and Misc.	32.41	(-) 78.36	292.16	209.58	453.72
9.	Remittances	26.60	(-) 71.93	(-) 39.96	(-) 35.83	57.03
10.	Reserve Fund	(-) 6.05	1.01	4.03	(-) 4.37	0.11
11.	Increase/decrease in Cash balance with RBI	49.96	8.51	45.77	(-) 23.93	(-) 89.79
12.	<b>Overall Deficit (1 to 11)</b>	<b>(-)391.48</b>	<b>(-)94.26</b>	<b>(-)311.62</b>	<b>(-)1,019.48</b>	<b>(-)478.42</b>
	<i>(per cent of GSDP)</i>	<b>(10.30)</b>	<b>(2.03)</b>	<b>(5.55)</b>	<b>(16.83)</b>	<b>(6.84)</b>

\* All these figures are net of disbursements outflows during the year

It can be seen from **Table-1.32** that there was *fiscal deficit during the last five years with a slight improvement during 2008-09 (₹ 94.26 crore)* However, *the fiscal deficit drastically deteriorated during 2010-11 to the level of ₹ 1,019.48 crore (16.83 per cent of GSDP) and improved during the current year to ₹ 478.42 crore.* During 2011-12, fiscal deficit was

<sup>12</sup> Includes only Internal debt and Loans and Advances from Central Government

primarily financed by Small Savings, PF *etc.*, Suspense and Miscellaneous, and Remittances 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-1.33**) 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-1.33: 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)
2007-08	2,067.27	1,700.38	544.24	6.12	2,250.74	(+) 366.89	(-) 183.47
2008-09	2,677.99	2,088.19	441.04	17.41	2,546.64	(+) 589.80	(+) 131.35
2009-10	2,988.82	2,448.35	572.80	24.94	3,046.09	(+)540.47	(-) 57.27
2010-11	2,881.34	3,150.66	614.71	29.87	3,795.24	(-)269.32	(-) 913.90
2011-12	3,852.70	3,422.18	600.27	33.52	4,055.97	(+) 430.52	(-) 203.27

The non-debt receipts of the State during 2006-07 to 2009-10 were sufficient to meet the primary revenue expenditure. During 2010-11, the non-debt receipt was inadequate to cover the primary revenue expenditure, however, during the current year the non-debt receipt was in excess of the primary revenue expenditure by ₹ 430.52 crore. The non-debt receipts of the State increased by 33.71 *per cent* from ₹ 2,881.34 crore in 2010-11 to ₹ 3,852.70 crore in 2011-12 which was more than the primary expenditure by ₹ 430.52 crore. Over the period 2007-2012, there has been an inter-year variation in the proportion of capital expenditure in primary expenditure. The proportion of capital expenditure decreased during the current year over the previous years by ₹ 14.44 crore. The State Government should focus on increasing the productive capacity of the State's economy and containing unproductive expenditure.

## 1.12 Conclusion and Recommendations

### *Conclusion*

**Revenue receipts** increased to ₹ 3,824.90 crore in 2011-12 from ₹ 2,855.37 crore in 2010-11 (33.95 *per cent*); mainly due to increase in Grants-in-Aid (₹ 523.87 crore) and Central share of Taxes (₹ 375.72 crore). The revenue receipt (₹ 3,824.90 crore) was also higher by ₹ 76.60 crore (2.04 *per cent*) than the assessment of the State Government in its Fiscal Correction Path (FCP) (₹ 3,748.30 crore).

### *Revenue Expenditure and Capital Expenditure*

**Revenue Expenditure** increased by ₹ 441.09 crore (13.55 *per cent*) while **Capital Expenditure** decreased by ₹ 14.44 crore (2.35 *per cent*) over the previous year. Revenue expenditure was higher by ₹ 271.07 crore (7.91 *per cent*) than the assessment made by the State Government in its FCP (₹ 3,426.26 crore). Also, Capital expenditure was higher by ₹ 103.32 crore (20.79 *per cent*) than the projection made by the State Government in its FCP (₹ 496.95 crore).

The total expenditure of the State increased progressively from ₹ 2,458.75 crore in 2007-08 to ₹ 4,331.12 crore in 2011-12 at an annual average rate of 14.72 *per cent* and increased by 11.02 *per cent* from ₹ 3,900.82 crore in 2010-11 to ₹ 4,331.12 crore in 2011-12. Of the total expenditure during 2011-12, the revenue expenditure (₹ 3,697.33 crore) constituted 85.37 *per cent* while capital expenditure (₹ 600.27 crore) constituted 13.85 *per cent* and loans and advances (₹ 33.52 crore) formed 0.77 *per cent*.

*The breakup of total expenditure in terms of plan and non-plan expenditure* during 2011-12 reveals that while the share of plan expenditure of ₹ 1,884.17 crore constituted 43.50 *per cent* of the total expenditure, the remaining 56.50 *per cent* (₹ 2,446.95 crore) was non-plan expenditure. Moreover, out of the increase of ₹ 430.30 crore in total expenditure, plan expenditure shared 34.52 *per cent* (₹ 148.55 crore) while non-plan expenditure contributed 65.48 *per cent* (₹ 281.75 crore) in 2011-12.

### *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. During the current year GoI transferred ₹ 668.43 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 6.93 per cent during the period 2007-12. During the current year, the overall fiscal liabilities of the State Government increased by ₹ 51.59 crore (1.15 per cent) from ₹ 4,496.86 crore in 2010-11 to ₹ 4,548.45 crore in 2011-12. The increase in fiscal liabilities was mainly due to increase in the Public Account liabilities by ₹ 82.60 crore and Loans and Advances by ₹ 4.25 crore, offset by a decrease in Internal Debt by ₹ 35.26 crore. ***The ratio of fiscal liabilities to GSDP has decreased from 74.23 per cent in 2010-11 to 65.06 per cent in 2011-12. These fiscal liabilities stood at nearly 1.19 times the revenue receipts and 13.10 times of the State's own resources at the end of 2011-12.*** As per Thirteenth Finance Commission recommendations the State Government should bring the Fiscal Liabilities-GSDP ratio to around 25 per cent by 2014-15.

### ***Investment and Returns***

As of 31 March 2012, Government had invested ₹ 19.77 crore in Government Companies and Co-operatives, out of which an amount of ₹ 3.28 crore was invested in Government Companies and ₹ 16.49 crore was invested in Co-operative Societies. During the current year, State Government invested only ₹ 0.50 crore in Public Sector and other Undertakings of Government Companies. No dividend was received during 2011-12. ***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 7.02 per cent on its borrowings during 2007-12.***

### ***Debt sustainability***

During the current year, the sum of quantum spread and primary deficit turned positive indicating that the debt-GSDP ratio is stable and eventually the ratio would fall. The sum of quantum spread and primary deficit at ₹ 216.27 crore during 2011-12 against ₹ (-) 725.24 crore in 2010-11 is a positive 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. Narrowing of the resource gap from ₹ (-) 707.86 crore in 2010-11 to ₹ (+) 541.06 crore during 2011-12 indicates improving capacity of the State to sustain the debt in the medium to long run.

### ***Fiscal Imbalances***

Despite increase of ₹ 430.30 crore in total expenditure in 2011-12 over the previous year, both fiscal deficit and primary deficit were restrained as a result of improvement of revenue receipts by ₹ 969.53 crore. While fiscal deficit decreased by ₹ 541.06 crore, primary deficit had decreased by ₹ 710.63 crore over the previous 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 improvement achieved in revenue surplus and reduction of fiscal deficit, the State Government should put in place more stringent fiscal reforms measures to maintain a sustainable space to provide scope for fiscal stability. As such 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.*

*The increasing revenue expenditure should be curtailed as it poses a threat to the State Government's capability to maintain revenue surplus and to build up the accumulated revenue surplus for financing the capital investment. In order to meet the yearly increments of revenue expenditure, the Government has to generate its own resources.*

**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 by 2014-15. 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 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. The Government should have a re-look on the re-structuring of the loss-making Companies so as to curve the increasing debt burden of the Government.*