

A Study of Sub-National Finance with Reference to Mizoram State in Northeast

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Abstracts

The present study examines the broad structure and trend of state finances of Mizoram. Like all other special category states in the North East India, Mizoram depends heavily on central revenue transfers as the state's ability to generate its own resources is limited due to low level of industrialisation and poor infrastructure facilities. Liberal revenue transfers, coupled with fiscal restructuring and consolidation, initiated by Central government and successive Finance Commission since the Eleventh Finance Commission and state's own fiscal reform measures resulted to a significant improvement in state's fiscal condition during the last one and half decades. The state has achieved revenue surpluses, a significant reduction of fiscal deficits and outstanding liabilities relative to Gross State Domestic Product (GSDP). Though the dismantling of Planning Commission disrupted fund flow to the state, increase in share in central taxes have been able to offset the resource losses.

1. Introduction

India is a federal state. The Constitution of India demarcates the powers between union, state and local government. Seventh Schedule to the Constitution laid down the functional domain of Union and State government in terms of Union, State and concurrent lists while Eleventh and Twelfth Schedule provided for urban and local bodies. Efficient provision of public goods and services are the key issues in the allocation of functions between the central and the sub-national units of government. The principle of federal finance contended that 'public services with nation-wide benefits are assigned to the central government while those with regionally limited benefits are to be provided for by lower-level government'; further, 'federation-wide service should be financed by the federal government with federation-wide taxes and the services of member jurisdiction should be financed by taxes in their regions' (Oates, 1999, Musgrave & Musgrave, 2013). In India, Central government plays a dominant

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role in defence and provision of large infrastructure facilities while states have a high share of expenditure on internal security, law and order, and social and economic services. State governments accounted for about 60 percent of the total expenditure on social and economic service in the country (RBI, 2009).

Indian federalism is marked by high vertical and horizontal imbalances i.e., low revenue share for states but high expenditure responsibilities and wide interstate differences in revenue capacity. Fiscal transfers have been instrumental in correcting the vertical and horizontal imbalances (RBI, 2007). The Finance Commission, appointed by the President of India every five years, addressed revenue and expenditure needs of both central and state government and recommends devolution taxes and grants-in-aid of revenue to the states. In addition, Planning Commission, now defunct, provides for plan grants which are meant for taking up of new schemes and Central ministries disbursing grants for specific schemes to the states under the banner of Central Plan Schemes (CPS) and Centrally Sponsored Schemes (CSS). Over the years, the share of transfers to the state as a percentage of centre gross revenue witnessed a steady improvement. The major share from central taxes has been appropriated by general category states while revenue gap grants played a crucial role in special category states (Srivastava and Rao, 2009). In spite of liberal fiscal transfers to the states, the extent of fiscal dependence was relatively quite high for the special category states and the low income states.

This paper evaluates the state of government finances with reference to the State of Mizoram in the North Eastern Region of India. The study broadly covered the period between 2004-05 and 2014-15 during which the Central and State government initiated several significant fiscal reform measures. The paper is organized as follows. Section 2 gives a brief analysis of macroeconomic performance and growth trend of the state economy. Section 3 is an overview of the fiscal profile of the State highlighting the broad trend of revenue transfers, own tax revenue, expenditure, revenue account, fiscal deficit and State's outstanding liabilities. The outcome of State's FRBM Act is also examined in the section. It also highlights the impacts of recent change in fiscal regime on state finance. Section 4 briefly touched upon the performance of the State's power sector. The fiscal impacts of the operation of State Public Sector Enterprises are indicated in section 5. Section 6 provides an overview of fiscal decentralisation at the level of local bodies in the State. Section 7 concludes the paper.

2. Mizoram Economy: Performance and Growth Trends

The State of Mizoram was created in 1987 following the peace agreement between Government of India and Mizo National Front who led insurgency movement for about two decades since the mid-1960s. The State, being created due to political compulsion without any consideration for its financial viability, managed itself within the constraints imposed by the existing fiscal arrangements, as provided by the Finance Commission and the Planning Commission (now defunct). Under Gadgil formula by which plan assistance to the states is given, Mizoram was categorised as one of the Special

Category States¹. Mizoram depends heavily on central transfers. Public services and investment, which accounted more than half of its GSDP, and mainly funded by central transfers, is the main driving force of development and growth of the state economy. Though the state has huge potentials to be exploited in hydropower, tourism, and horticulture sectors, the level of private investments is rather low. Poor infrastructure base and absence of skill manpower including entrepreneurship inhibit private investment in the State.

Mizoram economy recorded an impressive growth rate in recent decades, mainly driven by service sectors. Gross State Domestic Product (GSDP) at constant price grew at the rate of 8.7 per cent per annum during 2004-05 to 2013-14 (Table 1). During 2004-05 to 2013-14, the composition of real GSDP showed a continued shift from agriculture to service sector while the industrial sector witnessed a fluctuating trend. Agriculture and its allied sector showed a marked decline from 23.50 per cent in 2004-05 to 18.07 per cent in 2013-14. This is attributable to falling productivity of Jhum cultivation, decreasing share of agricultural workers and declining contribution from forestry. Recently, horticulture sector gained a new momentum, showing significant improvement in production. The sector alone contributed almost 8 percent of GSDP. The main contributing crops are fruit, vegetable, spices, flowers and plantation crops (Economic Survey 2014-15).

The share of industrial sector increased from 16.60 per cent in 2004-05 to 18.55 per cent in 2009-10, and then it declined to 15.73 per cent in 2013-14. Construction is the major industrial activities in the State; its share varied between 10.50 per cent and 15.28 per cent during 2004-05 to 2014-15. Manufacturing activities also increased from 1.40 per cent in 2004-05 to 1.74 per cent in 2014-15. Since the State does not have any heavy or medium enterprises, the sector is mainly dominated by micro and small enterprises.

The period 2004-05 to 2013-14 was marked by a consistent rise in the percentage share of service sector. Service sector which accounted for 59.90 percentage share in 2004-05 rapidly rose to 66.20 percent in 2014-15. The overall increase has been contributed by transport, storage & communication, banking & insurance, real estate etc., public administration and other services. During 2004-05 to 2014-15, the contribution of transport, storage & communication increased from 2.68 per cent to 2.88 per cent, banking & insurance sector from 2.72 per cent to 3.16 per cent, real estate sector from 13.62 per cent to 14.25 per cent, public administration from 18.46 per cent to 19.78 per cent and 'other services' from 12.84 per cent to 18.01 per cent respectively.

¹ To be qualified as Special Category States, the following criteria must be fulfilled: (i) hilly and difficult terrain, (ii) low population density and sizeable share of tribal population, (iii) strategic location along borders with neighbouring countries, (iv) economic and infrastructural backwardness, and (v) non-viable state finances.

Table 1: Real GSDP at Factor Cost (Prices: 2004-05)

Sectors	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Ag & Allied	23.50	22.32	21.37	21.96	21.74	21.12	20.98	20.86	19.46	18.07
Industry	16.60	19.93	19.24	19.58	20.17	18.55	16.44	17.27	16.44	15.73
Mining & quarrying	0.30	0.19	0.35	0.41	0.54	0.29	0.26	0.35	0.22	0.14
Manufacturing	1.40	1.34	1.49	1.61	1.37	1.19	1.08	1.48	1.58	1.74
Registered	0.21	0.27	0.17	0.17	0.11	0.12	0.17	0.25	0.17	0.11
Unregistered	1.19	1.06	1.32	1.43	1.26	1.07	0.91	1.23	1.42	1.63
Construction	10.78	14.22	13.43	13.34	15.28	14.16	11.96	12.44	11.46	10.50
Electricity, gas and Water supply	4.12	4.19	3.97	4.23	2.99	2.91	3.14	3.01	3.18	3.35
Services	59.90	57.74	59.40	58.46	58.09	60.33	62.58	61.87	64.09	66.20
Transport, storage & communication	2.68	2.72	2.94	2.99	2.81	2.49	2.26	2.71	2.80	2.88
Railways	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Transport by other means	2.09	2.00	2.03	2.00	1.83	1.52	1.33	1.72	1.84	1.96
Storage	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03
Communication	0.57	0.70	0.88	0.95	0.95	0.95	0.89	0.96	0.93	0.89
Trade, hotels and restaurants	9.59	9.74	10.02	10.27	9.95	9.81	9.10	8.59	8.52	8.40
Banking & Insurance	2.72	2.90	3.30	3.39	3.30	3.40	3.00	3.76	3.45	3.16
Real estate, ownership of dwellings and business services	13.62	13.82	14.31	14.04	13.48	13.23	12.51	13.76	14.04	14.25
Public administration	18.46	16.57	16.58	15.	16.47	17.48	19.73	16.28	17.87	19.51
Other services	12.84	12.00	12.24	12.11	12.08	13.91	15.98	16.76	17.42	18.01
Total GSDP in Rs crore	2682	2869	3006	3336	3781	4249	4979	4852	5203	5608
Annual growth rate (in percent)	-	6.99	4.76	10.99	13.34	12.37	17.19	-2.56	7.23	7.78

Source: *Opendata.govt.in (Open Government Data Platform India)*

3. Fiscal Profile of the State: An Overview

3.1. Broad Fiscal Trends of the State

Table 2 represents the broad fiscal trend of the State from 2004-05 to 2014-15. The aggregate revenue receipts of the state, as a percentage of GSDP, increased sharply from 56 per cent in 2004-05 to 59.09 per cent in 2006-07; thereafter, it declined steadily to 44.09 per cent in 2014-15. State's own revenue, as a percentage of GSDP, which showed an improvement from 4.29 percent in 2004-05 to 6.11 percent in 2006-07, declined to 4.07 per cent in 2014-15. Revenue from state's own taxes consistently increased from 1.48 per cent in 2004-05 to 2.13 per cent in 2014-15. Value added tax (VAT), constituting around 80 per cent, emerged as a significant source of own tax revenue of the state. Own non-tax revenue receipts, as a percentage of GSDP, also showed an upward trend from 2.82 per cent in 2004-05 to 3.47 per cent in 2008-07, until it declined steadily from 2.40 per cent in 2009-10 to 1.94 per cent in 2014-15.

Central revenue transfers, as a percentage of GSDP, showed a decline from 51.70 per cent in 2004-05 to 49.76 per cent in 2005-06. In 2006-07, it reached as high as 53.74 per cent before declining to 48.01 per cent in 2007-08, after which it rose to 52.43 per cent in 2008-09. In 2014-15, it has declined to 40.03 per cent of GSDP. Tax devolution witnessed a steady rise while plan grants remained highly volatile and unpredictable and non-plan grants a declining trend after initial improvement. Tax devolution increased from 5.81 per cent of GSDP in 2004-05 to 11.83 per cent in 2011-12, which declined to 7.29 per cent in 2014-15. Plan grants, as a percentage of GSDP, saw a downward trend from 28.44 percent in 2004-05 to 20.70 per cent in 2007-08; later, a rising trend from 28.01 per cent in 2008-09 to 30.60 per cent in 2009-10; and finally, a decline from 27.87 per cent in 2010-11 to 23.97 in 2014-15. Due to frequent changes in funding pattern, rationalization of central schemes and delayed finalisation of state annual plan by the Planning Commission, the State could not finalise its own plan allocation, adversely affecting development works. Non-plan grants, as a percentage of GSDP, which increased significantly from 17.46 per cent in 2004-05 to 20.32 in 2005-06, declined steadily to 8.76 percent in 2014-15.

As a percentage of GSDP, public expenditure declined from 78.73 per cent in 2004-05 to 62.18 percent in 2014-15. Revenue expenditure of the State, as a percentage of GSDP, which underwent an upward trend from 51.98 per cent in 2004-05 to 53.45 per cent in 2005-06 declined to 50.02 per cent in 2007-08. Thereafter, it rose to 55.99 per cent in 2012-13, only to move back to 45.22 per cent in 2014-15. Salary expenditure which was 15.95 per cent of GSDP in 2004-05 declined to 14.02 per cent in 2006-07; later, it increased to 19.34 per cent in 2010-11, which then subsided to 13.80 per cent in 2014-15. There was a decline in interest payment, from 3.12 per cent of GSDP in 2004-05 to 2.75 per cent in 2008-09, which rose to 4.36 per cent in 2014-15. Pension expenditure which registered an upward trend from 6.77 per cent of GSDP in 2004-05 to 7.65 per cent in 2006-07, declined steadily to 2.45 per cent in 2014-15. Capital expenditure, as a percentage of GSDP, registered an overall decline during 2004-15. Capital outlay, after an initial increase from 12.29 per cent of GSDP in 2004-05 to 15.18 per cent in 2006-07; however, it declined to 7.42 per cent in 2014-15.

Table 2: Fiscal Profile of the State: An Overview (Percent to GSDP)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Receipts	56.00	55.66	59.85	53.45	57.97	56.34	55.71	54.71	56.34	46.27	44.09
State's Own revenue	4.29	5.90	6.11	5.45	5.53	4.45	4.57	4.96	5.41	4.12	4.07
State's Own Taxes	1.48	1.85	2.06	2.03	2.07	2.05	2.15	2.56	2.77	2.23	2.13
State's Own Non-Taxes	2.82	4.04	4.05	3.41	3.47	2.40	2.42	2.40	2.64	1.89	1.94
Central transfers	51.70	49.76	53.74	48.01	52.43	51.89	51.14	49.75	50.92	42.16	40.03
Shared taxes	5.81	7.60	8.76	9.52	8.38	7.50	9.75	11.83	9.76	8.33	7.29
Plan grants	28.44	21.85	25.44	20.70	28.01	30.60	27.87	26.51	28.04	22.74	23.97
Non-plan grants	17.46	20.32	19.54	17.78	16.05	13.79	13.52	11.40	13.13	11.09	8.76
Total Expenditure	78.73	75.22	69.76	68.21	62.68	69.70	68.64	65.55	67.46	63.16	62.18
Revenue expenditure	51.98	53.45	52.20	50.02	50.56	51.39	53.75	52.89	55.99	47.75	45.22
Salary	15.95	14.66	14.06	15.42	16.15	16.76	19.34	16.45	17.10	14.63	13.80
Interest payments	3.31	3.00	2.35	2.55	2.75	3.12	4.11	4.27	4.60	4.76	4.36
Pensions	6.77	6.22	7.29	5.45	4.93	4.84	1.74	3.92	3.58	2.76	2.45
Capital expenditure	26.75	21.77	17.56	18.20	12.12	18.31	14.90	12.67	11.47	15.41	16.95
Capital outlay	12.29	15.18	14.18	14.26	9.64	10.89	10.16	7.08	7.54	5.82	7.42
Revenue surplus/Deficit	4.02	2.21	7.65	3.44	7.41	4.95	1.96	1.82	0.35	-1.48	-1.13
Gross Fiscal Deficit	-8.77	-13.36	-5.81	-10.26	-2.06	-5.92	-8.25	-6.84	-7.21	-7.28	-8.32
Primary Deficit	-2.01	-7.14	1.15	-4.35	2.49	-1.09	-6.51	-6.65	-3.63	-7.28	-5.87
Outstanding Liabilities	85.32	85.58	85.42	80.25	71.22	60.15	61.15	65.05	63.51	54.47	52.41

Sources: State Budget Documents, Government of Mizoram

The state has been able to keep revenue surpluses since the early 2000 till 2012-13². Revenue surplus was as high as 7.65 per cent of GSDP in 2006-07. Revenue surpluses were largely contributed by increase in gross transfers from the Central Government, improvement in collection from own taxes and expenditure control and rationalization by State Government. However, revenue account has turned to negative balances since 2013-14 due to revenue expenditure increase pushed by rise in salary expenditure in the backdrop of the implementation of Sixth Pay Commission recommendations, outflow of interest payment, high subsidy for foodstuffs purchased under PDS and low recoveries of service charges from social and economic services provided by the State Government. Expenditure on food subsidy alone amounted to Rs 206.77crore in 2011-12. Relative to GSDP, revenue deficit was 1.13 per cent in 2014-15. Fiscal deficits, as a percentage of GSDP, remained consistently high due to bulging revenue expenditure. Excepting 2008-09, during which fiscal deficit was as low as 2.06 per cent of GSDP, fiscal deficits remained higher than the annual targets recommended by FC-XIII. In 2014-15, fiscal deficit, relative to GSDP was 8.32 per cent, well above the target set by the FC-XIII for the fiscal year which was fixed at 3 per cent of GSDP. Though fiscal deficit targets could not be achieved, the state reduced its outstanding liabilities well below their annual targets. The outstanding debt and liabilities of the State, which accounted for 85.32 per cent of GSDP in 2005-06, has been fallen to 52.41 per cent in 2014-15.

3.2. Estimates of the Revenue Efforts of the State

One key issue in state fiscal management has been the state's ability to raise its own revenue from its own sources such as taxes and non-taxes in relation to GSDP growth. One indicator of a good tax system is that the revenue receipts must be responsive to the change in economic condition. Over the last decade, the state economy registered a robust growth rate. The revenue effort of the State is examined by estimating the relationship between various sources of own tax and own non-tax revenue and the State Gross Domestic Product during 2004-05 to 2014-15. The results of the exercises are given in Table 3.

² State Government signed MOU with Ministry of Finance in 1999 to implement economy measures and resource mobilisation for obtaining a one-time grant of Rs 82.45 crore and interest free loan of Rs 93.50 crore to meet committed non-plan liabilities brought about by the implementation of 5th CPC. The package also included a provision for Rs 50 crore every year for 5 years from NLCPR. The State Government also implemented Medium Term Fiscal Reform Programme (2000-05) under FC-XI's State's Fiscal Reforms Facility under which the Centre provided Incentive Fund. The State legislated its own fiscal policy rules in 2006.

Table 3: Revenue Buoyancy of Own Tax and Own Non-tax Revenue (2004-05 to 2014-15)

Particulars	Coefficients
Professional tax	0.91
Land Revenue	1.40
State Excise Duty	0.71
Sale Tax (VAT)	1.26
Vehicle Taxes	1.21
Goods & Passengers taxes	0.92
Total Own taxes	1.22
Total Own Non-Taxes	0.55

Sources: *State Budget Documents, Government of Mizoram*

The regression coefficients are the estimates of the elasticity of the various tax and non-tax revenue receipts of the State with respect to Gross State Domestic Product (GSDP). Among own tax revenue receipts, professional tax, State excise duty and Goods & Passengers taxes have elasticity less than one indicating that these taxes are not responsive to increase in GSDP. State's own non-tax revenue also registered elasticity less than one (0.55). Revenue receipts having elasticity greater than one indicated that every unit increase in GSDP is associated with more than a one unit increase in the variables concerned. For instance, land revenue has the coefficient value of 1.40 which indicated that a one unit increase in GSDP brought a 1.4 unit increase in land revenue. Revenue buoyancy of own taxes (1.22) is much higher than own non-taxes revenue sources (0.55). Own tax revenue buoyancy has been mainly contributed by an improvement in revenue receipts from State Sales Taxes (VAT) introduced in 2006. VAT contributed 80 percent of total own tax revenue of the State. Land revenue whose rates are revised upwards and collection methods strengthened also contributed to own tax revenue buoyancy.

3.3. Fiscal Consolidation and Fiscal Policy Rules in Mizoram

Government of Mizoram formulated its fiscal policy and guidelines in line with the recommendations of the successive Finance Commissions including instructions from the Ministry of Finance. The Twelfth Finance Commission (2005-10) recommended fiscal responsibility legislation to each state as a precondition for availing the debt-relief scheme recommended by it. Responding to this, the State Government passed The Mizoram Fiscal Responsibility and Budget Management Act, in 2006 and has drawn up the Fiscal Correction Path as per guidelines issued by GOI on Debt Consolidation and Relief Facility³.

The Mizoram FRBM Act 2006 was revised and updated in line with the FC-XIII recommendations. The FC-XIII recommended that Government of Mizoram should maintain revenue surplus from the fiscal year 2011-12, gradually reduced its fiscal deficit to 5.2 per cent 2012-13, 4.1 per cent in 2013 and ultimately to 3 percent of GSDP by 2014-15 and its outstanding liabilities at 82.9 per cent of GSDP in 2012-13, 79.2 per cent in 2013-14 and eventually at 74.8 per cent in 2014-15. The FC-XIV further mandated that during their award period, fiscal deficit of all States will be anchored to an annual limit of 3 percent of GSDP with a flexibility of 0.50 with certain conditions. The results of the State's own fiscal correction path are highlighted in Table-4.

³ Reports of Twelfth Finance Commission Report (2005-10), November, 2004.

Table 4: Select Fiscal Indicators of the State's Own Fiscal Correction Path (2005-06 to 2014-15)

Items	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
GFD as percentage of GSDP	-5.81	-10.26	-2.06	-5.92	-8.25	-6.84	-7.21	-7.28	-8.32
Revenue Deficit (-) /Surplus (+) as Percentage of GSDP	7.65	3.44	7.41	4.95	1.96	1.82	0.35	-1.48	-1.13
Revenue Deficit (-)/Surplus (+) as Percentage of TTR	12.78	6.44	12.79	8.80	9.92	7.18	0.61	(-) 3.19	(-) 2.56
Total Liabilities-GSDP Ratio	85.42	80.25	71.22	60.15	61.15	65.05	63.51	54.47	52.41
Total Liabilities-Total Revenue Receipts (%)	142.74	150.14	122.87	106.76	109.58	99.70	112.73	1322.63	118.86
Total Liabilities-State's Own Revenue Receipts (%)	1398.23	1473.61	1286.99	1351.65	1335.78	1153.67	1173.12	1322.68	1288.20
State's own Revenue Receipts- Revenue Expenditure (%)	11.70	10.88	10.95	8.66	8.50	9.31	9.67	8.62	8.99
Capital Outlay as Percentage of GFD	(-) 244.17	(-) 139.02	(-)467.90	(-)183.81	(-)123.17	(-)232.76	(-)104.66	(-)80.01	(-)89.21
Interest Payment as Percentage of Revenue Receipts	12.18	10.20	8.50	8.58	8.10	6.82	6.35	5.97	5.55
Salary Expenditure as Percentage of Total Revenue Receipts	23.49	36.01	39.23	29.76	34.72	28.67	30.36	40.77	31.29
Pension Expenditure as Percentage of Total Revenue Receipts	3.93	4.76	4.75	5.54	7.37	7.44	8.17	11.01	9.88
Non-development Expenditure as Percentage of Aggregate Disbursement	27.95	30.94	28.71	25.85	24.07	26.88	26.33	25.93	22.51
Gross Transfer from the Centre as Percentage of Aggregate Disbursement	77.04	70.39	83.66	74.46	72.10	80.76	61.02	53.55	52.65
Own Non-Tax Revenue as Percentage of Total Revenue Receipts	6.77	6.39	5.98	4.27	4.35	4.19	4.69	4.08	4.39

Note: GSDP figures relates to 2004-05 prices

Sources: State Budget Documents, Government of Mizoram

Gross fiscal deficit as a percentage of GSDP, excepting 2008-09, have been found to be much higher than the norms prescribed by FRMB Act. However, compared to the pre-FRBM periods, the average value of GFD-GSDP ratio declined significantly in the post-FRBM period. An assessment given by RBI (2015) suggested significant improvement in the state's key deficit indicators, including fiscal deficits, expressed as period averages of pre-and post-FRBM. Revenue deficit as ratios of GSDP, on an average, which registered 2.5 percent in the pre-FRBM periods (2000-06) improved to a surplus of 3.3 per cent of GSDP in the post-FRBM periods (2007-13). Similarly, fiscal deficit as percentages to GSDP have come down in the post-FRBM periods relative to pre-FRBM era. Prior to the enactment of FRBM, the GFD of the State, on an average, was 14.5 per cent of GSDP. The ratio, on an average, came down to 6.4 per cent, in the post-FRBM period. The primary deficit has also come down to 2 per cent of GSDP in the post-FRBM periods from 8.3 per cent in the pre-FRBM periods. Another significant outcome of the FRBM Act was reduction of outstanding liabilities as a ratio of GSDP. Besides lower GFD-GSDP ratio, the reduction was contributed by rescheduling of central loans for a fresh term of 20 years with lower interest rate and a debt write-off for the repayment for 2006-07.

3.4. New Transfers Regime and its Impacts on State Finances

The demise of Planning Commission brought a paradigm shift in the pattern of central transfers to the States. Central plan assistance to Mizoram had gone down significantly. The Fourteenth Finance Commission (FC-IV) awards comprising of shared taxes, post-devolution revenue deficits grants, grants for urban local bodies and State Disaster Response Fund would be the main revenue transfers from the Centre. Except shared taxes, all other awards are tied grants. Central transfers, especially shared taxes, would play a significant role in ensuring the availability of adequate resources for investment in critical sectors of the State economy. The broad changes in the composition of plan assistance to the State of Mizoram, post-Planning Commission, could be observed from Table -5. Plan funds comprising of Normal Central Assistance (NCA), Additional Central Assistance (ACA), Special Plan Assistance (SPA), Special Central Assistance (SCA) etc. have all gone. Only central plan schemes and centrally sponsored schemes for specific projects and programme are available to the State. Grants for state plan schemes declined significantly from Rs 2264.16 crore in 2014-15 to Rs 593.4 in 2016-17.

Table 5: Flow of Plan Grants Post-Planning Commission (Rs in crores)

Sl.No	Particulars	2014-15 (Actual)	2015-16 (Revised Estimates)	2016-17 (Budget Estimates)
1	Grants for State Plan Schemes	2264.16	737.9	593.4
(i)	Block grants of which	1771.61	690.02	575.67
	Normal Central Assistance	789.09	-	-
	Grants for External Aided Projects	43.99	186	332.13
	Grants for NLCPR	49.35	134.5	98.77
	Grants for BADP	35.34	40.71	40.71
	Grants for NSAP	7.19	24.34	24.34
	Grants for AIBP	-	81.46	38.51
	Grants for JNNURM	5.7	81.93	12.16
	Grants for NeGAP	4.05	12.16	12.16
	RKVY	116.92	128.92	22
	Central Assistance under SCA (untied)	200	-	-
	Special Plan Assistance (NLUP etc)	52	-	-
(ii)	Grants under Proviso to Article 275 (1) of the Constitution	18.78	7.08	23.27
(iii)	Other Grants	473.77	28.12	4.56
2	Grants for Central Plan Schemes	24.5	-	-
3	Grants for Centrally Sponsored Schemes	662.77	1520.36	1386.38
4	Grants for Special Plan Schemes	45.02	152.42	122.64
	Total Plan Grants (1+2+3+4)	2996.45	2410.68	2101.41

Source: Annual Financial Statement (Budget) 2016-17, Government of Mizoram

Besides streamlining CSS, the Union Budget 2015-16 introduced change in the funding pattern of Centrally Sponsored Schemes from the usual pattern of 90:10 to 50:50 for the Special Category States. Uncertainties prevailed on the funding pattern of many of the Centrally Sponsored Schemes during 2015-16, due to which regular budget for Mizoram was presented only in October 2015. Any reduction or deviation from the estimated transfers caused severe dislocation in State budgetary management. Moreover, delay in the presentation of regular budget distorts allocation of plan funds, adversely affecting development works. Under the new funding pattern, Mizoram would have to spend more funds on State Matching Share to avail many of the Centrally Sponsored Schemes. The Centre has since rolled back the sharing ratio to 90:10 in most of the cases and 80:20 in some cases for the Special Category States. The State Government is carefully monitoring the process of availing central schemes by various departments to avoid severe hardships in providing State Matching Share (SMS).

Based on the recommendations of FC-XIV, Mizoram's share in the net proceeds of Central taxes has been fixed at 0.463 percent. Inclusion of criteria like demographic change and forest cover has helped the state in realising higher revenue share from tax devolution as compared with the FC-XIII which recommended a share of 0.269 per cent. Mizoram's share in central taxes, based on FC-XIV estimates, amounted to Rs18197 crores, accounting as much as 59.50 per cent of the total transfers for the state (Table 6). The actual volume of tax devolution depends on several factors including the buoyancy of the Central taxes, economic booms and recessions and fiscal policy of the Central Government. Besides tax devolution, FC-XIV further recommended post-devolution revenue deficits (PDRD) grants amounting to Rs12183 crore during 2015-20, constituting 39.83 per cent of the total transfers. State's share in central taxes and post-devolution revenue deficit grants would be the main sources of untied transfers for the state during 2015-20 while other grants such as grants for urban local bodies and State Disaster Response Fund (SDRF) are tied grants that cannot be utilized for other purposes.

Table 6: Fourteenth Finance Commission Awards to the State of Mizoram

Year	Share of Central Taxes (SCT)	Post-Devolution Revenue Deficit Grants (PDRD)	Urban Local Bodies		State Disaster Response Fund (SDRF)	Total
			Basic	Performance		
2015-16	2670	2139	11.54	0	15	4835.54
2016-17	3081	2294	15.97	4.71	16	5411.68
2017-18	3559	2446	18.46	5.34	17	6045.8
2018-19	4118	2588	21.35	6.06	18	6751.41
2019-20	4769	2716	28.85	7.93	18	7539.78
Total	18197	12183	96.17	24.04	84	0584.21
%to total	59.50	39.83	0.31	0.08	0.27	100.00

Source: Economic Survey 2015-16, Planning & Programme Implementation Department (Research & Development Branch), Government of Mizoram.

In the light of the changing fiscal environment, the State Government of Mizoram has redrawn its fiscal correction path (Table 7). Own tax revenue-GSDP ratio has been projected to increase from 2.13 per cent in 2014-15 to 2.26 percent in 2017-18. The State Government determines to maintain the increasing trend by improving tax collection efficiency, better tax compliance and introduction of new taxes and further revision of VAT rates. State land administration has been streamlined by introducing new land revenue rules in 2013, reforms and rationalization of registration fees and stamp duty has been initiated, e-payment for tax collection has been introduced, The Mizoram Liquor Total Prohibition Act, 1995 has been replaced by The Mizoram Liquor (Control & Prohibition) Act, 2014, and finally, VAT rates on tobacco products have been revised upward from 20 to 30 per cent.

On the expenditure front, State Government projected to reduce revenue expenditure from 45.22 per cent of GSDP in 2014-15 to 43.59 per cent in 2017-18. Public subsidy on essential items provided through Targeted PDS is being streamlined by introducing end-to-end computerisation and digitization of ration cards. The implementation of Food Security Act in 2016 is also expected to bring down the monthly requirement of food grains as blanket coverage of total population will be replaced by entitled beneficiaries. The Government of Mizoram has already closed three loss-making State PSEs in 2015 and undertook downsizing and restructuring for other two PSEs by offering voluntary retirement schemes.

The State Government further projected to have surpluses in its revenue account and a significant decline in fiscal deficits from 2015-16 onwards through augmentation of own revenue receipts and better expenditure management. As a ratio to GSDP, the revenue account would improve significantly from a deficit to a surplus account. Revenue surplus, as a percentage of GSDP, projected to increase as high as 13.73 percent in 2017-18. Similarly, GFD-GSDP ratio would decline to 0.15 per cent in 2016-17. State's debt and liabilities- GSDP ratios have been projected to decline from 52.41 per cent in 2014-15 to 48.34 per cent in 2017-18.

Table 7: Select Fiscal Indicators of the State's Own Fiscal Correction Path (As per cent of GSDP)

Indicators	2014-15 (Actuals)	2015-16 (BE)	2015-16 (RE)	2016-17 (BE)	2017-18 (Projection)
Own Tax Revenue	2.13	2.30	2.19	2.13	2.26
Own Non-Tax Revenue	1.94	1.78	1.90	1.80	1.90
Total Central Transfers	40.02	46.44	48.96	45.46	53.17
Total Revenue Expenditure	45.22	42.88	46.77	41.12	43.59
Revenue Surplus (+)/Deficits (-)	(-) 1.13	7.63	6.28	8.26	13.74
Gross Fiscal Deficit	8.32	0.77	1.10	0.15	(-) 4.83
Outstanding Debt and Liabilities	52.41	44.07	49.12	46.93	48.34

Source: Fiscal Policy Strategy Statement 2016-17, Government of Mizoram

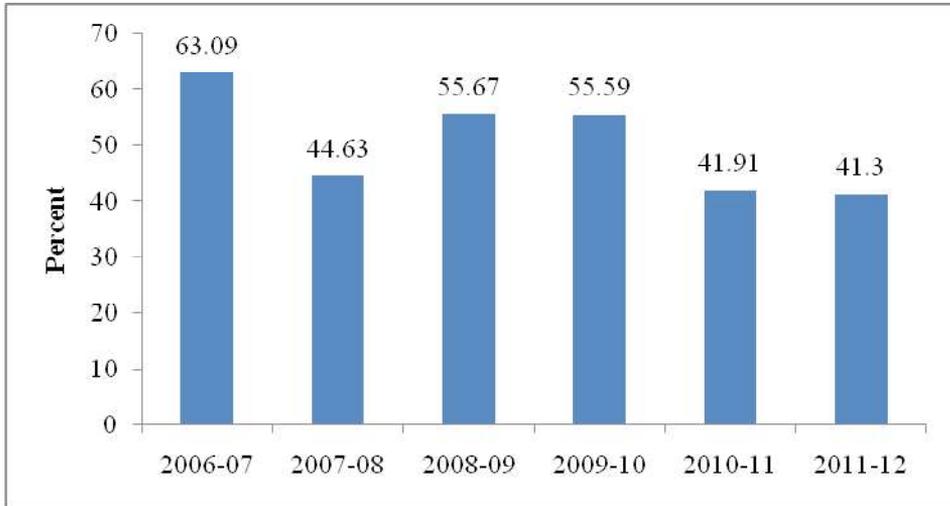
4. Potentials and Impacts of Hydropower Sector on State Finances

Power sector reform has been one of the most important components of economic reform agenda undertaken since 1991. Constitutionally, power is under the concurrent list implying that both central and state have The Electricity Supply Act 1948 was amended in 1991 paving the way for private sector participation in generation, transmission and distribution of power sector. The enactment of Electricity Regulatory Commission Act in 1998 stipulated the formation of Central Electricity Regulatory Commission (CERC) and State Electricity Regulatory Commission (SERC) to carry out the regulatory roles in the power sector in their respective level. The Electricity Act 2003, by repealing all the earlier acts, created a liberal and transparent framework for the development of power sector in the country.

In Mizoram, generation, procurement, transmission and distribution of power is entrusted to Power and Electricity Department. Despite power sector reforms initiated across the country since the early nineties, the state remained largely immune to any such initiatives, especially unbundling of the sector into generation, distribution and transmission. Due to poor management and financial performance, the State's power sector remained highly inefficient, causing huge fiscal strain to state's exchequer. Presently, the sector is plagued by high distribution and technical loss, low revenue recovery from the operating costs due to inadequate tariff, absence of full metering and inefficiencies in billing and collection.

The State Government signed Memorandum of Agreement (MOA) with Ministry of Power in 2002 for reform initiatives in the power sector. The Central Government provided grants to implement the objectives of the MOA while the state government would initiate distribution reform and improve performance efficiency. Other objectives included are setting up of Power Corporation / board / autonomous body and SERC/ JERC, 100% metering of all consumers, 100% electrification of villages, computerised billing centres etc. Due to these initiatives, technical and commercial losses have been reduced significantly (Chart 1). Power & Electricity Department is yet to be corporatized.

The State's power sector is highly subsidised. Cost recovery from the power sector have been not only low but also falling continuously over the last decades, showing an increase in the expenditure of implicit subsidies in the sector. Cost recovery was 32.3 percent in 2002-03 but fell to 9.2 percent in 2011-12. Revenue lost per unit of the cost of operation represents a huge loss of public revenue. Fiscal risks have also been observed in the implementation power projects by way of delays and cost overruns of the projects.

Figure 1: Aggregate Technical & Commercial Loss

Sources: (i) Report of the Comptroller and Auditor General of India on Civil, Revenue and Commercial for the year ended 31 March 2011 (Report No 2), Government of Mizoram; (ii) Annual Report 2011-12, Power & Electricity Department, Government of Mizoram.

Mizoram's hydel power potential is estimated at 4500 MW. As on 2015-16, only 11 Small Hydel Projects with installed capacities of 29.35MW had been set up in the state. Five projects with installed capacity of 68.70 MW remained under construction. Tuirial Hydel Power Projects, having 60 MW capacities, the biggest so far in the State, has been under construction by NEEPCO Ltd. There are five upcoming projects with an installed capacity of 835 MW.⁴

5. Fiscal Impacts of State Public Enterprises

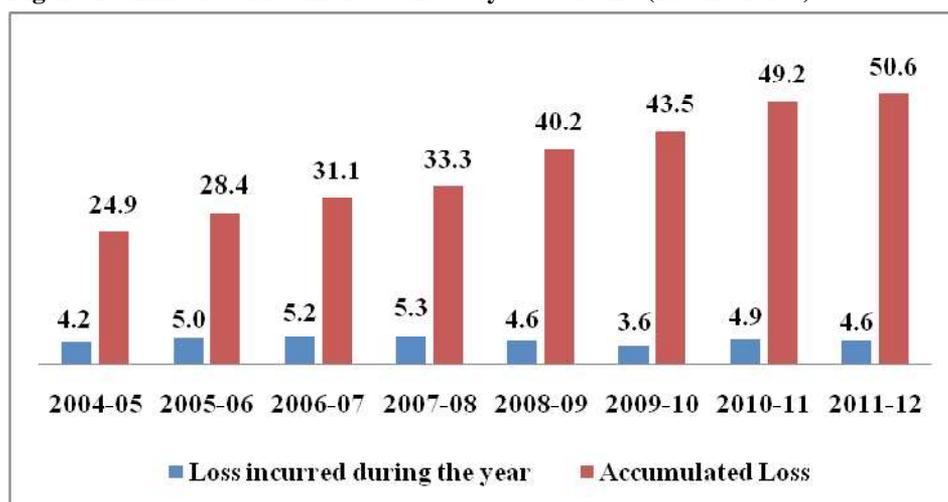
As on 2015-16, the State has five State Public Sector Enterprises⁵. Budgetary outflow from the State Government includes subscription of their equity capitals, provision of loans, grants and subsidies including guarantees given for their loans taken from banks and other financial institutions. These PSEs are to carry out activities of commercial

⁴ This includes (i) Tuivai (210 MW), near Ngopa Village, Champhai District to be constructed on PPP Mode with VGF from Ministry of Economic Affairs; (ii) Kolodyne-II (460 MW) near KawlchawVillage, MoA signed with NHPC, Saiha District; (iii) Bairabi (80 MW), near Bairabi Village, Kolasib Dist MOU under process with Sikaria Power Ltd; (iv) Tuirini (38MW), near Saitual Village, Aizawl District, MOU signed with SPML; (v) Tuivawl (42MW), Near Saitual Village, Aizawl District, MOU signed with SPML.

⁵ These are Mizoram Agricultural Marketing Corporation Limited (MAMCO), Zoram Industrial Development Corporation Limited (ZIDCO), Zoram Electronics Development Corporation Limited (ZENICS), Mizoram Food and Allied Industries Corporation Limited (MIFCO), Mizoram Handloom and Handicrafts Development Corporation (ZOHANCO)

nature and to generate surpluses which should be ploughed back to State in the form of profits and dividends, thereby becoming one of the sources of State revenue. They were rather incurring losses continuously over the years. During 2011-12, annual loss amounted to Rs 4.56crore and the accumulated losses being Rs 50.58crore (chart-2). Financial contribution made by these PSEs is insignificant to the State economy. Even though state enterprises are incurring losses, they continue to get investment from State Government and other financial institutions. As on 31 March 2012, total investment in the five PSEs amounted to Rs 92.57 crores.

Figure 2: Annual & Accumulated Loss by State PSEs (Rs. in crores)



Several factors contributed to the operational inefficiency of these PSEs. These include :(i) political appointment of the members of management board without considering technical or managerial capabilities; (ii) irregular fund flow to the PSEs; (iii) over staffing with persons not having technical or managerial expertise, causing huge salary expenditure on administrative staff; (iv) no policy back up towards better performance; (v) non-existence of proper monitoring mechanisms at any level; (vi) general infrastructure backwardness and absence of entrepreneurship. The restructuring framework recommended by the High-Power Committee includes, among others, adoption of Chairman-cum-Managing Director (CMD) and induction of experts as board of directors, Voluntary Retirement Schemes for employees, capacity building to enhance efficiency of employees, no further disbursement of loans etc⁶

6. Fiscal Decentralization at the Local Body Level

6.1. Structure of Local Bodies in Mizoram

Traditionally, the Mizo community had a well functioning system of local government under the chieftainship which lasted till the early 1950s. Presently, there are three types

⁶ See Report on Restructuring of Public Sector Enterprises under Government of Mizoram, High Power Committee, GoM, 2008.

of democratically local bodies functioning in the State. These are village councils, urban local body i.e., Aizawl Municipal Council (AMC) and Autonomous District Councils. Mizoram has been excluded from the operation of village panchayat as per the provision in the 73rd amendment to the Constitution of India. Village Councils are created under State legislation and Sixth Schedule provisions of the Constitution. The only urban local body, i.e., Aizawl Municipal Council, was formed under The Mizoram Municipalities Act, passed by the Mizoram Legislative Assembly in 2007 in line with the provision of 74th Amendment to the Constitution of India. Autonomous District Councils are created under Sixth Schedule provisions of the Indian Constitution. Mizoram has three Autonomous District Councils, all located in the southern part of the state. These are Lai Autonomous District Council (LADC), Mara Autonomous District Councils (MADC) and Chakma Autonomous District Council (CADC).

Village councils enjoyed a high degree of autonomy in village administration including judicial of petty nature. They are responsible for law and order maintenance and socio-economic development in their respective villages. Their main functions include: (i) Allotment of house sites to the households living in the village. (ii) Mobilise community labour to do community-related works like clearing of inter-village roads, maintenance of local spring water sources etc. (iii) Demarcation of village forest safety reserves, village forest supply reserve and protected forest reserve under the Mizo District (Forest) Act, 1955. Recently, grants for local bodies from Central Finance Commission have been utilised by Village Councils. Rural development works under Central and State Sectors have also been implemented through Village Councils.

The State has 22 notified towns. However, only Aizawl city has municipal council and the rests are governed by Village Councils. The Aizawl Municipal Council started functioning from July 1, 2008. The Council office is headed by a Chief Executive Officer. The AMC consists of 19 elected members representing 19 Wards of the city of Aizawl and other 12 members (11 MLAs and 1 Lok Sabha MP) appointed by the Governor of Mizoram. Roughly one-third (i.e. 6) of the total membership is reserved for women which rotates after every five years. The tenure of the Council is five years. Presently, the AMC looks after bus terminal, engages in the provision of civic services, solid waste management, regulations on advertisements and hoardings, issuing of trade licenses, buildings, street lights, street vendors etc.

Autonomous District Councils have extensive powers on wide-range of subjects that can be classified into legislative, judicial, executive and financial. Under the Constitution, the District Council has law making powers concerning: (i) Management of land and forests other than reserve forest; (ii) Use of canal or water for agriculture; (iii) Regulation of the practice of jhum; (iv) Establishment of village or town committee and matters relating to village or town administration including public health and sanitation; (v) Inheritance of property; (vi) Marriage and divorce; and (vii) Social customs etc.

6.2. Finances of Local Bodies

As on 2015, there were 757 villages having Village Councils including the villages under three Autonomous District Councils. The sources of funds for them are village's own revenue, state grants for various development schemes and FC grants. The Village Council's own revenue consists of animal tax, fees for the Village Crier, contribution against absence and fines from community works (Hnatlang), fees for issuing documents etc. State grants are plan grants under rural development schemes and MGNREGS. The Thirteenth FC grants for local bodies are assigned to the Village Councils on selected items of development works. The pattern of aggregate revenue receipts of the village councils is given in Table-8.

Table 8: Aggregate Revenue Receipts of Village Councils

Sl.No	Items	2009-10	2010-11	2011-12
I	Aggregate Own Revenue Receipts (Rs. In lakh)	19.69	22.16	27.85
	Per capita own revenue receipts (Rs)	2.45	2.75	3.46
	Share in total (%)	3.61	1.12	1.20
II	Aggregate State Grants ((Rs. In lakh)	193.28	193.28	193.28
	Per Capita State Grants (Rs)	24.05	24.05	24.05
	Share in total (%)	35.45	9.75	8.31
III	Aggregate FC grants (Rs. In lakh)	332.25	1,767.81	2,103.80
	Per Capita FC grants (Rs)	41.34	219.93	261.74
	Share in total (%)	60.94	89.14	90.49
IV	Grand Total (I+II+III) (Rs. In lakh)	545.22	1983.25	2324.93

Source: Report of the First State Finance Commission Mizoram (2015-20), February 2015

The Aizawl Municipal Council has a limited revenue bases. Till 2014-15, the AMC did not levy and realise any tax revenue. The State Government empowered AMC to collect property tax with effect from 1st April 2015. The Council's revenue sources are own non-tax revenue receipts and revenue transfers from the State Government. Own non-tax revenue receipts mainly consist of parking fees, building permission, licensing regulation, bank interests etc. Revenue transfers from the State government are mainly in the form of recurring grants for salary and wages, FC grants, plan grants etc., which constituted 96 per cent of the revenue receipts. The Council's own revenue receipts-property tax and non-tax revenue-are expected to touch Rs 11crore in 2019-20. Meanwhile, revenue expenditure of the Council is estimated to reach Rs 48.98 crore in 2019-20 as against Rs 42 crore in 2015-16. The major items of expenditure under the Council are salary for employees, remuneration of Local Council members, facilities and allowances of Councillors, public lighting, solid waste management, civic amenities etc. As on 2014-15, the total expenditure amounted to Rs 38.07 crore.

The autonomous district councils depend heavily on revenue transfers from the State governments and other grants from central plan schemes. The main revenue sources are

own-tax and own non-tax revenue receipts, non-plan grants from State Government, FC grants, plan grants from the State plan schemes and CSS. The Sixth Schedules provides list of tax revenue sources for ADCs. This includes: (i) taxes on professions, trades, callings and employment; (ii) taxes on animals, vehicles and boats; (iii) taxes on entry of goods into market for sale therein, and tolls on passengers and goods carried in ferries; and (vi) taxes for the maintenance of schools, dispensaries or roads. The Sixth Schedules also provides for levying of certain local taxes and fees by the Village Councils and Town Committee. There are animal taxes, licence fees from hotels, restaurants etc. As on 2013-14, own revenue receipts accounted for between 2.03 per cent of total revenue receipts and 1.3 per cent in the three autonomous councils. Salary expenditure accounted for more than 90 per cent in all the autonomous districts.

6.3. Fiscal Devolutions Recommended by the First State Finance Commission (2015-2020)

The first State Finance Commission, constituted on 30th September, 2011 recommended principles governing the distribution of net proceeds of taxes, duties, tolls and fees levied by the State between and the Village Councils, Aizawl Municipal Council and Autonomous District Councils and the grants-in-aid to be given from the Consolidated Fund of the State to the local bodies, and also determine criteria and weights to determine the inter-se allocation amongst the three local bodies. The following recommendations relating to revenue transfers to the local bodies have been accepted by the State government:

- I. The State Government accepted that 15% share of State's Own Tax Revenue, inclusive of the State Excise duty should be devolved to the local bodies. The inter se distribution formulae are also accepted;
- II. The Commission has projected Non-Plan Deficit for each of the local bodies for the period 2015-20 after assessing the own non-plan revenue receipts, share of State's taxes and Non-Plan expenditure. The Commission's recommendation of non-plan deficit grant for each of the ADCs, for all VCs in each District and AMC have been accepted by the State government;
- III. The State Government shall release the share of State's Own Tax Revenues and Non-Plan Deficit Grant due to the Local Bodies in monthly instalments;
- IV. Devolution of share of State's Own Tax and Non-Plan Deficit Grant will be for a period of 5 (five) years starting from 2015-16 to 2019-20. For actual devolution for the year 2015-16 shall be treated to have lapsed and no claim either in the form of arrear or yearly instalment could be made to the State Government;
- V. All revenue expenditure including pay revision, pension and increase in DA/DR shall be met from the Non-Plan Deficit Grant and the State's Own Tax Revenue devolved to the Local Bodies as recommended by the Commission. However, expenditure for conduct of elections to the local bodies including ADCs shall be borne by the State Government.

7. Concluding Remarks

The fiscal position of Mizoram improved significantly during the last fifteen years compared to the situation during the nineties which required drastic fiscal reform measures. The fiscal overview during 2004-05 to 2014-15 showed that the State government achieved fiscal improvement consistently as reflected by revenue surpluses, lower fiscal deficits and substantial reduction of State's debt and outstanding liabilities relative to GSDP. However, State is yet to achieve all the fiscal targets set out in its FRBM Act, revised and updated as per latest Finance Commission recommendations. The overall improvement in the fiscal position of the State has been largely contributed by increase in gross transfers, especially tax devolution, from central government, improved collection of own taxes, and expenditure control and rationalization by state government. The State needs to move further in consolidating and restructuring of its fiscal position. The fiscal deficits, as percentages of GSDP, continue to be very high due to various reasons. To meet this challenge, fiscal reform strategy needs to be formulated that would strengthen the growth process as well as ensure fiscal stability of the state.

The State's fiscal consolidation and restructuring process started with the implementation of Medium Term Fiscal Reforms Programme (2000-05), and further consolidated by the enactment of fiscal responsibility rules in 2006 stressed augmentation of revenue receipts by restructuring and widening of tax bases and improvement in non-tax revenue receipts along with rationalization of non-plan revenue expenditure. Mizoram, being a small one with no industrial base, have limited scope for generating its own revenue internally. Revenue transfers from the Centre are the major revenue sources for the State. Revenue transfers play a significant role in ensuring fiscal improvement of the state. Revenue surpluses which have been achieved since the middle of 2000s were mainly driven by increase in revenue transfers and rescheduling of State's high cost debt following the recommendations of FC-XII and FC-XIII respectively. Since the State has limited base for internal resource mobilisation, expenditure management strategy might well be a better option for implementing fiscal reform processes in the State. The fiscal reform strategy should focus on revenue expenditure rationalization programme without undermining expenditure on creation of capital assets.

Pay and pension revision in 2010 and increased outflow of interest payment following large scale borrowing requirement to finance fiscal deficit caused serious stress in the State fiscal management. Further, the dismantling of Planning Commission further resulted to a significant loss of plan grants to the State. Moreover, rationalization of centrally sponsored schemes and central plan programmes has also reduced the number of plan schemes available to the State. Given these circumstances, the State government has no choice but to embark, in a more rigorous manner, on fiscal consolidation, restructuring and reform programme to generate revenue surpluses and reduce fiscal deficits. The increased tax devolution under FC-XIV may be channelized to create infrastructural assets to generate long term growth of the state economy.

As the developmental role of the erstwhile Planning Commission having been effectively transferred to the individual State, it is the State now which bears the crucial responsibility in determining development priorities. The state government is increasingly responsible for its own development. The transition to a new fiscal regime should be regarded as an opportunity to reorient its policy towards achieving stronger economic growth in the years to come. The recommendations of the First State Finance Commission, as accepted by the state government, should be a stepping stone in devolving administrative and financial powers to the local bodies. These would help in achieving a more inclusive growth and sustainable development of the State, ultimately enhancing the revenue base of the State.

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