# Report

# On

# State Finances of Sikkim

## Submitted to the 15th Finance Commission

**By**

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# ACKNOWLEDGEMENT

The 15th Finance Commission was constituted in November 2017 under the Chairpersonship of Sri N.K. Singh. The Commission had a mandate to recommend the vertical devolution of taxes as well as the formula for inter-se allocation of the shared taxes and Grant-in-aid to States. The Commission had to do an in-depth analysis of the Finances of the States.

The Commission assigned the task of analyzing the State Finances of the Government of Sikkim to the Department of Commerce, Sikkim University. The team has come out with an in-depth study of the State finances which is being produced in this volume.

At the outset. we would like thank Sri.N.K. Singh and his entire team of the 15th Finance Commission for having entrusted Sikkim University with such a prestigious assignment.

The Data required for the project was enormous and it was a herculean task to complete the projects frame work.

We acknowledge by name the persons who had helped us either through discussion or providing data for completion of this work.

1. Sri. A.K. Shrivastava, Chief Secretary, Government of Sikkim, Gangtok
2. Sri. T.T. Dorjee-Principal Secretary Finance, Revenue & Expenditure; Chief. Electoral Officer, Election Department, Government of Sikkim, Gangtok
3. Sri. Mukhmeet S. Bhatia, Joint Secretary, Government of India, 15th Finance Commission
4. Sri. A. Chakravorty- Director, Budget Department, Government of Sikkim, Gangtok
5. Ms Sangita Kharel- DSME, Government of Sikkim, Gangtok

We would like to extend our sincere gratitude toourteam of researchers which include:

1. Mr.J. Sopan, Senior Research Fellow, Department of Commerce, Sikkim University
2. Mr. Madhabendra Sinha, Senior Research Fellow in Economics, Department of Humanitiesand Social Science, NIT, Durgapur.
3. Dr.Anjan Roy Choudhury, Assistant Professor in Economics, Durgapur Government College, Durgapur
4. Mr. Lochan Sharma, Project Research Assistant, Department of Commerce, Sikkim University

The entire team of the Department of Commerce worked extremely hard for completion of the project. I would like to thank my Co PIs Dr.S. S. Mahapatra, Dr. B. MuthuPandian and Sri. D. Pal for providing support and working towards the goal of the completion of the project.

We hope that the insight will be helpful to the 15th Finance Commissionto complete their decisive task.

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Head, Department of Commerce

8th March 2019, Gangtok

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# LEGEND OF ABBREVIATIONS

**CV- Coefficient of Variation**

**FC- Finance Commission**

**FD- Fiscal Deficit**

**FRBM- Financial Responsibility and Budgetary Management Act**

**GDP- Gross Domestic Product**

**GOI- Government of India**

**GOS- Government of Sikkim**

**GP- Gram Panchayat**

**GSDP- Gross State Domestic Product**

**HDI- Human Development Index**

**KwH- Kilo watt Hour**

**LB- Local Bodies**

**MW- Mega Watt**

**PRI- Panchayati Raj Institutions**

**PRIA- Society for Participatory Research in Asia**

**RD- Revenue Deficit**

**RE- Revised Estimates**

**SNT- Sikkim Nationalised Transport**

**SPSU- State Public Sector Undertakings**

**TOR- Terms of Reference**

**TR- Total Revenue**

**ZP- Zilla Parisad**

# CHAPTER - 1

# INTRODUCTION

### 1.1 Background of the 15th Finance Commission

The 15th Finance Commission (FC) was constituted on November 2017 under the Chairmanship of Sri N.K Singh with the following Terms of References (ToRs) :

a. The distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter 1, Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;

b. The principles which should govern the grants-in-aid of the states out of the Consolidated Fund of India and the sums to be paid to the states by way of grants–in –aid of the revenue under Article 275 of the Constitution for purposes other than those specified in the process to clause (1) of that article; and

c. The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayat and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.

Besides the 15th Finance Commission needs to review the status of Finances in each State in respect of the following:

a. The Tax and Fiscal Consolidation,

b. The potential impact on revenues of the State due to implementation of the GST,

c. The expenditure pattern within the States, Management of subsidies and Contingent Liabilities by the States etc. and,

The task of analyzing the State of Finances for Sikkim was given to the Sikkim University, by the 15th Finance Commission.

## 1.2 Objectives of the Study

The principal objective of the study is to make an in-depth evaluation of the State Finances of Sikkim since 2006-07. The specific objectives of the study are:

1. Estimation of the revenue capacity of the State.
2. Analysis of State's non-tax revenues
3. Analysis of expenditure pattern and trends separately for revenue and capital accounts.
4. Analysis of Fiscal and Revenue Deficits
5. Study of the level of Debt
6. Review of implementation of the FRMB Act
7. Analysis of the State Public Enterprises on fiscal health of the State.
8. Impact of Power Sector reforms on State's fiscal health
9. Analysis of Contingent Liabilities of the State
10. Analysis of Subsidies given by the State government, its targeting and evaluation
11. Outcome evaluation of State Finances based on $14^{th}$ FC recommendations
12. Determination of a sustainable debt road map for the period of 2020-25.

## 1.3 Methodology

The study uses exploratory method to assimilate the process of Finance in the State of Sikkim. In order to find the various trends and movements in the basic finances, Sikkim State Published data has been used. The tools used are percentage, growth rate, ratio analysis and simple arithmetical mean. Elasticity coefficients and the buoyancy indicators have been estimated. Besides, Debt sustainability using indicators to observe breach in debt sustainability as given bystudy of Kaur et al (2014) will be used. For Forecasting the Business as Usual (BAU) data has been for current year and had been simulated for the future period.

## 1.4 The Data Source

Data used are those which are available in the public domain of the State of Sikkim. Besides, data from Census Report, CAG (Comptroller and Accountant General) report and DSME(Department of Statistics Monitoring and Evaluation), Govt. of Sikkim and information has also been taken into consideration. The period of the study is within the mandate given by the 15th Finance Commission. Since Sikkim has not documented its Public Enterprise Data, data information is sought from the individual enterprises.

### 1.5 Chapter Scheme

The macroeconomic background of Sikkim state is discussed in chapter 2. In Chapter 3-16, detailed study of each specific 12 objectives listed in the previous section is done. Chapter 16 gives a sustainable debt road map for the years 2020-25. Chapter 17 outlines the conclusion of the study.

# CHAPTER - 2

# SOCIO–ECONOMIC PROFILE OF SIKKIM

## 2.1 Introduction to the State of Sikkim

The State of Sikkim is located in the north- eastern part of India and is surrounded by Nepal on West, China on North, Bhutan on East and West Bengal in South. It covers a total area of 7,096 sq. km. Sikkim covers barely 0.22 percent of the total geographical area of India but has a huge potential for development. Lying between 27$^{th}$ to 28$^{th}$ Degree North Latitude and 88$^{th}$ to 89$^{th}$ degree East on the Longitude, this Eastern Himalayan state is a place of extraordinary “Valleys” and profusion of bio diversified flora and fauna.

Tracing a long history of religious and political struggle the territory passed from the hands of Lepchas and Limboos to other tribal communities of the territory until the Namgyal Dysentery was established in the 17$^{th}$ century. The Britishers started to make inroads in Sikkim in 1884, when they started to explore the possibilities of trade routes to Tibet through Lachen Vally. Political conflict between the British and Tibetan rulers lead to the appointment of Mr. Claude White as the First Political Officer to Sikkim during 1889 and Chogayl Thutob Namgayal was virtually under his supervision. He was followed by Tashi Namgyal. However, after the demise of Tashi Namgayal in 1963, his son Palden Thondrup Namgyal ascended the throne of Sikkim.

After India became Independent, the then ruling King of Sikkim was successful in getting a special status of “Protectorate” for Sikkim. Political unrest and rumbling in rank and file of the state lead to a complete collapse of the state administration when the Indian Government tried to bring in a semblance of order by appointment of Mr. B. Das as Chief Administrator of the State. Soon afterwards, sequence of political event lead Sikkim to become an associate State on 4$^{th}$ of September 1947. In a General Election, the leader of Sikkim Congress, Kazi Lendup Dorji was elected as Chief Minister with the King as the Figurative Head of the State. Further events lead Sikkim to become a full-fledged 22$^{nd}$ Sate of Indian Union on 16$^{th}$ May 1975. The Institution of Chogyal was subsequently abolished.

Since then Sikkim has been a State of the Indian Union, in the 1979 assembly General election Sri. Nar Bahadur Bhandari was elected as the first Chief Minister of Sikkim. The State is currently headed by Mr. Pawan Kumar Chamling, who has been the Chief Minister for past two and half decade.

**Figure 2.1: Political Map of Sikkim**


*Source: Mapofsindia.com*

The fact sheet of Sikkim shows that it has achieved substantially in education. It has a very high literacy rate both for male and female. Despite being a hilly terrain, it has substantially developed its infrastructure in terms of Roads, Schools, Colleges and Universities. The health sector infrastructure is also well established.

**Table 2.1: Fact Sheet of Sikkim**

| | |
|---|---|
| **Geographical Area (Sq. Km)** | 7 096 |
| **Administrative Structure** | |
| No. of Districts | 4 |
| No. of Tehsils | 9 |
| No. of CD Blocks | 9 |
| Number of village (including uninhabited villages) | 451 |
| No. of Towns | 9 |
| **Demographic Profile** | |
| Population 2011 | 6,07,688 |
| Decadal Growth of Population (percentage) (1991-2001) | 33.6 |
| Decadal Growth of Population<br>(2001-2011) (percentage) | 12.36 |
| Urban population as<br>a percentage to Total<br>Population (2011) Percentage | 11.07 |
| Sex Ratio (percentage of 1000 Males)<br>1991<br>2011 | <br>835<br>875 |
| Density of Population Per Sq Km (2011) | 86 |
| Literacy Rate (percent)<br>Male<br>Female | 81.42<br>86<br>75 |
| Birth Rate (percent) | 17.1 percent |
| Death Rate (percent) | 5.2 percent |
| Languages Spoken | Nepali, Bhutia, Lepcha, limboo, Magar, Rai, Gurung, Sherpa, Tamang, Newari. |
| Religions | Hinduism, Buddhism and Christianity |
| **Educational Facilities** | |
| ***Colleges***<br>a. Government | <br>13 |
| b. Private | 8 |
| ***Universities***<br>Government<br>Private | <br>2<br>4 |
| Number of Senior secondary Gov School | 80 |
| Primary and secondary Schools | 767 |
| Central Govt. UP Schools | 12 |
| Local Body primary | 2 |
| Pvt. Aided school | 3 |

| | |
|---|---|
| Pvt. unaided primary school | 223 |
| Upper primary and above (private unaided) | 210 |
| **Local Self Government** | |
| Zilla Parishad | 4 |
| Gram Panchayat | 176 |
| Municipal Corp and Council | 2 |
| Nagar Panchayat | 5 |
| Wards | 989 |
| **Health facility** | |
| Hospitals | 7 |
| Primary Health Centre | 240 |
| Dist Tuberculosis centre | 920 |
| Community Health Centre | 300 |

*Source: Compiled from Websites of Various Department, Govt. of Sikkim*

## 2.1 Natural Resources and Economic Profile

Sikkim like most of the states of Indian Union is primarily an agricultural state with Rice, Wheat, Maize, Cardamom and Ginger as its main crops. The State is moving towards a complete organic status and is first amongst the entire nation to reach this status. The State has a huge potential in terms of forest resources and the challenge before the state is to herald industrialization without tampering the ecology. Besides Agriculture allied activities such as Animal Husbandry, Agro based food processing and Handicraft remain a steady source of income of the people of the State.

The State has an abundant source of Hydro power potential of 8,000 MW. Besides a thriving tourism industry, high literacy rate of 89 percent and vast untapped natural resources, it is a yielding place for economic growth.

The State has a god network of Banks and Financial Institutions, a full-fledged Industry and Commerce Department. It has appropriate departments like tourism and civil aviation to support its tourism industry with a full policy on it.

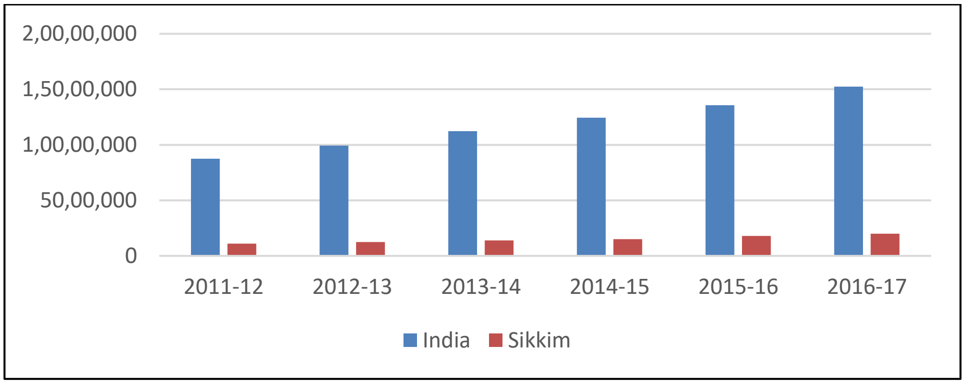
With a good network of road, even for a hilly terrain, Sikkim holds the potential for economic development at a faster pace.

Mineral resources such as zinc, copper, lead, dolomite, coal quartzite, graphite and talc are available abundance. The commercial exploration of these resources can lead the State to explore revenue generation opportunities in the years to come.

### 2.2.1 Economic Profile

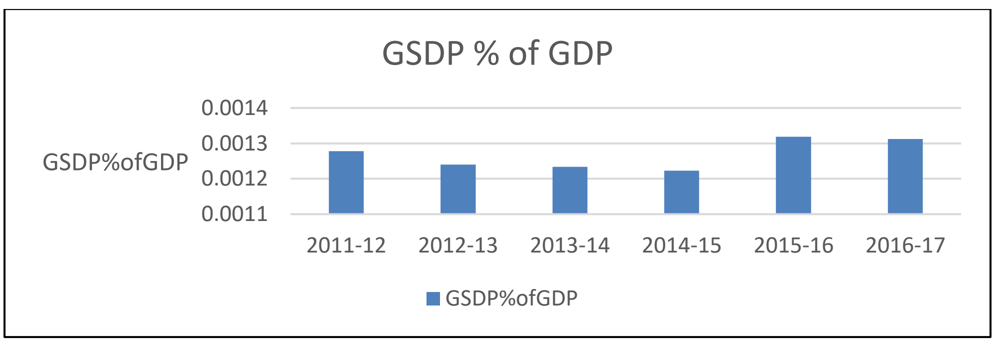
Sikkim has had a growth of 11.1 percentages in GSDP. This is largely because of thin spread in population and concentration of economic activity of in the state. The lowest growth rate was in the year 2014-15. With an average growth of 10 per cent the State is amongst a better achiever in the country.

**Figure 2.2: Comparison of GSDP of Sikkim with India's GDP growth Rate (2011-12 prices)**




*Source CSO estimates of GSDP(with revised frame work of CSO calculation).*

**Figure 2.3: GSDP of Sikkim as percentage of GDP of India (2011-12 prices)**




*Source CSO estimates of SDP (with revised frame work of CSO calculation).*

The share of Sikkim's GSDP to India's GDP had dwindled from 2011 to 2015 and then it had picked up.

The table 2.4 below shows the comparison of Sikkim with the other States in the North Eastern Region

**Table 2.2: Comparison of GSDP at Nominal Prices (2011-12 prices) for the North Eastern States of India.**

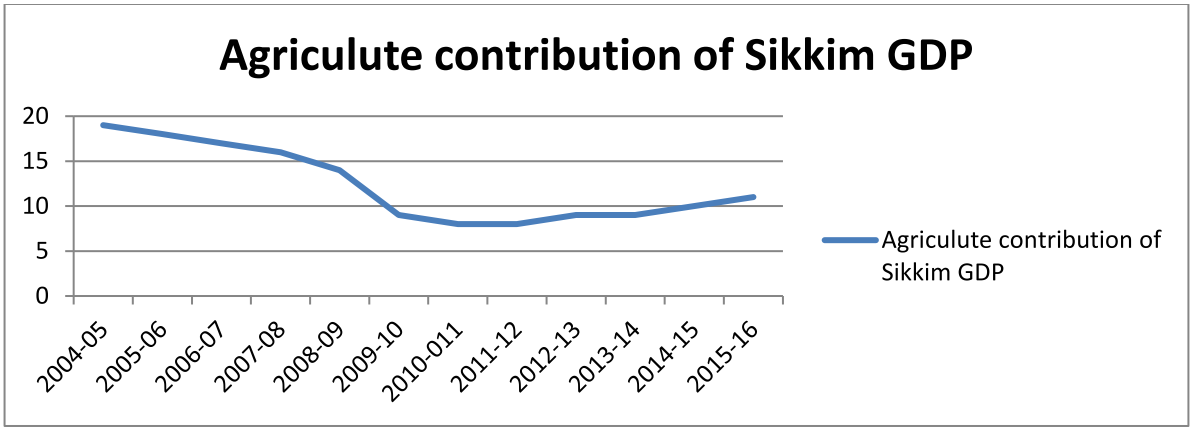
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|---|---|
| **Sikkim** | 11,165 | 12,338 | 13,862 | 15,209 | 18,033 | 20,020 |
| **Arunachal Pradesh** | 11,063 | 12,547 | 14,602 | 16,761 | 19,492 | 20,259 |
| **Manipur** | 12,915 | 13,748 | 16,198 | 18,043 | 19,530 | 21,065 |
| **Mizoram** | 7,259 | 8,362 | 10,293 | 13,509 | 15,138 | 17,613 |
| **Tripura** | 19,208 | 21,663 | 25,593 | 27,422 | 34,368 | --- |
| **Meghalaya** | 19,918 | 21,872 | 22,938 | 23,234 | 25,117 | 27,228 |
| **Nagaland** | 12,176 | 14,121 | 16612 | 18,401 | 19,523 | 21,487 |

*Note: Assam has not been included in this as the state has a higher population and territorial spread.*
*Source: CSO Estimates*

### 2.2.2 Agriculture and Allied Activities

Sikkim is predominantly an agricultural state as discussed earlier. Eighty percent of the rural population of the State is dependent on agriculture and allied activities. The State has developed its agricultural system and practices through years of experimentation by the farmers. The growth in the state's agriculture has been constrained by both biotic and abiotic factors**.** The figure below shows the rate of growth of Agriculture to Sikkim's GDP

**Figure 2.4: Agriculture and Allied activity's contribution to Sikkim's GDP**



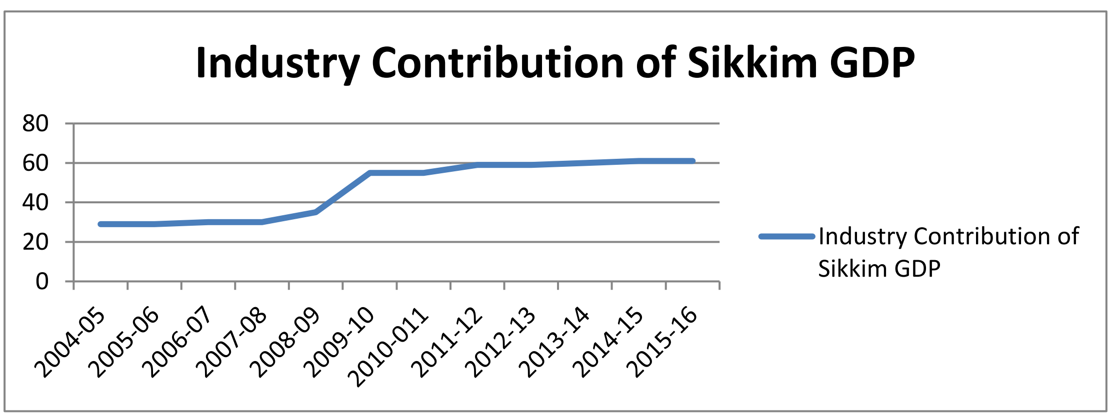

*Source: Sikkim Human Development Report 2014*

Sikkim has become the first State to declare itself as a complete Organic Agriculture Production state in 2018.

### 2.2.3 Industrial Development in Sikkim

The industrial development in Sikkim is a mixed experience. The State had largely state- funded enterprises which used to pull its economic growth. The State started to explore industrial development with advent of NEIP which promoted the setting up of modern production plants in the state. The GOI, Look East policy is helping the State to do its part in the growth of secondary sector. The state has started to invite private investment in Pharmaceutical companies and breweries. This has boosted the economic growth which is depicted in the figure below.

**Figure 2.5: Industrial Contribution to Sikkim's GDP**

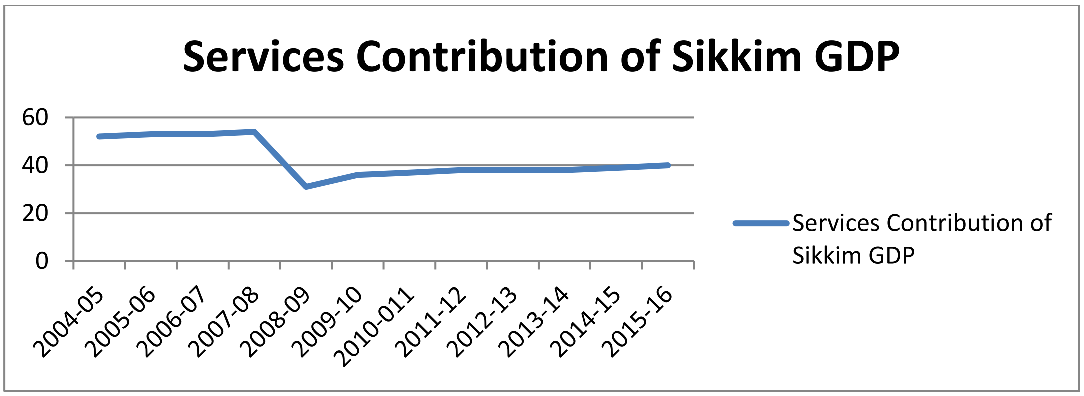



*Source: Sikkim Human Development Report 2014*

### 2.3.4 Services Sector Contribution in Sikkim

The State has developed a large service sector with tourism being one of the hall mark industry of the State. Besides, ancillary services to support the Tourism industry have flourished in the State. The State has also developed a good network of Banks and financial sector which has helped in fueling the growth of the economy. The figure below shows the role of Service sector's contribution to Sikkim's GDP. The fall in the graph in 2008-09 to 2015-16 has been a part of global turn down as well as some internal political disturbances in the Hills of West Bengal the neighboring state of the State.

**Figure 2.6: Service's Sectors Contribution to Sikkim's GDP**




*Source: Sikkim Human Development Report 2014*

### 2.2.5 Other Demographical Indicator

**Table 2.3: Sartorial employment in Sikkim**

| | Rural | | | Urban | | | Total | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total | Male | Female | |
| Primary | 62 | 83 | 73 | 1 | 3 | 1 | 50 | 77 | 62 |
| Secondary | 16 | 5 | 11 | 25 | 10 | 20 | 18 | 6 | 13 |
| Tertiary | 22 | 9 | 16 | 74 | 88 | 78 | 32 | 18 | 16 |

*Note: Figures are rounded off, measured as a percentage*
*Source: 68th NSS Round and HDI, Sikkim 2014*

#### 2.2.5.1 Employment and Jobs

Sikkim has a large population engaged in Agriculture followed by tertiary (services to be more specific) and secondary (industrial production). A total of 62 percent is engaged in the agriculture and other allied activities in the State, where as 23 percent is engaged in services and

13 percent in secondary sector. The table below gives a picture of the sectoral engagement of the work force in Sikkim.

### 2.2.5.2 Distribution of Workers in Sikkim

Government is the largest employer in the formal sector. Job aspirants in the State continue to look forward to employment opportunities in the government. Educated youth, especially in urban areas, are keen to be employed in the public sector, because of limited employment opportunities in the private jobs in secondary and tertiary sector. But new openings in government is minimal. According to the State Socio-Economic Survey 2006, 18.5 per cent of the main workforce was employed by the government (with 73 per cent of them on the regular payroll) and around three per cent in Central Government and Public Sector Undertakings. Salaried employees in the private sector accounted for only 5.4 per cent of the workforce.

**Table 2.4: Distribution of Workers 2001–11**

| | | Census 2001 | Census 2011 | % change |
|---|---|---|---|---|
| Total Cultivators | Persons | 131,258 | 117,401 | –11% |
| | Male | 70,107 | 63,327 | |
| | Female | 61,151 | 54,074 | |
| Total Agricultural Labourers | Persons | 17,000 | 25,986 | 53% |
| | Male | 8,762 | 12,883 | |
| | Female | 8,238 | 13,103 | |
| | Persons | 4,219 | 5,143 | 22% |
| Total Household industry | Male | 2,849 | 2,947 | |
| | Female | 1,370 | 2,196 | |
| | Persons | 110,566 | 159,608 | 44% |
| Total Others | Male | 83,998 | 1,15,201 | |
| | Female | 26,568 | 44,407 | |

*Source: HDI of Sikkim 2014*

It is therefore not surprising that Sikkim has a high proportion of self-employed workers. The proportion of self-employed in Sikkim is higher than the average for the North-eastern states and also for the country. Only Nagaland and Arunachal Pradesh have more people self-employed than Sikkim in the north east. Another positive factor is that Sikkim has only a small proportion of casual workers (Table 2.6)

**Table 2.5: Distribution by Employment Status**

| | Sikkim | North eastern Region | All India |
|---|---|---|---|
| Self-Employed | 731 | 658 | 522 |
| Regular Wage | 222 | 175 | 179 |
| Casual Labour | 47 | 167 | 299 |

*Source: 68th NSSO Survey*

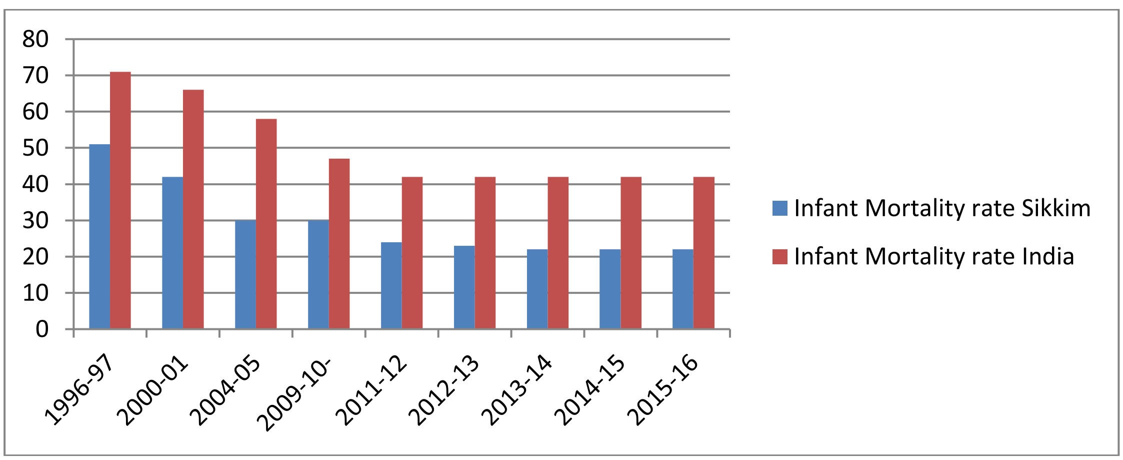
### 2.2.5.3 Life expectancy of Sikkim

The life expectancy of Sikkim is 67 years. The death rate is 5.6 percent and birth rate is 17.6 percent. Around 20–25 mothers die due to pregnancy-related causes. Sikkim is one of the States of India where suicide amongst the youth is very high ( 15 to 25 years ) at 29 percent.

### 2.2.5.4 Infant Mortality

Around 280 babies die as infants (given the IMR of 26). The figure below shows that Sikkim has a lower Infant mortality than the country average.

**Figure 2.7: Infant Mortality Sikkim and India**




*Source: HDI, Sikkim 2014*

In 2005–06, close to 20 per cent of Sikkim's children below 5 years were classified as being underweight—the lowest in the country—against a national figure of around 43 per cent.

### 2.2.5.5 Literacy Rate

In 1951, Sikkim had an overall literacy rate of less than 7 per cent, with barely 11 per cent of men and 1 per cent of women who could read and write. By 2011, the literacy rate had increased to 82 per cent in 2011—with 87 per cent of men and 76 per cent of women who could read and write. The most developed East district came on top with 85 per cent, followed by South district (82 per cent), West district (79 per cent) and North District (77 per cent).

### 2.2.5. 5 Human Development Index

Sikkim had done reasonably well in Human Development Index (HDI). From 0.582 in 1996 it has gone up by 0.696 in 2016-17. A comparative list of HDI across the states of India is given in table 2.7 below.

**Table 2.6: HDI of Various States of India**

| Rank | State/Union Territory | 2016 HDI |
|---|---|---|
| 1 | Kerala | 0.770 |
| 2 | Goa | 0.763 |
| 3 | Chandigarh | 0.739 |
| 4 | Lakshadweep | 0.738 |
| 5 | Puducherry | 0.737 |
| 6 | Delhi | 0.734 |
| 7 | Andaman and Nicobar Islands | 0.731 |
| 8 | Himachal Pradesh | 0.706 |
| | Punjab | 0.706 |
| 10 | Manipur | 0.699 |
| 11 | Mizoram | 0.697 |
| 12 | Sikkim | 0.696 |
| 13 | Daman and Diu | 0.695 |
| 14 | Tamil Nadu | 0.694 |
| 15 | Haryana | 0.687 |
| 16 | Maharashtra | 0.683 |

| Rank | State/Union Territory | 2016 HDI |
|---|---|---|
| 17 | Nagaland | 0.681 |
| 18 | Jammu and Kashmir | 0.675 |
| 19 | Dadra and Nagar Haveli | 0.665 |
| 20 | Karnataka | 0.662 |
| | Uttarakhand | 0.662 |
| 22 | Arunachal Pradesh | 0.661 |
| 23 | Gujarat | 0.651 |
| | Telangana | 0.651 |
| 25 | Meghalaya | 0.648 |
| 26 | Tripura | 0.645 |
| 27 | Andhra Pradesh | 0.627 |
| | India (average) | 0.624 |
| 28 | West Bengal | 0.620 |
| 29 | Rajasthan | 0.601 |
| 30 | Assam | 0.593 |
| 31 | Chhattisgarh | 0.586 |
| 32 | Odisha | 0.580 |
| 33 | Jharkhand | 0.578 |
| 34 | Madhya Pradesh | 0.577 |
| 35 | Uttar Pradesh | 0.566 |
| 36 | Bihar | 0.551 |

| Legend | | |
|---|---|---|
| Very High/High HDI | Medium HDI | Low HDI |
| 0.850–0.899 | 0.750–0.799 | 0.450–0.499 |
| 0.800–0.849 | 0.700–0.749 | 0.400–0.449 |
| | 0.650–0.699 | 0.350–0.399 |
| | 0.600–0.649 | 0.300–0.349 |
| | 0.550–0.599 | 0.250–0.299 |
| | 0.500–0.549 | ≤0.250 |

*Source: Wikipedia and HDI report India 2018*

**Table 2.7 Expenditure on Health and Education in Some select North East States of India**

| **Sl.No** | **States** | **Health** | | | **Education** | | |
|---|---|---|---|---|---|---|---|
| | | **% to GSDP** | | | | | |
| | | 2014- 15 Actual | 2015- 16 RE | % difference | 2014- 15 Actual | 2015- 16 RE | % difference |
| 1 | Arunachal Pradesh | 3.08 | 2.99 | -0.09 | 6.27 | 6.81 | 0.55 |
| 2 | Manipur | 3.17 | 2.71 | -0.46 | 7.08 | 7.10 | 0.02 |
| 3 | Meghalaya | 2.13 | 2.11 | -0.02 | 5.17 | 5.39 | 0.22 |
| 4 | Mizoram | 2.69 | 3.84S | 1.15 | 10.16 | 9.83 | -0.33 |
| 5 | Nagaland | 2.34 | 2.90 | 0.55 | 6.27 | 8.11 | 1.84 |
| 6 | Tripura | 2.15 | 2.56 | 0.40 | 5.46 | 5.82 | 0.35 |
| 7 | **Sikkim** | **1.87** | **1.91** | **0.03** | **5.49** | **5.57** | **0.09** |

*Note: Assam has not been included in this as the state has a higher population and territorial spread.*
Source: NITI Aayog Documents

A look at the table 2.7 shows the expenditure of some selected north eastern States of India. In the context health expenditure, Mizoram Nagaland and Tripura's position is better than the other states. Sikkim, the State under study has done well too. In case of education, Arunachal Pradesh, Meghalaya, Tripura, Nagaland along with Sikkim shows an increase in the expenditure. If table 2.6 is read with table 2.7 we can come to a conclusion, that the reason why Sikkim has done reasonably well in the HDI (above the national average) is perhaps for the fact that the expenditure on health and education in the State is reasonably high.

## 2.3 Conclusion

Sikkim a Himalayan State of India is a bio diversity hot spot. With high literacy and thin population, it is the second smallest state of India. The State is predominantly agrarian and rural. With a few urban locations, the State has low secondary economic activity. However, due to tourism, the service sector is one of the major economic activities of the state. The state has performed well on the front of education, employment distribution and infant mortality. The state government has given attention to health and education of the people the result of which is seen in the developed Human Development Index.

**Major Finding**

- Sikkim is amongst the smallest state of India and is a Himalayan Bio diversity hot spot.
- Sikkim has a high literacy rate, low mortality rate and a infant mortality rate.
- The State is the first State to become completely organic in its agricultural production.
- The state has joined later in secondary sector of economic activities and is catching up after the Government of India's "Act East Policy".
- Being a major tourist destination, service sector is doing well in the state.
- The State is placed well in the Human Development Index.

# CHAPTER - 3

# TRENDS IN TAX REVENUE

### 3.1. Total Receipts and Major Components:

Total receipts of the state government are broadly categorized into Revenue receipts and Capital receipts. Revenue receipts comprise of tax revenue, non-tax revenue, share in central government taxes and grants-in-aid from the center. Capital receipts comprise of public debt, loans from central government, recovery of loans by state government and public account. The temporal analysis is carried out for the period 2010-11 to 2017-18(RE) and for the sub periods as 13$^{th}$ Finance Commission (2010-11 to 2014-15) and 14$^{th}$ Finance Commission (2015-16 to 2017-18(RE)). The trend in the total receipts and its component is given in Table 3.1 later in this chapter.

From Table 3.1, it is clear that the total receipts as a percentage of GSDP is showing a declining trend during the period 2010-11 to 2017-18 (RE). The total receipts have improved from 31.52 percent of GSDP in 2011-12 over previous years. As a proportion of GSDP the revenue receipts have declined from 29.03 in 2010-11 to 22.32 percent in 2015-16. This clearly indicates that the revenue receipts of the state failed to keep pace with the GSDP growth. The declining trends in the revenue receipts affect the overall fiscal health of the state.

The capital receipts as a percentage of GSDP, which constitute the borrowings of the government, had shown a fluctuating trend, but are keeping pace with the GSDP growth. The proportion of the revenue and capital receipts remained around 80:20. This is a good indication that only one fifth of the total receipts are from capital account or the borrowing of the government, while a major proportion comes from revenue receipts.

**Table 3.1: Total Receipts and its Major Components (In Rs Crores)**

| Period | Year | Revenue Receipts | Capital Receipts | Total Receipts | Total Receipts % of GSDP | Revenue Receipts % of GSDP | Capital Receipts % of GSDP |
|---|---|---|---|---|---|---|---|
| 13th Finance Commission | 2010 – 11 | 2151.7 | 430.07 | 2581.77 | 34.83 | 29.03 | 5.80 |
| | 2011 – 12 | 2872.1 | 202.81 | 3074.91 | 34.52 | 24.15 | 2.27 |
| | 2012 – 13 | 3288.36 | 74.2 | 3362.56 | 32.10 | 27.42 | 0.71 |
| | 2013 – 14 | 3893.54 | 347.84 | 4241.38 | 34.26 | 26.56 | 2.81 |
| | 2014 – 15 | 4087.64 | 270.65 | 4358.29 | 28.28 | 25.27 | 1.75 |
| | Average | 3258.668 | 265.114 | 3523.782 | 32.80 | 26.49 | 2.67 |
| 14th Finance Commission | 2015 – 16 | 3784.29 | 754.29 | 4538.58 | 26.77 | 22.32 | 4.44 |
| | 2016 – 17 | 4610.31 | 58.69 | 4669 | 24.76 | 24.45 | 0.31 |
| | 2017 – 18 | 6110.39 | 1059 | 7169.39 | 34.21 | 29.15 | 5.05 |
| Average | | 4834.99 | 623.99 | 5458.99 | 28.58 | 25.31 | 3.27 |
| Average 2010-11 to 2018-19 | | 3849.79 | 399.69 | 4249.48 | 31.224 | 26.04 | 2.89 |

*Note: Figures in parenthesis are as a proportion of total receipts, in Year 2017-18 represents revised estimate figures*

*Source: Government of Sikkim, Budget in Brief, Various Years*

**Table 3.2: Total Receipts and Components as Percentage of GSDP**

| Head of Income | **Overall Period** *From 2010 – 11 to 2017 – 18 (RE)* | **13th Finance Commission** *From 2010 – 11 to 2014 – 15* | **14th Finance Commission** *From 2015 – 16 to 2017 – 18 (RE)* |
|---|---|---|---|
| **Total Receipts** | 31.22 | 32.80 | 28.58 |
| **Capital Receipts** | 2.89 | 2.67 | 3.27 |
| **Revenue Receipts** | 26.04 | 26.49 | 25.31 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

The sub-period analysis gives a clear picture on the declining trends in various receipts of the state government. Table 3.2 Indicates that all the receipts have shown a downward trend during the 14th FC period compared to the 13th FC. The revenue receipts of the state negative growth of 8.46% and this led to a decline in the overall receipts of the state government during the last three years. From the component wise analysis one can conclude that the decline in the capital receipts is a positive trend, but the decline in the revenue receipt is a worrisome exchequer.

The analysis of the growth rate of various components explains the situation more clearly. The total receipts had recorded a negative growth rate of only 8.46 percent for the entire period. The revenue receipts had a negative growth rate of 73 percent the capital receipts had recorded a growth rate of 38 per cent. The decline in the growth rate of revenue receipts have pulled down the growth rate of total receipts below the growth rate of GSDP, which lead to a scenario where the government's income is proportionately with the growth of state income.

**Table 3.3: Total Receipts and Major Components: Growth Rate**

| **Head of Income** | **Overall Period** *From 2010 – 11 to 2017 – 18 (RE)* | **13th Finance Commission** *From 2010 – 11 to 2014 – 15* | **14th Finance Commission** *From 2015 – 16 to 2017 – 18 (RE)* |
|---|---|---|---|
| Total Receipts | 0.15 | 0.13 | 0.25 |
| Capital Receipts | 0.13 | -0.10 | 0.18 |
| Revenue Receipts | 0.16 | 0.17 | 0.27 |
| GSDP | 0.16 | 0.20 | 0.11 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

Our final indicator to track the progress in the receipts is the coefficient of income elasticity This gives the percentage change in tax receipts that accompanies a one percentage change in income. Table 3.4 gives this elasticity component for major components of receipts. The total receipts and revenue receipts gives an expected elasticity of less than one, indicating the slow growth rate of those two variables in relation to GSDP. This slow growth rate of revenue receipts needs to be analyzed in detail and that is attempted in the next section.

**Table 3.4: Total Receipts and Major Components: Elasticity (In Rs. Crore)**

| Head of Income | Overall Period From 2010 – 11 to 2017 – 18 (RE) | 13th Finance Commission From 2010 – 11 to 2014 – 15 | 14th Finance Commission From 2015 – 16 to 2017 – 18 (RE) |
|---|---|---|---|
| Total Receipts | 1.04516167 | 0.71312433 | 2.52392578 |
| Capital Receipts | 17.9156139 | 2.86425212 | 72.1096636 |
| Revenue Receipts | 1.04866942 | 0.88740257 | 0.88740257 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

In this section we try to have a disaggregate analysis of the revenue receipts of the government of Sikkim. The revenue receipts of the state government comprise of own tax revenue, non-tax revenue share in central taxes and grant in aid from central government.

**Table 3.5: Revenue Receipts and its Components (In Rs. Crore)**

| Period | Year | Own Tax Revenue | Non - Tax Revenue | Share in Central Taxes | Grants from Centre | Total Revenue Receipts |
|---|---|---|---|---|---|---|
| 13th Finance Commission | 2010 – 11 | 279.54 | 242.15 | 524.99 | 1105.02 | 2151.70 |
| | 2011 – 12 | 293.92 | 244.04 | 611.65 | 1722.50 | 2872.10 |
| | 2012 – 13 | 435.48 | 302.00 | 698.48 | 1852.40 | 3288.36 |
| | 2013 – 14 | 524.92 | 361.59 | 762.62 | 2244.41 | 3893.54 |
| | 2014 – 15 | 527.55 | 323.78 | 809.32 | 2427.00 | 4087.64 |
| | Average | 412.282 | 294.712 | 681.412 | 1870.266 | 3258.66 |

**Table 3.5: Revenue Receipts and its Components (In Rs. Crore)**

| Period | Year | Own Tax Revenue | Non - Tax Revenue | Share in Central Taxes | Grants from Centre | Total Revenue Receipts |
|---|---|---|---|---|---|---|
| 14th Finance Commission | 2015 – 16 | 566.82 | 412.99 | 1870.28 | 934.20 | 3784.29 |
| | 2016 – 17 | 652.56 | 451.64 | 2069.20 | 1436.91 | 4610.31 |
| | 2017 – 18 | 700.27 | 469.08 | 2470.52 | 2470.53 | 6110.39 |
| | Average | 639.88 | 444.57 | 2136.66 | 1613.88 | 4834.99 |
| 2006 – 07 to 2017 – 18 (RE) Average | | 473.4 | 338.82 | 1149.11 | 1699.77 | 3661.11 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

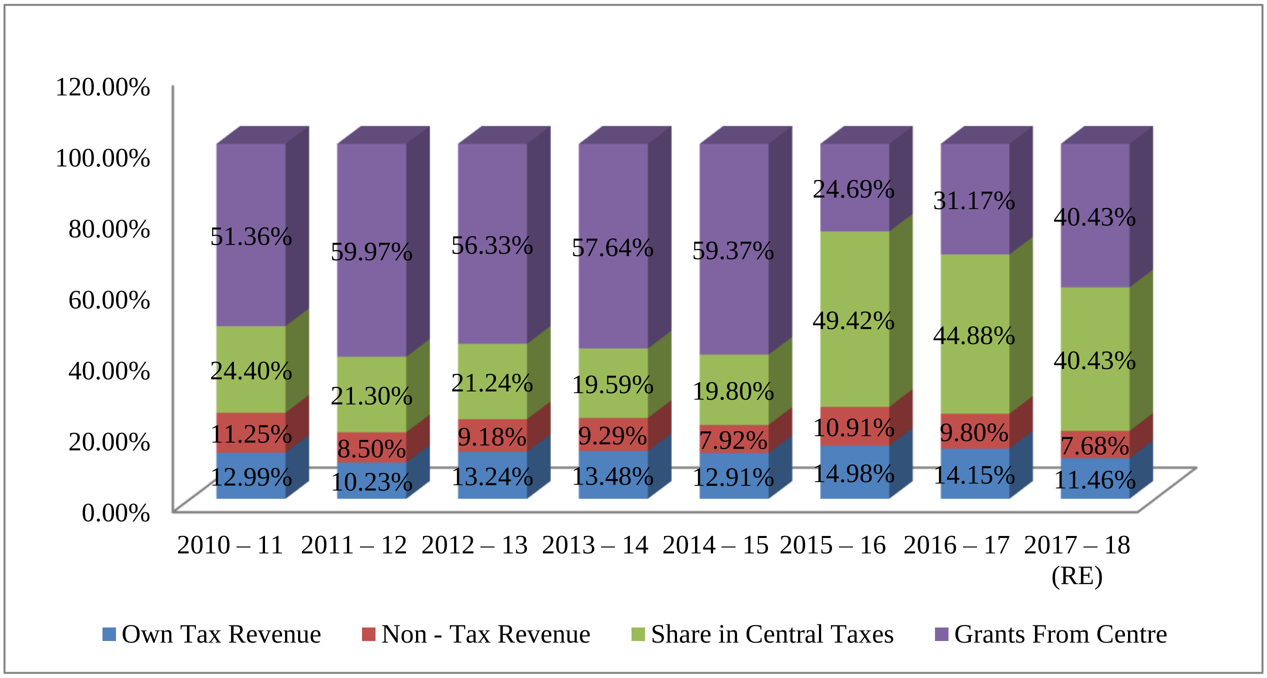
From Table 3.5 we can infer that the major component of the revenue receipt of the State is the Own Tax Revenue. The proportion of own tax revenue have increased 56.47 percent during the 13th FC period and 70.20 percent Total revenue receipt. The Central devolution of taxes on the other hand had shown an increasing trend. The share of central taxes increased from 54.38 percent during the 13th FC period to 12.45 percent during the 14th FC period. Central grants had increased in 13th FC period but declined from 15.47 percent in 2015-16 and then increase three times in 14th finance commission. But overall average Central Grants decline is 9.14 percent in 14th FC over previous 13th FC.

**Table 3.5(a): Percentages contribution of different components of Revenue Receipts**

| | Own Tax Revenue | Non - Tax Revenue | Share in Central Taxes | Grants from Centre |
|---|---|---|---|---|
| 2010 – 11 | 12.99% | 11.25% | 24.40% | 51.36% |
| 2011 – 12 | 10.23% | 8.50% | 21.30% | 59.97% |
| 2012 – 13 | 13.24% | 9.18% | 21.24% | 56.33% |
| 2013 – 14 | 13.48% | 9.29% | 19.59% | 57.64% |
| 2014 – 15 | 12.91% | 7.92% | 19.80% | 59.37% |
| 2015 – 16 | 14.98% | 10.91% | 49.42% | 24.69% |
| 2016 – 17 | 14.15% | 9.80% | 44.88% | 31.17% |
| 2017 – 18 (RE) | 11.46% | 7.68% | 40.43% | 40.43% |

*Source: Government of Sikkim, Budget in Brief, Various Years*

**Figure 3.1: Revenue Receipts and its Components (as percentages)**




*Source: Compiled- Government of Sikkim, Budget in Brief, Various Years*

The above analysis seems to suggest that there is a decline in the effort of the state government to improve its tax revenue as well as the non- revenue. The huge decline in the non-tax revenue is a worrisome factor for the state. A detailed analysis of the same will be done in the next chapter. The share in Central taxes in total revenue receipts shows an increasing trend and this gives more untied funds available to the state government. The decline in the own tax effort of the state government is to a great extend getting balanced by the increased availability of the tax share from the union government.

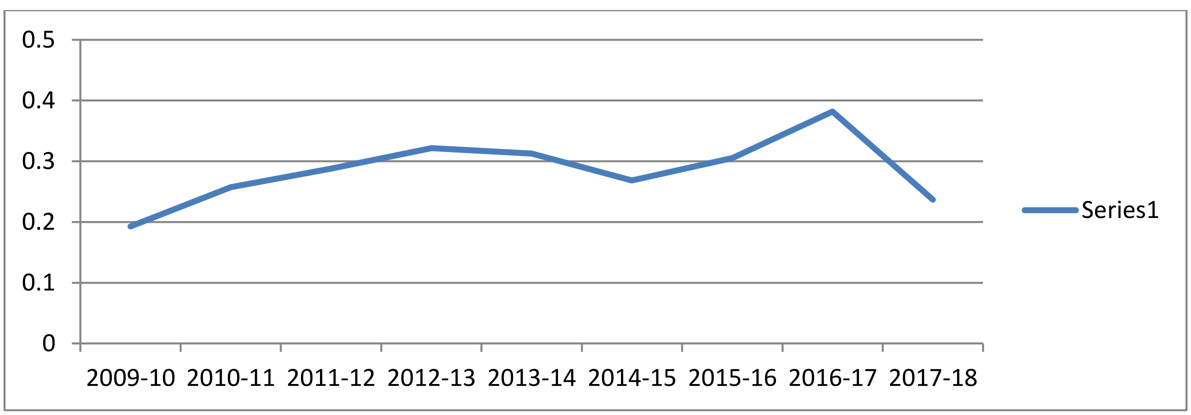
As a proportion of GSDP the total revenue receipts of the State constitute 18.32 percent, with own tax revenue being 2.36 percent, share in central taxes at 5.84 percent, grants from Centre at 8.44 percent and own non- tax revenue at 1.67 percent respectively in overall period. Total revenue receipt is increase in $14^{th}$ FC over $13^{th}$ FC by 74.6 percent. The increasing devolution of central taxes and grants has acted as shock absorbers for the State exchequer.

**Table 3.6: Revenue Receipts and Components as Percentage of GSDP**

| **Items in the Revenue Receipts** | **Overall Period** *From 2010 – 11 to 2017 – 18 (RE)* | **13th Finance Commission** *From 2010 – 11 to 2014 – 15* | **14th Finance Commission** *From 2015 – 16 to 2017 – 18 (RE)* |
|---|---|---|---|
| Own Tax Revenue | 2.36830364 | 1.85152358 | 3.38194851 |
| Non – Tax Revenue | 1.67002451 | 0.00089818 | 2.34966715 |
| Share in Central Taxes | 5.84009761 | 3.06016364 | 11.2928346 |
| Grants from Centre | 8.44329465 | 8.39920636 | 8.52977218 |
| Total Revenue Receipts | 18.3217026 | 14.6344023 | 25.5542048 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

**Figure 3.2: Revenue Receipt as a percentage of GSDP**




*Source: Compiled- Government of Sikkim, Budget in Brief, Various Years*

## Table 3.7: State's Own Tax Revenue (In Rs Crore)

| Items under the Own Tax Revenue | Overall Period From 2010 – 11 to 2017 – 18 (RE) | | 13th Finance Commission From 2010 – 11 to 2014 – 15 | | 14th Finance Commission From 2015 – 16 to 2017 – 18 (RE) | |
|---|---|---|---|---|---|---|
| | Mean | CV | Mean | CV | Mean | CV |
| *Corporation Tax* | 402.99 | 220.825 | 247.16 | 28.09917 | 662.72 | 84.82497 |
| *Taxes on Income other than Corporation Tax* | 284.21 | 197.1356 | 150.31 | 37.19517 | 507.37 | 117.1763 |
| *Other Taxes on Income and Expenditure* | 7.25 | 1.906538 | 6.45 | 1.862636 | 8.58 | 1.231292 |
| *Taxes on Income and Expenditure* | *1.44* | *0.414497368* | *1.25* | *0.187751458* | *1.74* | *0.550286* |
| *Land Revenue* | 5.22 | 1.826995 | 5.43 | 1.500912 | 4.88 | 2.625731 |
| *Stamps and Registration* | *0.27* | *0.330713025* | *0.36* | *0.40537134* | *0.13* | *0.061809* |
| *Taxes on Wealth* | 0.49 | 0.334397 | 0.65 | 0.220386 | 0.22 | 0.35 |
| *Taxes on Property, Capital and other Transactions* | 0 | 0 | 0 | 0 | 0 | 0 |
| *Customs* | 167.21 | 82.11649 | 113.83 | 15.43953 | 256.16 | 64.29238 |
| *Union Excise Duties* | 145.22 | 106.4798 | 75.20 | 8.513796 | 261.91 | 82.80965 |
| *State Excise* | 122.77 | 29.49466 | 106.01 | 23.60519 | 150.70 | 7.567734 |
| *Taxes on Sales, Trade etc.* | 245.87 | 84.7556888 | 212.49 | 76.11316248 | 301.52 | 78.26279137 |
| *Taxes on Vehicles* | 19.85 | 5.903946 | 16.31 | 3.40836 | 25.75 | 3.891873 |
| *Service Tax* | 153.05 | 105.9978 | 94.26 | 30.82824 | 251.05 | 119.9056 |
| *Other Taxes and Duties on Commodities and Services* | 60.57 | 17.05809 | 58.91 | 19.81816 | 63.34 | 14.64542 |
| *Taxes on Commodities and Services* | 0 | 0 | | 0 | 0 | 0 |
| Total Tax Revenue | 1724.76 | 910.3377 | 1093.69 | 233.0994 | 2776.55 | 369.9012 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

**Table 3.8: Shares of Various Taxes on State's own revenue**

| **Items under the Own Tax Revenue** | **Overall Period** *From 2010 – 11 to 2017 – 18 (RE)* | **13th Finance Commission** *From 2010 – 11 to 2014 – 15* | **14th Finance Commission** *From 2015 – 16 to 2017 – 18 (RE)* |
|---|---|---|---|
| *Corporation Tax* | 23.36515653 | 22.60 | 23.87 |
| *Taxes on Income other than Corporation Tax* | 16.4779814 | 13.74 | 18.27 |
| *Other Taxes on Income and Expenditure* | 0.420124205 | 0.59 | 0.31 |
| **Taxes on Income & Expenditure** | 0.083300539 | 0.11 | 0.06 |
| *Land Revenue* | 0.302811037 | 0.50 | 0.18 |
| *Stamps and Registration* | 0.015913774 | 0.03 | 0.00 |
| *Taxes on Wealth* | 0.028264741 | 0.06 | 0.01 |
| **Taxes on Property, Capital and other transactions** | 0 | 0 | 0 |
| *Customs* | 9.694443659 | 10.41 | 9.23 |
| *Union Excise Duties* | 8.419631384 | 6.88 | 9.43 |
| *State Excise* | 7.117978477 | 9.69 | 5.43 |
| *Taxes on Sales, Trade etc.* | 14.25546325 | 19.43 | 10.86 |
| *Taxes on Vehicles* | 1.150913422 | 1.49 | 0.93 |
| *Service Tax* | 8.873896497 | 8.62 | 9.04 |
| *Other Taxes and Duties on Commodities and Services* | 3.511981713 | 5.39 | 2.28 |
| **Taxes on Commodities & Services** | 0 | 0 | 0 |
| **Total Tax Revenue** | 100 | 100 | 100 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

### 3.2. Own Tax Revenues

A substantial component of Own Revenue Receipts of the state of Sikkim is Own Tax Revenue, hence in this section we analyze the own tax revenue of the government of Sikkim for the period 2010-11 to 2017-18(RE). Except the declining trend in the Land revenue, tax on wealth, all parameters are increasing trend. Total mean Tax revenue is increased 154 percent in 14$^{th}$ FC over13$^{th}$ FC. Like most of the States of India, taxes on commodities and services constitute the major component of revenue for the state. Around 80 percent of the own revenue receipts comes from this head. This is followed by 3.5 percent revenue from taxes on property and transactions. Taxes on Income and Expenditure (mainly professional tax) constitute a meager 0.42 percent of the total own tax revenue of the state (Table 3.8).

The State's own tax revenue as a percentage of GSDP given in Table 3.9. Over the last two Finance Commission periods there was improvement in all the component of the own tax revenue of the State except taxes on Land revenue, stamps and wealth. This clearly suggests that significant effort has been made on all the part of the state government to boost its performance.

Among the various taxes, the land revenue recorded the highest growth in 14th FC over 13th FC. But the bases of these taxes are relatively low. The introductions of GST during the financial year 2017-18 have pushed the revenue in 14thFC. This has resulted in a higher growth rate of own tax revenue also during the 14th FC period compared to the previous FC periods.

**Table 3.9: State's own Tax revenue as percentage of GSDP**

| **Items under the Own Tax Revenue** | **Overall Period** From 2010 – 11 to 2017 – 18 (RE) | **13th Finance Commission** From 2010 – 11 to 2014 – 15 | **14th Finance Commission** From 2015 – 16 to 2017 – 18 (RE) |
|---|---|---|---|
| *Corporation Tax* | 2.895697 | 2.264421 | 3.502646 |
| *Taxes on Income other than Corporation Tax* | 2.042154 | 1.377115 | 2.681564 |
| *Other Taxes on Income and Expenditure* | 0.052067 | 0.059058 | 0.045345 |
| **Taxes on Income & Expenditure** | 0.010324 | 0.011469 | 0.009223 |
| *Land Revenue* | 0.037528 | 0.049737 | 0.02579 |
| *Stamps and Registration* | 0.001972 | 0.003311 | 0.000685 |
| *Taxes on Wealth* | 0.003503 | 0.005937 | 0.001163 |
| **Taxes on Property, Capital and other transactions** | 0 | 0 | 0 |
| *Customs* | *1.201455* | 1.042928 | 1.353872 |
| *Union Excise Duties* | *1.043464* | 0.689007 | 1.384262 |
| *State Excise* | *0.882147* | 0.971213 | 0.796514 |
| *Taxes on Sales, Trade etc.* | *1.766712* | 1.946771 | 1.593592 |
| *Taxes on Vehicles* | *0.142635* | 0.14942 | 0.136112 |
| *Service Tax* | 1.099762 | 0.863576 | 1.326846 |
| *Other Taxes and Duties on Commodities* | 0.435248 | 0.539735 | 0.334787 |
| **Taxes on Commodities & Services** | 0 | 0 | 0 |
| **Total Tax Revenue** | 12.39323 | 10.02023 | 14.67478 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

**Table 3.10: State's Own Tax Revenue: Growth Rate**

| **Items under the Own Tax Revenue** | **Overall Period** *From 2010 – 11 to 2017 – 18 (RE)* | **13th Finance Commission** *From 2010 – 11 to 2014 – 15* | **14th Finance Commission** *From 2015 – 16 to 2017 – 18 (RE)* | **Increase/Decrease** |
|---|---|---|---|---|
| *Corporation Tax* | 0.205018 | 0.083307 | 0.130261 | -0.046954 |
| *Taxes on Income other than Corporation Tax* | 0.288465 | 0.167986 | 0.240825 | -0.072839 |
| *Other Taxes on Income and Expenditure* | 0.128459 | 0.163471 | 0.123468 | 0.040003 |
| **Taxes on Income & Expenditure** | 0.094879 | -0.04754 | 0.276624 | -0.324164 |
| *Land Revenue* | -0.0193 | -0.04274 | 0.860515 | -0.903255 |
| *Stamps and Registration* | -0.00163 | 0.520961 | 0.543033 | -0.022072 |
| *Taxes on Wealth* | -1.68591 | 0.159821 | - | No chage |
| **Taxes on Property, Capital and other transactions** | 0 | 0 | 0 | 0 |
| *Customs* | 0.102883 | 0.092726 | -0.21878 | 0.311506 |
| *Union Excise Duties* | 0.159978 | 0.025651 | -0.12278 | 0.148431 |
| *State Excise* | 0.117557 | 0.167755 | 0.040416 | 0.127339 |
| *Taxes on Sales, Trade etc.* | 0.059564 | 0.185673 | -0.18942 | 0.375093 |
| *Taxes on Vehicles* | 0.159229 | 0.161567 | 0.158388 | 0.003179 |
| *Service Tax* | 0.115529 | -0.40474 | 0.228732 | -0.633472 |
| *Other Taxes and Duties on Commodities and Services* | 0.047227 | 0.184297 | -0.05774 | 0.242037 |
| **Taxes on Commodities & Services** | 0 | 0 | 0 | 0 |
| **Total Tax Revenue** | 0.216436 | 0.135369 | 0.140636 | -0.005267 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

**Table 3.11: Tax Buoyancy**

| Items under the Own Tax Revenue | Overall Period | 13th Finance Commission *From 2010 – 11 to 2014 – 15* | 14th Finance Commission *From 2015 – 16 to 2017 – 18 (RE)* |
|---|---|---|---|
| *Corporation Tax* | 1.50649313 | 0.276041341 | 1.176759875 |
| *Taxes on Income other than Corporation Tax* | 1.97316411 | 0.212019965 | 2.206300861 |
| *Other Taxes on Income and Expenditure* | 0.87000416 | 0.945906262 | 1.189576952 |
| Taxes on Income & Expenditure | | | |
| *Land Revenue* | 1.80082221 | 1.064971379 | 11.01018746 |
| *Stamps and Registration* | 3.70511244 | 7.180232038 | 5.165165103 |
| *Taxes on Wealth* | 6.46285707 | 0.292116892 | 30.45506394 |
| Taxes on Property, Capital and other transactions | 0 | 0 | 0 |
| *Customs* | 1.10950441 | 0.362282122 | -1.802055596 |
| | | | |
| *Union Excise Duties* | 2.1463533 | 0.173728543 | -0.129899013 |
| *State Excise* | 0.75982132 | 0.545905387 | 0.375818276 |
| | | | |
| *Taxes on Sales, Trade etc.* | 0.71443895 | 1.174767215 | -1.312093875 |
| *Taxes on Vehicles* | 1.0557975 | 0.278646564 | 1.424875984 |
| | | | |
| *Service Tax* | 1.7692409 | 0.955597537 | -2.84346226 |
| *Other Taxes and Duties on Commodities* | 0.58264646 | 1.337762782 | 0.074918008 |
| *and Services* | | | |
| Taxes on Commodities & Services | 0 | 0 | 0 |
| Total Tax Revenue | 1.46815618 | 0.707047616 | 1.260387626 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

In order to understand the responsiveness of the own tax revenue with that of the domestic income growth, we have estimated the tax buoyancy for the aggregate taxes as well as the individual taxes for the study period. The change in tax observed the two periods are observed in corporate tax, taxes on income other than corporate tax and revenue, stamp and registration duties and services taxes due to change in the governmental policies. However, there is a negative growth in overall tax by the state. Due to its dependence on the central assistance and the nature of the state, the state has low taxes on all fronts. The results are given in Table 3.11. Among the sub items, land revenue, recorded highest buoyancy, indicating the failure of the revenue to keep pace with the income growth of the state. Taxes on income and expenditure that mainly consist of professional tax recorded the lowest buoyancy and had shown a negative trend in recent years. The additional revenue mobilization requires the State to focus on overall taxes record very low and falling tax buoyancy.

**Table 3.12: Budget Effort of Sales Tax/VAT in Sikkim (In Rs Cores)**

| Years | Actual (A) | Budget (B) | Budget Effort (A/B*100) |
|---|---|---|---|
| 2010 – 11 | 142.74 | 118.50 | 120.45 |
| 2011 – 12 | 124.19 | 160.11 | 77.56 |
| 2012 – 13 | 227.08 | 187.14 | 121.34 |
| 2013 – 14 | 286.32 | 225.00 | 127.25 |
| 2014 – 15 | 282.10 | 259.44 | 108.73 |
| 2015 – 16 | 325.72 | 300.00 | 108.57 |
| 2016 – 17 | 364.82 | 361.00 | 101.05 |
| 2017 – 18 (RE) | 214.01 | 388.26 | 55.12 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

Before we proceed to estimate the potential for commodity tax, there are two palpable indicators, which gives a basic idea about the states own tax effort.

### 3.2.1. Budget Effort

Budget Effort measures the ratio of actual collections of sales tax/ VAT to budget estimates. If the ratio is above 100, the budget effort is efficient and if it is below 100, the budget effort is ineffective. From Table 3.12, one can conclude that majority of years the budget effort of the state is efficient. The last three years recorded a slight dip in the budget effort that will be corrected once the GST is in full pace.

### 3.2.2. C-Efficiency

C-efficiency estimates the overall gap, that is enforcement gap and policy gap together. In the foregoing paragraph, we measured the enforcement effort only given the rates and exemptions (See Committee Report of GST, Government of India 2015).

**Table 3.13: C-efficiency of Sales Tax / VAT in Sikkim**

| Years | Sales Tax / VAT | GSDP | C – efficiency |
|---|---|---|---|
| 2010 – 11 | 142.74 | 7411.57 | 0.0015407 |
| 2011 – 12 | 124.19 | 8906.64 | 0.0011154 |
| 2012 – 13 | 227.08 | 10472.60 | 0.0017347 |
| 2013 – 14 | 286.32 | 12376.69 | 0.0018507 |
| 2014 – 15 | 282.10 | 15406.72 | 0.0014648 |
| 2015 – 16 | 325.72 | 16953.83 | 0.001537 |
| 2016 – 17 | 364.82 | 18852 | 0.0015481 |
| 2017 – 18 (RE) | 214.01 | 20956 | 0.000817 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

*Note:* $C - efficiency = \frac{Actual\ Collections}{Standard\ RatexTax\ Base}$

The standard rate of VAT in Sikkim has been 12.5 percent for different financial years under consideration. We use the GSDP at current prices as the tax base as time series of annual Consumption Expenditure is not available.

The C-efficiency has been on an average 0.0015 for Sikkim during the period 2010-11 to 2016-17 (we have excluded 2017-18 due to introduction of GST, which is a structural change). The average C- efficiency is about 0.6 for high income countries and 0.57 for emerging market economies and 0.31 for low income countries (GOI 2015). This implies that greater efforts for compliance is called for at the enforcement level, as in the post GST, harmonized tax rate and exemption scenario, scope for policy efforts should be limited.

## 3.3. Devolution of Central Taxes and Grants

The detailed trends of central devolutions are given in Table 2.14 and Table 2.15. The central devolution has remained slightly above 20 percent of GSDP during the last 7 years. Total devotion has declined from 16.97 percent during 13th FC to 14th FC due to a decline both in the share of central taxes as well as the decline in the grants. With the changing pattern of financing of the Centrally Sponsored schemes, the grant disbursement in the near future is uncertain to predict. In the proximate future, the rise in the share of taxes, after the award of 14th FC is likely to be accompanied by a decline in share of grants and a reasonable expectation will be 22.07 percent of GSDP, as Central devolution.

**Table 3.14: Trends in Central Devolution of Taxes and Grants to Sikkim**

| Period | Year | Share in Central Taxes as a Proportion of GSDP | Central Grants as proportion of GSDP | Total Central Devolution as Percentage of GSDP |
|---|---|---|---|---|
| 13th Finance Commission | 2010 – 11 | 7.08 | 14.91 | 21.99 |
| | 2011 – 12 | 6.87 | 19.34 | 26.21 |
| | 2012 – 13 | 6.67 | 17.69 | 24.36 |
| | 2013 – 14 | 6.16 | 18.13 | 24.3 |
| | 2014 – 15 | 5.25 | 15.75 | 21.01 |
| 14th Finance Commission | 2015 – 16 | 11.03 | 5.51 | 16.54 |
| | 2016 – 17 | 10.98 | 7.62 | 18.6 |
| | 2017 – 18 | 11.79 | 11.79 | 23.58 |
| 2010–11 to 2017-18(RE) Average | | 8.23 | 13.84 | 22.07 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

**Table 3.15: Central Devolution of Taxes and Grants to Sikkim as per cent of GSDP**

| Items in the Revenue Receipts | Overall Period From 2010 – 11 to 2017 – 18 (RE) | 13th Finance Commission *From 2010 – 11 to 2014 – 15* | 14th Finance Commission *From 2015 – 16 to 2017 – 18 (RE)* |
|---|---|---|---|
| Share in Central Taxes as a Proportion of GSDP | 8.23 | 6.41 | 11.2656047 |
| Central Grants as proportion of GSDP | 13.84 | 17.16 | 8.30716023 |
| Total Central Devolution | 22.0722 | 23.571818 | 19.5727649 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

### 3.4. Reform Initiatives and the suggestions for improving revenue productivity

- A major policy reform during the last five years was the implementation of Goods and Services Tax (GST) from 1st July 2017. Before the implantation of GST, State followed incremental approach in revenue targeting and no major policy reform was introduced for increased revenue mobilization. This has led to a scenario where one of the richest states in India, ended up having own tax revenue/GSDP ratio less than all states average. The implementation of GST is likely to change this scenario. The increased collection of Computerization and online payment system is being implemented in most of the departments in Sikkim as part of the reform process. But still major effort required for digitalization of land records, that will make more transparency on the title deeds, property transfer, better realization of land revenue. The land lease rates need periodic revision for better realization of revenue.
- The professional tax collection in the state is very low. The administration of this tax has been with the commercial taxes department unlike many other states. There is an urgent need for transferring this tax to local bodies for better administration. The rate of tax may be periodically revised.
- The commercial tax department has introduced an Amnesty scheme since 2015-16. This is only partially success, and still huge arrear payments are pending. Immediate attention of the state government is required for realization of these arrears.

**Table 3.16 Estimated Total Revenue and estimated tax revenue (In Rs. Crore)**

| | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|---|---|---|---|---|---|---|
| **Total Revenue(i+ii+iii+iv +v+vi)** | 7817.29 | 9177.494 | 10798.35 | 12733.4 | 15027.9 | 17780.91 |
| **i. States own Tax revenue** | 770.31 | 849.61 | 937.37 | 1034.53 | 1142.13 | 1261.31 |
| **ii. State's own non-Tax revenue** | 481.92 | 529.48 | 581.72 | 639.12 | 702.18 | 771.47 |
| **iii. Share in Central Taxes** | 2892.34 | 3586.502 | 4447.262 | 5514.605 | 6838.11 | 8479.256 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| **iv. Grants from Centre** | 1836.36 | 2111.81 | 2428.582 | 2792.869 | 3211.799 | 3693.569 |
| **v. Grants under FC** | 76.79 | 76.59 | 76.39 | 76.19 | 56.19 | 36.19 |
| **vi. Grants other than FC** | 1759.57 | 2023.502 | 2327.027 | 2676.081 | 3077.493 | 3539.117 |

*Source: Estimated from Government of Sikkim, Budget in Brief, Various Years*

### 3.5 Analysis of Total Revenue and Central Assistance forecast for the State

The table 3.16 shows the forecasted growth in total revenue, State's own tax, State's own non-tax revenue, Grants from center (Under FC and other than FC). It can be seen that, the total revenue will grow by approximately 12 percent, the State's own tax by 15 percent and the State's Grant from the Centre and head of FC will averagely decrease by 20 percent. This is largely due to the increase in State's reform for tax and impact of GST A detail of this is given in sustainable debt road map under various simulation situation of GST. Subsequent result in State's own tax revenue and decrease in Central assistance will further strengthen the State's own total revenue position.

### 3.6 Conclusion

This chapter discusses the impact of tax and tax revenue of the State. It is observed that Tax to GSDP has decreased which can be due to industrial recession. However, the silver lining of the study shows forecasted figures to increase in terms of revenue and decline in central assistance.

**Major Findings**

- Percentage of tax revenue in GSDP for Sikkim has shown a declining trend for a decade from 2010-2017. This could be due to the industrial recession post 2010. This is true also for revenue receipts and capital receipts. Buoyancy of revenue receipts and total receipts has also declined. This may to a great extent will reverse post Goods and Services Tax (GST) implementation in Sikkim.
- Share in Central Taxes as a proportion of GSDP showed a significant increase during the 14$^{th}$ Finance Commission award period but the state's share in the central grants continues to remain low.

# CHAPTER - 4

# TRENDS IN OWN NON-TAX REVENUE

Non- tax revenue of the state governments in India include (a) revenue from assets- common property resources for which government the government acts as a custodian and charges fees, renewable natural resources from where the government receives royalties and assets created from earlier investments like Public Sector Undertakings, irrigation, roads and loans given by the state government, from where the government receives dividends and interest. (b) Revenue from the sale of goods and services provided directly by the government which yields revenue in the form of user charges and (c) revenue from sale of licenses and permits for regulated activities such as permits for vehicles, etc.

Table 4.1 indicates that the mean non-tax revenue has recorded an absolute decline even on nominal terms during the 14$^{th}$ FC period compared to the 13$^{th}$ FC period, mainly because of the decline on revenue from General Services. There is a trend reversal during the first three years of the 14th FC period.

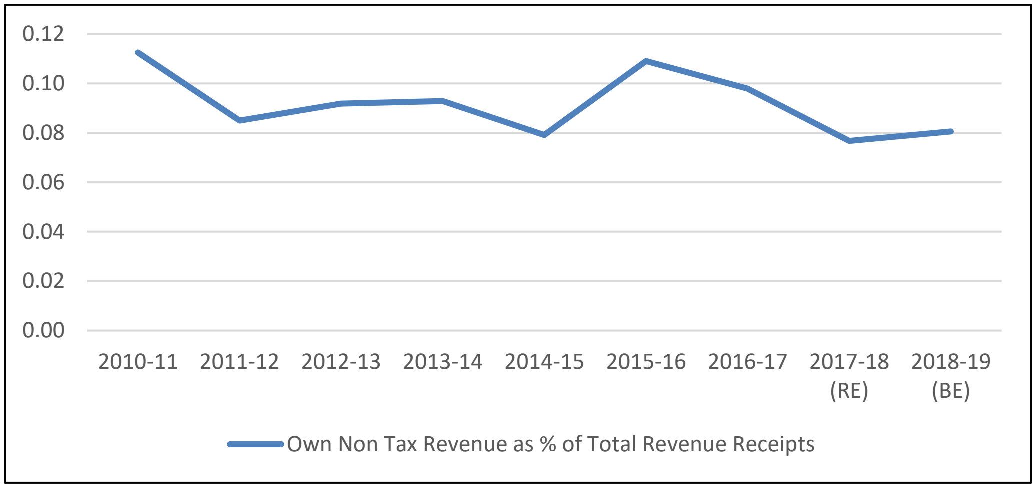
**Table 4.1: Gross Non-Tax Revenue: Summary Statistics (In Rs Crore)**

| Items under the Non - Tax Revenue | Overall Period From 2010 – 11 to 2017 – 18 (RE) | | 13$^{th}$ Finance Commission From 2010 – 11 to 2014 – 15 | | 14$^{th}$ Finance Commission From 2015 – 16 to 2017 – 18 (RE) | |
|---|---|---|---|---|---|---|
| | Mean | CV | Mean | CV | Mean | CV |
| Interest Receipts, Dividends and Profits | 58 | 20.81 | 48 | 18.2702 | 73 | 17.21 |
| General Services | 478 | 342.02 | 695 | 215.328 | 114 | 13.05 |
| Social Services | 9 | 1.38 | 8 | 0.54772 | 11 | 1.15 |
| Economic Services | 183 | 57.16 | 144 | 14.99 | 247 | 32.32 |
| Total Non – Tax Revenue | 727 | 273.15 | 896 | 185.939 | 445 | 29.27 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

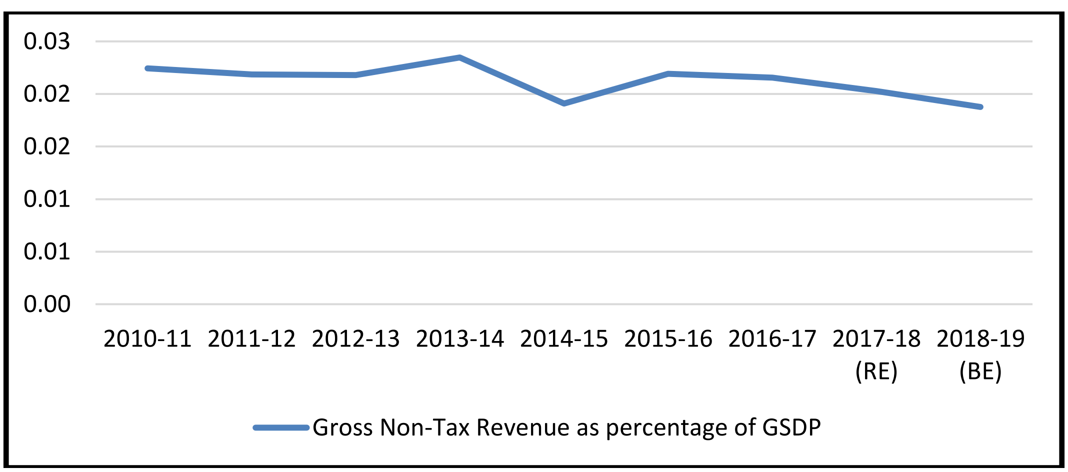
A major caveat needs to be noted down here is that the non-tax revenue of the State decreased by 50.33 per cent over the previous 13th FC in mean value. It is mainly due to reduction in General Service by 83.60 percent. We can infer the long-term declining trends in the own- non-tax revenue as a percentage of total revenue receipts.

**Figure 4.1: Own Non-Tax Revenue as percentage of Total Revenue Receipts**




The non- tax revenue of the government mainly accrues from four categories, Interest Receipts, Dividends and Profits, General Services, Economic Services and Social Services. From Table 4.2 we can infer that over the past 7 years, General Services have contributed the maximum share towards non-tax revenue in Sikkim. This is followed by Economic Services.

**Figure 4.2: Gross Non-Tax Revenue as percentage of GSDP**



The proportional contribution of various components has performed differently over the last two Finance Commission award periods depicted in table 4.3. The share of social services has picked up the maximum pace and has increased from .70 percent to 2.66 per cent.

**Table 4.2: Percentage Share of Various Components of Non-Tax Revenue**

| | Overall Period From 2010 – 11 to 2017 – 18 (RE) | 13th Finance Commission From 2010 – 11 to 2014 – 15 | 14th Finance Commission From 2015 – 16 to 2017 – 18 (RE) |
|---|---|---|---|
| **Interest Receipts, Dividends and Profits** | 7.90 | 5.39 | 16.33 |
| **General Services** | 65.67 | 77.57 | 25.70 |
| **Social Services** | 1.27 | 0.93 | 2.39 |
| **Economic Services** | 25.14 | 16.08 | 55.56 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

**Table 4.3: Percentage Share of Various Components of Non-Tax Revenue over 2010-2018**

| Years | Interest Receipts, Dividends and Profits | General Services | Social Services | Economic Services |
|---|---|---|---|---|
| 2010 – 11 | 2.724 | 84.79 | 0.702 | 11.775 |
| 2011 – 12 | 2.871 | 83.827 | 0.765 | 12.535 |
| 2012 – 13 | 5.824 | 76.456 | 0.991 | 16.728 |
| 2013 – 14 | 8.438 | 70.403 | 1.133 | 20.025 |
| 2014 – 15 | 9.599 | 65.902 | 1.289 | 23.209 |
| 2015 – 16 | 20.581 | 25.181 | 2.421 | 51.816 |
| 2016 – 17 | 17.738 | 24.390 | 2.661 | 55.212 |
| 2017 – 18 (RE) | 11.263 | 27.413 | 2.125 | 59.198 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

General services on the other hand had a decline of its contribution from 84.79 per cent during the 13th FC period to 24.39 percent during the 14th FC award period. Economic Services had shown steady growth. Its share had increased from 11.77 percent during 13th FC period to 55.21 percent during 14th FC period.

**Figure 4.3: Average Share of Various Components of Non- Tax Revenue (2010-11 to 2017-18(RE)**

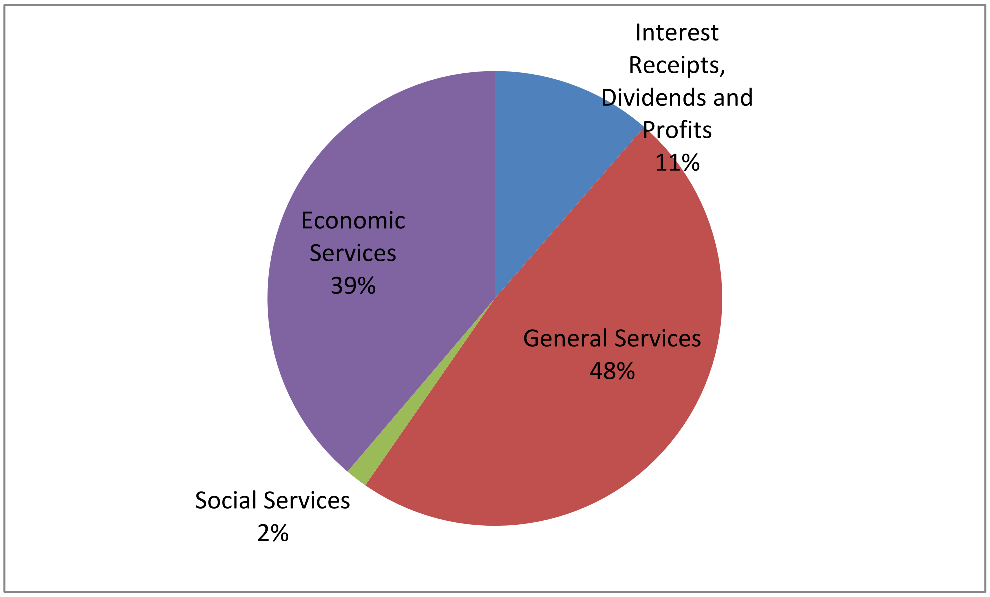



**Table 4.4: Growth rate of Various Components of Non- Tax Revenue**

| Period | Overall Period From 2010 – 11 to 2017 – 18 (RE) | 13th Finance Commission From 2010 – 11 to 2014 – 15 | 14th Finance Commission From 2015 – 16 to 2017 – 18 (RE) |
|---|---|---|---|
| Interest Receipts, Dividends and Profits | 0.07 | 0.21 | -0.21 |
| General Services | -0.24 | -0.16 | 0.11 |
| Social Services | 0.03 | 0.02 | 0 |
| Economic Services | 0.11 | 0.05 | 0.14 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

### 4.1 Cost Recovery

Own non-tax revenues from social and economic services can be treated as recoveries by the government for the services provided. Under revenue expenditure, the Government makes outlays in the form of current expenditure for provision of these services. Comparing the recoveries with these outlays, the recovery rates can be computed to indicate the extent of subsidization of these services by the government. The recovery rates for economic and social services are generally low for almost all states in India. Sikkim's case is not different from all India pattern.

**Table 4.5: Dividends from PSUs and Interest from other Investments (in Rs Cr)**

| Year | Dividends |
|---|---|
| 2010-11 | 44.82 |
| 2011-12 | 30.20 |
| 2012-13 | 46.99 |
| 2013-14 | 19.68 |
| 2014-15 | 28.14 |
| 2015-16 | 57.27 |
| 2016-17 | 66.81 |

*Source: CAG reports, Various Years*

**Table 4.5(a): Cost Recovery (Per cent)**

| Item | 2010-11 to 2017-18(RE) | 12 FC | 13 FC | 14 FC |
|---|---|---|---|---|
| General | 2.36 | 7.33 | 1.01 | 1.10 |
| Social | 1.17 | 1.06 | 1.24 | 2.03 |
| Economic | 2.71 | 4.39 | 3.18 | 2.49 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

The recovery rates reported here have an upward bias because of exclusion of costs from the calculations. In some cases, such as irrigation, where investment requirements are considerable, the bias would be significant. In order to arrive at a better estimate of the extent of cost recovery, the same needs to be estimated separately for merit goods and non-merit categories. Merit goods and services are those goods and services that have strong externalities associated with their provision. Non-merit ones are the others. While low recoveries may have some justification in case of merit goods and services, it is hard to defend very low recovery rates for non- merit categories.

Given the aggregate picture on own-non-tax revenue and its major components, we will now proceed to analyze some of the individual items on own- non-tax revenue that have implication on the state budget. Toll Receipts and dividends and profits from the Public Sector Undertakings are two such items.

### 4.2 Toll Receipts

Toll charges or toll taxes are user charges are levied by the state governments for recovering the cost of construction of roads and-pays" bridges. Tolls up paid only when a particular facility is used, and tolls paid cover operating and maintenance costs aswell as debt retirement of the facility. The toll receipts for the period 2010-11 to 2016-17 are given in the Table 3.6 and Figure 3.5. From the table it is clear that the volume of receipts under toll is very minimal in Sikkim. The trend indicates a long run upward movement.

**Table 4.6: Toll Receipts (in Rs Cr)**

| Year | Toll Receipts |
|---|---|
| 2010-11 | 10.72 |
| 2011-12 | 8.09 |
| 2012-13 | 23.09 |
| 2013-14 | 62.07 |
| 2014-15 | 22.13 |
| 2015-16 | 21.51 |
| 2016-17 | 51.80 |

*Source: CAG Finance account*

### 4.3 TheState Public Sector Undertakings (PSU's) and Statutory Corporations.

The State PSUs are established to carry out activities of commercial nature while keepingin view, the welfare of the people. In the State of Sikkim, PSUs are mainly in the sectorslike power and infrastructure. Dividends from PSUs are very nominal indicating the poorperformance of the PSUs over the years. Majority of the PSUs in the state are loose making. The results of the same are given in Table 4.7, 2010-11 onwards majorityof the PSU's are on loss, but due to increasing the investment on such loss-making entities and currently they are making huge revenue loss to the state exchequer.

**Figure 4.4: Toll Receipts (Rupees Crore)**

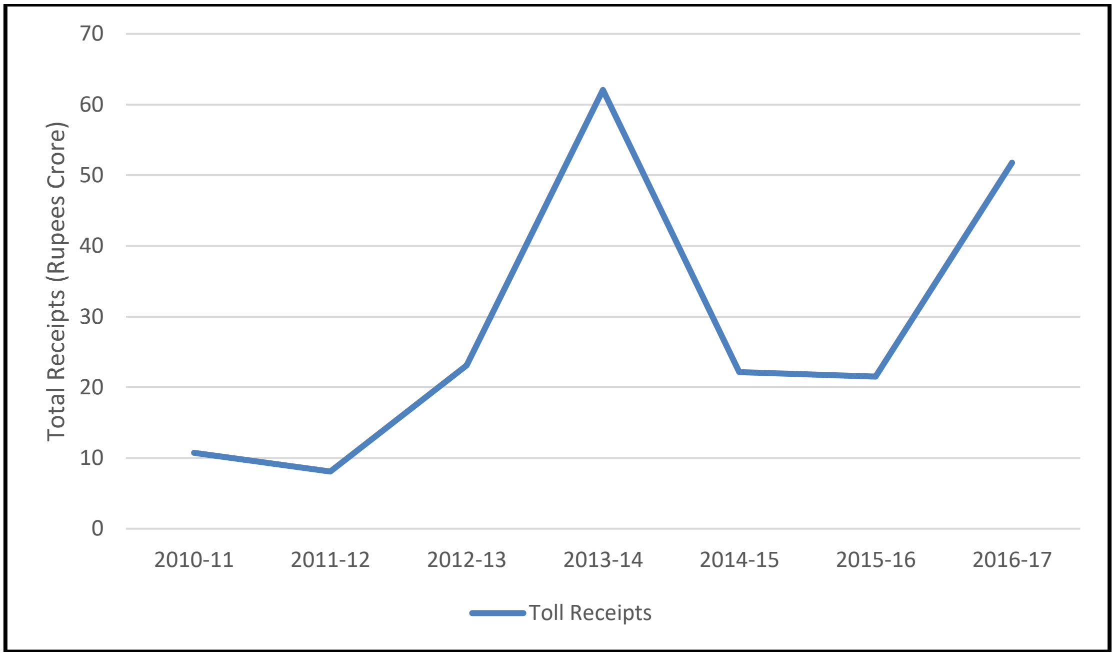



**Table 4.7: Dividends from PSUs and other Investments (Rupees Crore)**

| Year | Dividends |
|---|---|
| 2010-11 | 44.82 |
| 2011-12 | 30.20 |
| 2012-13 | 46.99 |
| 2013-14 | 19.68 |
| 2014-15 | 28.14 |
| 2015-16 | 57.27 |
| 2016-17 | 66.81 |

*Source: CAG Finance account*

**Figure 4.4 (a): Dividends from PSU & Other Investment (In Rs Crore)**

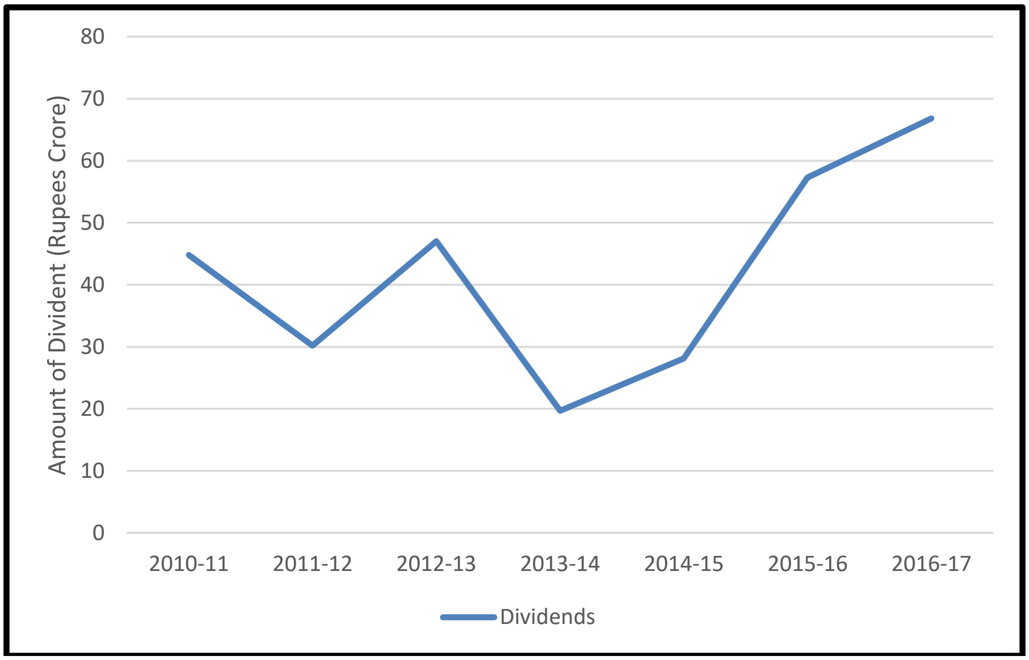



**Table 4.8: Total Investment at the end of year in Public Sector Undertakings (Rs. Crores)**

| | Statutory Corporations | Government Companies | Co-operative Banks/Societies and Local Bodies | Total |
|---|---|---|---|---|
| 2010-11 | 67531.34 | 3444.26 | 3379.47 | 74391.39 |
| 2011-12 | 75358.66 | 4139.52 | 3471.50 | 83016.00 |
| 2012-13 | 82535.77 | 4486.93 | 3608.82 | 90677.84 |
| 2013-14 | 93265.06 | 4796.44 | 3755.23 | 101867.20 |
| 2014-15 | 101429.24 | 5034.85 | 4157.13 | 110671.69 |
| 2015-16 | 110582.23 | 5357.46 | 4320.81 | 120310.97 |
| 2016-17 | 119172.06 | 6440.86 | 4320.40 | 129983.79 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

**Figure 4.5: Investment at the End of the Year in PSUs (Rupees Crore)**

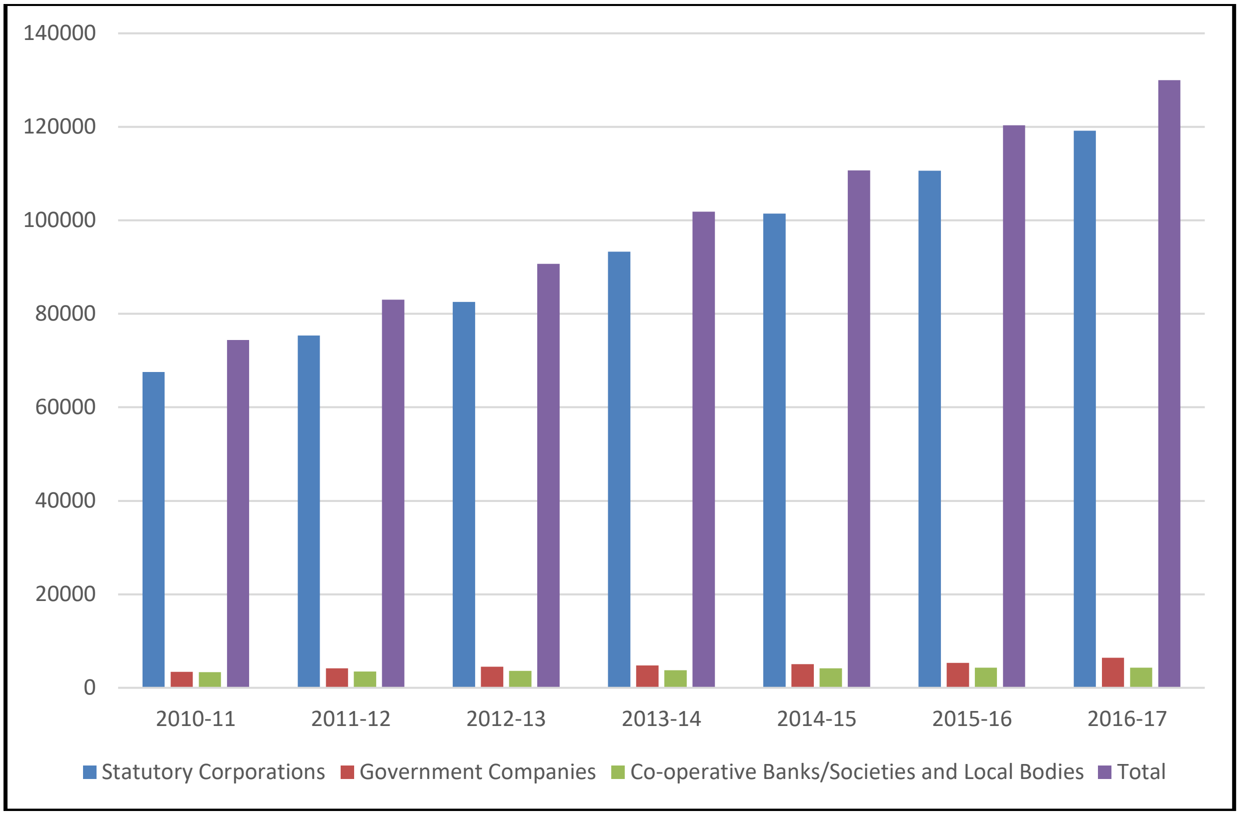
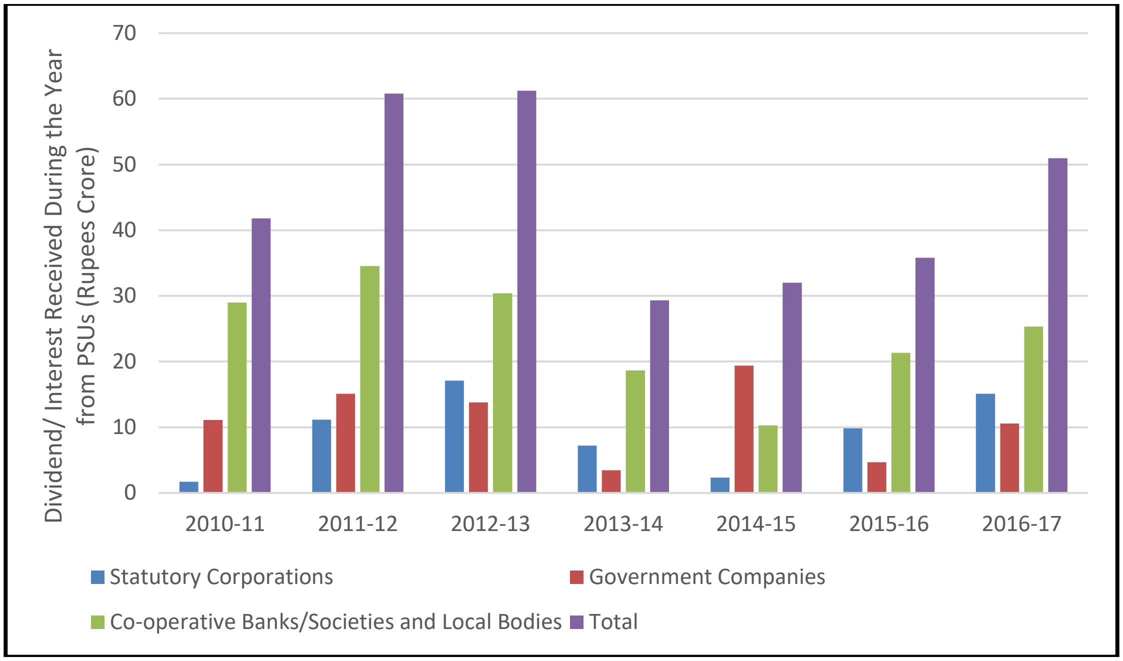



**Table 4.9: Dividend/ Interest Received During the Year from PSUs (Rupees Crore)**

| Year | Statutory Corporations | Government Companies | Co-operative Banks/Societies and Local Bodies | Total |
|---|---|---|---|---|
| 2010-11 | 1.69 | 11.12 | 28.99 | 41.8 |
| 2011-12 | 11.16 | 15.08 | 34.55 | 60.79 |
| 2012-13 | 17.09 | 13.76 | 30.41 | 61.26 |
| 2013-14 | 7.21 | 3.45 | 18.67 | 29.33 |
| 2014-15 | 2.34 | 19.41 | 10.27 | 32.02 |
| 2015-16 | 9.82 | 4.68 | 21.33 | 35.83 |
| 2016-17 | 15.09 | 10.55 | 25.34 | 50.98 |

*Source: Government of Sikkim, Budget in Brief, Various Years*

**Figure 4.6: Dividend/ Interest Received During the Year from PSUs (Rupees Crore)**




The disaggregate analysis of dividends and profits indicate a trend of declining dividends in all categories of public sector undertakings in the State. Major reforms are required on the State Public Sector Undertakings; otherwise they will remain as while elephants eating the public money. A detailed analysis of the working of the PSUs is undertaken in the forthcoming chapters.

**Major Findings**

- Initially non-tax revenue was increased, but in the subsequent years of the period of interest it has declined.
- Cost recovery is very low, and it has declined over the period of interest, and this decline is sharp for general case rather than economic and social case.
- There has been a significantly decline in the non-tax revenue as a percentage of GSDP of Sikkim.
- A large number of units in the public sector are under loss and the number of dividends andprofits realized is very low.

# CHAPTER - 5

# TOTAL EXPENDITURE: TREND AND PATTERN

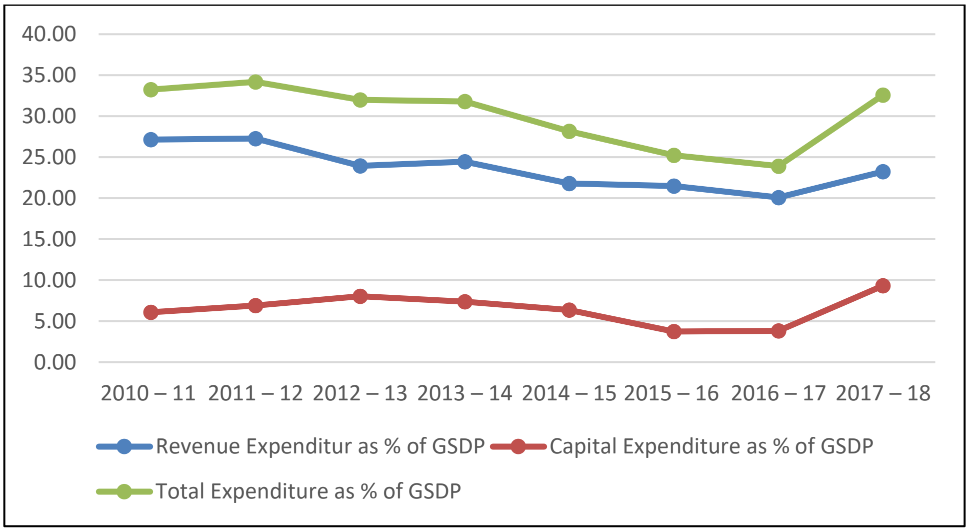
## 5.1 Introduction

Expenditure analysis is an import aspect of understanding the State finances. Since, expenditure would create an effect on the Fiscal and Revenue Deficits, it is important to understand its trend. Besides, since India is largely a welfare State, its provincial States are expected to follow suit. In this case, there would be a large amount spent on welfare and development. Hence, the State will also have a component of non-development expense. In this chapter the trends and pattern of expenditure of the State is being discussed.

## 5.2 Total Expenditure: Pattern and Trend

The total expenditure of the State has shown a rising trend. However, the Total Revenue Expenditure to GSDP has in the beginning increased and latter decreased. This is indicative of the fact that expenditure has a slower pace than income of the state. The average growth of total expenditure to GSDP is about 30.02 percent during the period of study. The state has a large share of expenditure in term of revenue expenditure. The revenue expenditure is about 81 percent and the Capital expenditure is about 19 percent. There is a decrease in Revenue expenditure to GSDP. The decrease in the Expenditure to GSDP both Capital and Revenue may have a negative repercussion on the development of the State. The pattern of expenditure can be seen in the figure 5.1 below.

**Figure 5.1: Government Expenditure as a percent of GSDP**




*Source: Budget Papers, Government of Sikkim*

**Table 5.1: Total Expenditure and its Components (Rs Crores)**

| | Year | Revenue Expenditure | Capital Expenditure | Total Expenditure | Total Expenditure as % of GSDP |
|---|---|---|---|---|---|
| **13th FC** | 2010 – 11 | 2011.93 (81.68) | 451.07 (18.31) | 2462.99 | 33.23 |
| | 2011 – 12 | 2429.61 (79.78) | 615.76 (20.21) | 3045.37 | 34.19 |
| | 2012 – 13 | 2507.39 (74.85) | 842.35 (25.14) | 3349.74 | 31.99 |
| | 2013 – 14 | 3025.06 (76.83) | 911.95 (23.16) | 3937.01 | 31.81 |
| | 2014 – 15 | 3356.64 (77.38) | 980.71 (22.61) | 4337.35 | 28.15 |
| | **Average** | **2666.13 (77.80)** | **760.37 (22.19)** | **3426.49** | **31.87** |
| **14th FC** | 2015 – 16 | 3644.58 (85.18) | 633.98 (15.97) | 4278.56 | 25.24 |
| | 2016 – 17 | 3788.08 (84.02) | 720.29 (15.97) | 4508.37 | 23.91 |
| | 2017 – 18 | 4873.86 (71.37) | 1954.31 (28.62) | 6828.17 | 32.58 |
| | **Average** | **4102.17 (78.81)** | **1102.86 (21.18)** | **5205.03** | **27.24** |
| **2010 – 11 to 2017 –18** | | **3204.64 (78.28)** | **888.80 (21.71)** | **4093.44** | **30.14** |

*Note: Figures in parentheses are as a % of Total Expenditure*
*Source: Various Budget Documents, Government of Sikkim*

As discussed earlier the declining trend is the result of slow growth of expenditure by the State. However, the expenditure of the State has hence picked up, though the Total revenue to GSDP remained sluggish. The expenditure has however picked up in comparison to the 13th FC period. Here it is of great importance, that the revenue expenditure pattern will remain a concern of the State.

**Table 5.2: Growth Rate of Expenditure**

| | Revenue Expenditure | Capital Expenditure | Total Expenditure | GSDP |
|---|---|---|---|---|
| **13th FC** | 13.89 | 22.28 | 15.34 | 20.25 |
| **14th FC** | 13.73 | 49.86 | 18.49 | 10.80 |
| **2010–11 to 2017–18** | 13.82 | 34.10 | 16.69 | 16.12 |

*Source: Budget Papers, Government of Sikkim*

## 5.2Composition of Expenditure

We than proceed to analyse the composition of the expenditure which is logical as we had discussed the total trend pattern. It is observed that almost all the expenses show a decreasing trend. The decrease is social service expenditure and education is noteworthy. However, expenses in Heath and Power shows an increasing trend.

**Table 5.3: Composition of Revenue Expenditure as a percent of Total Capital Expenditure**

| | **2010 – 2011** | **2011 – 2012** | **2012 – 2013** | **2013 – 2014** | **2014 – 2015** | **2015 – 2016** | **2016 – 2017** | **2017 – 2018** |
|---|---|---|---|---|---|---|---|---|
| General Services | 43.85 | 30.97 | 35.13 | 34.22 | 36.17 | 34.13 | 37.51 | 33.74 |
| Salary | 43.85 | 36.01 | 38.73 | 36.16 | 36.83 | 37.25 | 37.58 | 31.37 |
| Interest | 9.88 | 7.85 | 8.41 | 7.31 | 7.49 | 7.52 | 8.88 | 7.82 |
| Pensions | 7.96 | 7.15 | 8.98 | 8.61 | 9.92 | 11.04 | 11.79 | 10.21 |
| Social Services | 40.58 | 42.46 | 37.79 | 42.19 | 38.12 | 33.92 | 35.24 | 35.45 |
| Education | 26.83 | 19.47 | 20.45 | 20.83 | 21.20 | 20.71 | 19.75 | 18.36 |
| Health | 5.18 | 4.69 | 5.01 | 4.78 | 5.46 | 4.85 | 5.05 | 4.81 |
| Economic Services | 24.73 | 25.27 | 26.17 | 22.42 | 24.46 | 30.89 | 25.78 | 29.45 |
| Irrigation | 2.05 | 1.42 | 1.96 | 1.25 | 0.49 | 0.65 | 0.66 | 3.24 |
| Dairy | 0.05 | 0.10 | 0.12 | 0.06 | 0.11 | 0.15 | 0.02 | 0.02 |
| Power | 3.79 | 4.01 | 4.24 | 3.95 | 4.04 | 5.91 | 5.61 | 4.69 |
| Transport | 1.40 | 1.32 | 1.43 | 1.31 | 1.32 | 1.18 | 1.32 | 1.20 |

*Source: Budget Papers, Government of Sikkim*

**Table 5.4: Composition of Capital Expenditure as percent of Total Capital Expenditure**

| | **2010 – 2011** | **2011 – 2012** | **2012 – 2013** | **2013 – 2014** | **2014 – 2015** | **2015 – 2016** | **2016 – 2017** | **2017 – 2018** |
|---|---|---|---|---|---|---|---|---|
| **General Services** | **12.56** | **4.11** | **9.89** | **18.59** | **11.17** | **10.09** | **9.88** | **10.02** |
| **Social Services** | **36.77** | **45.00** | **34.57** | **29.19** | **27.51** | **31.67** | **33.77** | **37.75** |
| Education | 8.74 | 10.22 | 7.38 | 5.46 | 3.24 | 2.93 | 6.37 | 7.04 |
| Health | 7.06 | 15.84 | 12.03 | 10.25 | 6.25 | 10.44 | 10.12 | 11.96 |
| **Economic Services** | **50.67** | **50.89** | **55.54** | **52.22** | **61.32** | **58.24** | **56.35** | **52.23** |
| Roads & Bridges | 21.52 | 23.11 | 37.38 | 32.17 | 24.32 | 33.16 | 35.57 | 33.51 |
| Power | 7.29 | 6.11 | 5.18 | 7.27 | 3.31 | 5.91 | 8.03 | 7.64 |
| Tourism | 11.02 | 9.26 | 5.89 | 6.92 | 27.18 | 13.93 | 5.58 | 6.16 |

*Source: Budget Papers, Government of Sikkim*

On account of Capital expenditure economic services takes the bulk share (52.23 percent) of the State's budget. General services and Social services are the other two heads where capital expenditure shows a higher trend. Interestingly, Tourism which is one of the major sources of income for the State, the Capital expenses on it has decreased. The State being a hilly region, substantially capital expenses on road is observable.

## 5.3 Committed Expenditure

The committed expenditure of the State is largely induced in Salary about 37 percent followed by pension expenses which are on an average 11 percent. The committed expenditure on Interest is the lowest for the State. During both the FC i.e. 13 and 14 FC period the trend of the committed expenditure remained same. This is also expected to remain the same over the coming period.

**Table 5.5: Committed Expenditure of Government of Sikkim**

| Year | Revenue Expenditure | Salary | Interest payments | Pension | Total Committed Expenditure |
|---|---|---|---|---|---|
| 13th FC | 2666.13 | 1011.68 **(38.31)** | 214.65 **(8.19)** | 230.55 **(8.52)** | 1456.88 **(55.03)** |
| 14th FC | 4102.17 | 1436.61 **(35.39)** | 330.53 **(8.07)** | 448.84 **(11.01)** | 2215.98 **(54.48)** |
| 2010–11 to 2017–18(BE) | 3204.64 | 1171.03 **(37.22)** | 258.10 **(8.14)** | 312.41 **(9.45)** | 1741.54 **(54.82)** |

*Note: Figures in parentheses are as a % of Revenue Expenditure*
*Source: Budget Papers, Government of Sikkim*

Committed expenditure as a percent of the revenue receipts of the State is a Good indicator of the foreseen expenditure of the Government. Though, the ratio is high for the Salary, it has fallen in case of Interest Payment and Pension Payment. The fall in the ratio of Interest Payment to Revenue expenditure is indeed a positive indicator for the State.

The Committed expenditure in terms of revenue receipts have shown an increase from the 13 FC period to 14 FC period from 45 percent to 47 percent. The committed expenditure in terms of Salary and Pension remained high in comparison to interest payment.

**Table 5.6: Committed Expenditure as a percentage of Revenue Receipts**

| FC | Year | Salary | Interest payments | Pension | Total Committed Expenditure as a % of Revenue Receipts |
|---|---|---|---|---|---|
| 13th FC | 2010 – 11 | 41.01 | 9.24 | 7.44 | 57.69 |
| | 2011 – 12 | 30.46 | 6.64 | 6.05 | 43.15 |
| | 2012 – 13 | 29.53 | 6.41 | 6.85 | 42.79 |
| | 2013 – 14 | 28.09 | 5.68 | 6.69 | 40.47 |
| | 2014 – 15 | 30.25 | 6.15 | 8.15 | 44.55 |
| | **Average** | **31.87** | **6.83** | **7.04** | **45.73** |
| 14th FC | 2015 – 16 | 35.88 | 7.24 | 10.63 | 53.75 |
| | 2016 – 17 | 30.88 | 7.30 | 9.68 | 47.86 |
| | 2017 – 18 | 25.02 | 6.24 | 8.15 | 39.40 |
| | **Average** | **30.59** | **6.93** | **9.49** | **47.00** |

*Source: Budget Papers, Government of Sikkim*

**Table 5.7: Growth Rate of Committed Expenditure**

| Year | Salary | Interest Payments | Pension | Total of Committed Expenditure | Revenue Expenditure |
|---|---|---|---|---|---|
| 13th FC | 8.96 | 6.28 | 20.41 | 10.23 | 13.89 |
| 14th FC | 7.35 | 15.00 | 14.41 | 9.76 | 13.73 |
| 2010–11 to 2017–18(BE) | 8.27 | 10.02 | 17.84 | 10.03 | 13.82 |

*Source: Budget Papers, Government of Sikkim*

The growth rate of the committed expenditure is very important so far as the pressure on public finance is concerned. The State shows that from the 13$^{th}$ FC period to the 14$^{th}$ FC period the growth rate in Salary is the lowest followed by pension. This will definitely help the State to improve and consolidate its finances over a period time.

### 5.4 Development and Non-Development Expenditure

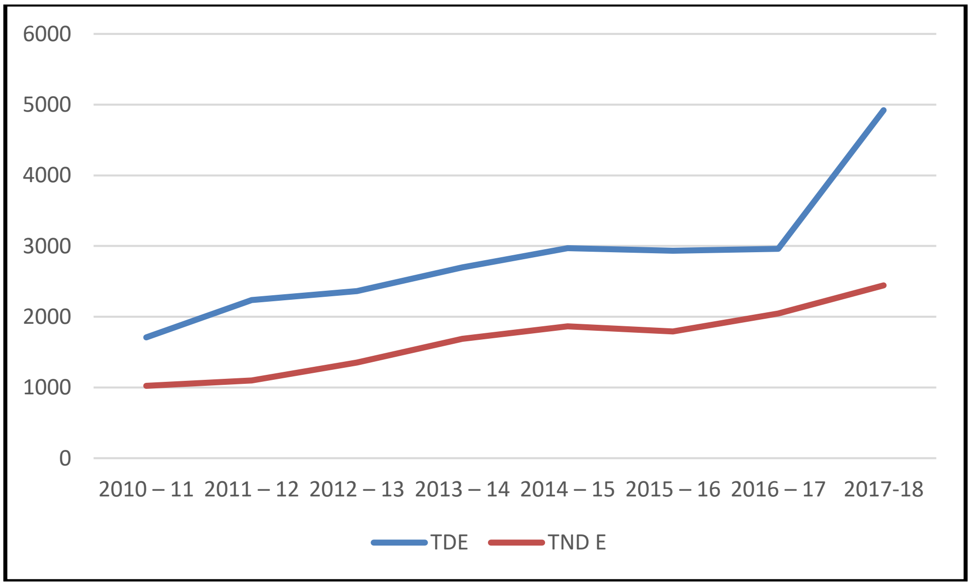
The expenditure of the Government can be classified as development and non- development expenditure. Expenditure pertaining to health, social services and economic activities are generally referred to as the development expenditure. Expenditure which is pertaining to general administration is referred to as non-development expenditure. The section that follows, try to analyse the expenditure of the State on this line.

**Table 5.8: Development and Non-Development Expenditure (In Rs. Cr)**

| | 13th FC | | | | | 14th FC | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 – 11 | 2011 – 12 | 2012 – 13 | 2013 – 14 | 2014 – 15 | 2015 – 16 | 2016 – 17 | 2017-18 | Average |
| **TDE** | 1708 | 2236 | 2362. | 2696 | 2971 | 2931 | 2960 | 4921 | 28487 |
| **TNDE** | 1023 | 1101 | 1353 | 1690 | 1863 | 1793 | 2046 | 2443 | 16645 |

*Note: TDE= Total Development Expenditure, TNDE= Total Non-Development Expenditure*
*Source: Budget Papers, Government of Sikkim*

**Figure 5.2: Trend of Development and Non-Development Expenditure**




*Source: Budget Papers, Government of Sikkim*

The total development revenue expenditure shows a rising trend in the 13FC period where as the trend in total non-development expenditure rises and then sharply fall in the end of the 13th FC and the period of 14th FC. The fall in non-development expenses which is largely administrative charges is a welcome aspect for the State.

**Table 5.9: Growth rate of Development and Non-Development Expenditure**

| | 13FC | 14FC | 2010-11 - 2017-18 |
|---|---|---|---|
| TDE | 0.73 | 0.67 | 1.88 |
| TNDE | 0.82 | 0.58 | 1.38 |

*Note: TDE= Total Development Expenditure, TNDE= Total Non-Development Expenditure*
*Source: Budget Papers, Government of Sikkim*

The percentage growth in development expenditure over the 13FC to 14.FC is 0.67 and during the period of 2010-11 to 2017-18 is 1.88. This is quite commendable as this means that the State has taken up substantial development work which was indicated earlier too. On the other hand, the TNDE has reduced in the two periods of FC's to 0.58 percent but overall increased by 1.3 percent in the period under study. It is important to note that the increase in development expenses is about 41% more than the non-development expenses.

## 5.5 Conclusion

Expense measurement and observation is an important aspect of the State finances. Higher expenses put pressure on the state budget. It is observed that the State expenses have gone up largely in the revenue segment. There is a decrease in Revenue expenditure to GSDP. The decrease in the Expenditure to GSDP both Capital and Revenue may have a negative repercussion on the development of the State. General services and Social services are the other two heads where capital expenditure shows a higher trend. The committed expenditure of the State is largely induced in Salary about 37 percent followed by pension expenses which are on an average 11 percent. The total development revenue expenditure shows a rising trend in the 13FC period where as the trend in total non-development expenditure rises and then sharply fall in the end of the 13$^{th}$ FC and the period of 14$^{th}$ FC.

**Major Findings**

- Over expenses has shown a declining trend in the Study period.
- The State Revenue expenses has been affected by revenue segment
- On the capital expenditure from the General Services and Social Services are the two heads which has affected the capital expenditure in an incremental way.
- There is a decrease in Revenue expenditure to GSDP.
- The committed expenditure of the State is largely induced in Salary and Pension expenses.
- The total development revenue expenditure shows a rising trend in the 13FC period where as the trend in total non-development expenditure rises and then sharply fall in the end of the $13^{th}$ FC and the period of $14^{th}$ FC.

# CHAPTER - 6

# ANALYSIS OF FISCAL AND REVENUE DEFICITS

## 6.1 Introduction

The Terms of References of Finance Commissions require them to review the State of finances, deficits and debt levels of the Union and the States. Keeping in view the fiscal consolidation roadmap as recommended by the 13th Finance Commission, the subsequent FCs are also entrusted to lay down a fiscal consolidation path for the States, which primarily requires them to eliminate their revenue account deficits completely and thereby bringing down the fiscal deficits to a level of 3% of their GSDP. The FCs are also mandated to recommend grants to cover Revenue Deficits of States. More specifically, most of the earlier FCs were asked to recommend grants to cover the Non-Plan Revenue Deficit of the States. After giving equalizing transfers through tax sharing, grants are given to cover the "projected" Revenue Deficits of States so that minimum levels of services can be provided in each State.

The 13$^{th}$and the 14$^{th}$ Finance Commissions projected the State of Sikkim to run revenue account surplus post devolution of taxes as Sikkim had managed to post revenue surpluses even in the period of the 12$^{th}$ FC. Hence, the respective FCs did not recommend any grants to cover the post-devolution Revenue Deficit. Moreover, the State has been able to meet the projected revenue surplus targets and in most of the years between 2010-11 and 2017-18 the actual revenue surplus surpasses the projections significantly. However, the total receipts were insufficient to meet the Revenue and Capital expenditure, thereby causing the State to have a fiscal deficit.

In this chapter, we examine the trends in the revenue and fiscal deficits of the State.

## 6.2 Definitions

Fiscal deficit is defined as the excess of Total Expenditure over the Total Receipts net of debt receipts of the Government. Thus, Fiscal Deficit (FD) reflects the total borrowing requirements of the Government of Sikkim.

The level of FD of a State indicates the quantum of debt required to balance its accounts and the amount of funds required to run the necessary organs of the State. The constituents of FD, especially the proportion of RD plays a quintessential role in the determination of the overall deficit. To the extent that if the proportion of RD in the overall deficit is high, in signifies the debt is taken by the Government is used for servicing current year expenses. On the other hand, if a larger proportion of the FD is created on the Capital Account, it indicates that the debt is taken by the Government to create long term assets, which in turn will create higher probability of the Government's debt to become productive and sustainable.

Thus,

FD = (Revenue Expenditure +Capital Expenditure) - (Revenue Receipts + Non-Debt creating Capital Receipts)

RD = (Revenue Expenditure) – (Revenue Receipts)

Table 6.1 and Figure 6.1 show the trends in RD and FD from 2010-11 to 2018-19 in Rs crores as well as a percentage of GSDP.

**Table 6.1: Revenue Deficit and Fiscal Deficit[1]from 2010-11 to 2018-19 (Rs Cr.)**

| Year | Revenue Surplus (+)/ Deficit (-) | Fiscal Surplus (+)/ Deficit (-) |
|---|---|---|
| 2010-11 | 139.78 (1.89) | -316.25 (-4.27) |
| 2011-12 | 442.49 (4.97) | -180.16 (-2.02) |
| 2012-13 | 780.97 (7.46) | -65.60 (-0.63) |
| 2013-14 | 868.48 (7.02) | -52.94 (-0.43) |
| 2014-15 | 731.00 (4.72) | -275.40 (-1.79) |
| 2015-16 | 139.71 (0.82) | -519.93 (-3.07) |
| 2016-17 | 822.23 (4.36) | 86.31 (0.46) |
| 2017-18 (RE) | 1236.53 (5.90) | -734.00 (-3.5) |
| 2018-19 (BE) | 624.66 (2.70) | -694.01 (-3.00) |

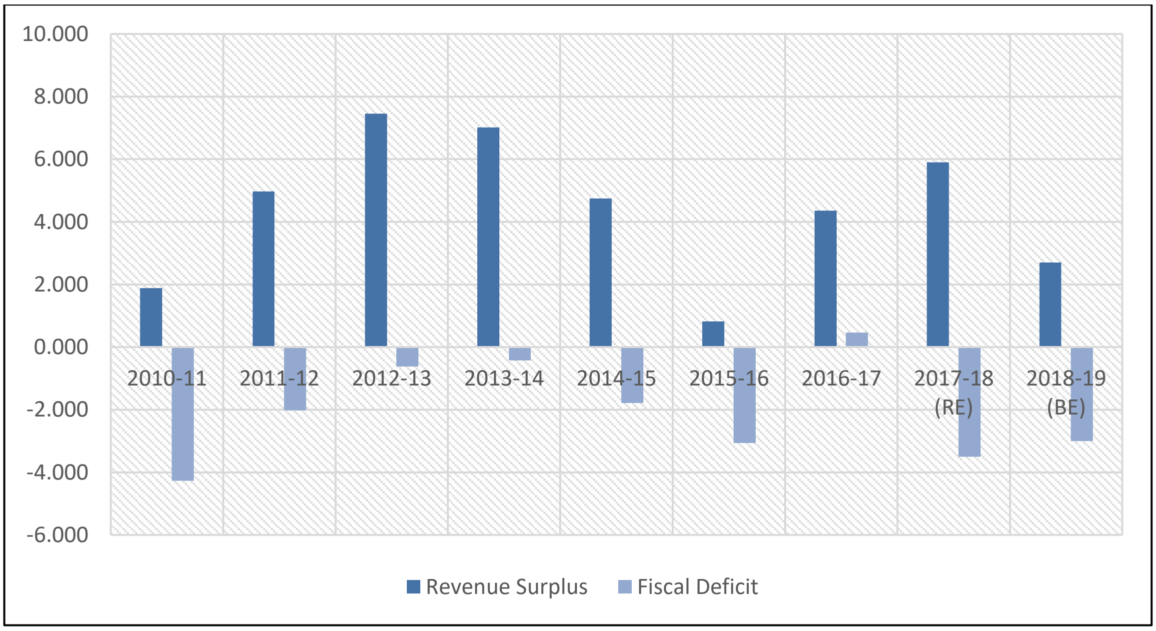
*Note: Figures in parentheses indicate percentage of GSDP*
*Source: Various Budget Documents, Government of Sikkim*

[1] In this chapter, deficits have been denoted in negative signs and surpluses have been denoted in positive signs.

### 6.3 Trends in Revenue Deficit in Sikkim

The variations in Revenue Deficit/Surplus for the State of Sikkim from 2010-11 to 2018-19 has been presented in Table 6.1 and the trend can be visualised from Figure 6.1 which depicts the Revenue Deficit/Surplus for the given years as a % of the State's GSDP. It can be clearly observed from the table that the State has managed to post surpluses in the Revenue Account in all the years under study. The State witnessed a sharp rise in Revenue Surplus (RS) from Rs 139.78 Cr in 2010-11 to Rs 442.49 Cr in 2011-12 and this trend in sharp rise continued till 2012-13. In 2013-14 and 2014-15 we can see a slight drop in RS and in 2015-16 the surplus plunged to a record low of Rs 139.71 Cr to again rise in the subsequent years thereafter. This sharp rise in the RS values can be broadly attributed to a significant jump in grants from the central government, which increased from Rs1105 Cr in 2010-11 to Rs1722 Cr in 2011-12, further continuing its rise to Rs 2426 in 2014-15 while other constituents of the Revenue Account kept rising at a proportionately similar pace. From 2015-16 onwards the central government grants decreased drastically to Rs934 Cr in 2015-16, Rs1436 Cr in 2016-17 and Rs2470 Cr in 2017-18, which explains the sudden plunge in RS in 2015-16 to again rise in the subsequent years. A similar trend can be observed for the RS as a % of GSDP, as it corroborates the above analysis of the absolute surplus figures and it proves that the State's GSDP grew at similar pace during the period of study.

**Figure 6.1: RD, FD (% of GSDP) from 2010-11 to 2018-19**



If we were to arrange this data as per the period of different FCs, some interesting facts emerge, the period of the 13th FC posts a Revenue Surplus of Rs 592.55 Cr which accounts for 5.21 of the GSDP while the average surplus increased to Rs705 Cr in the period of the 14th FC which accounted for 3.45 % of the GSDP. This highlights the fact that the average growth rate of GSDP in the period of 14th FC outpaced the average increase in the surplus in the State's Revenue Account. The average RS stood at Rs 642.87 and4.43 % as percentage of GSDP for the period 2010-11 to 2018-19

**Table 6.2: Revenue Deficits (Rs Cr.) and % to GSDP arranged by FCs**

| FC | Average Revenue Surplus (+)/ Deficit (-) | % to GSDP |
|---|---|---|
| 13th FC | 592.55 | 5.21 |
| 14th FC (2015-16 to 2018-19 (BE)) | 705.78 | 3.45 |
| 2010-11 to 2018-19 (BE) | 642.87 | 4.43 |

### 6.4 Approach of FCs to cover the Revenue Deficits of States

All Finance Commissions up to the 13th FC were mandated to give grants-in-aid to cover, amongst other heads, the Non-Plan Revenue Deficit (NPRD). Apart from the NPRD, FCs have also given sector-specific grants reflective of the mandates given to them in respective ToRs. State-specific grants have also been given by various FCs up to the 12th FC. The rationale for providing State-specific grants was as follows. Tax devolutions were based on certain criteria such as income distance, population etc. and hence did not cover cost disabilities of States. Tax devolutions also normally did not account for expenditure profligacy of States or for differentials in the tax-GSDP ratios of particular States. State-specific grants allow equalization across these kinds of differentials. Since the 12thFC, grants-in aid has also been given for local bodies. The approach of the 14thFC has been different from its predecessors in a number of ways. The 14th FC increased the tax devolution share of States from 32 per cent to 42 per cent. In the formula to calculate share of States inter-se, assessments of taxes and expenditures included variables that would capture economy in expenditure and measures taken to improve tax collection. This would eliminate the need to give State specific transfers. The 14th FC also did not give any sector specific transfers. This decision was based on its view that there were other channels (such as Centrally Sponsored Schemes) through which sector specific transfers could be given. Further, the FC observed that multiple channels of supporting social sectors led to gaps in monitoring and evaluation of the same. Hence, the14th FC discontinued all sector-specific as well as State-specific grants. After working out the post-devolution Revenue Deficits of States, general purpose grants would be given to cover the same. Apart from grants to fill the RDs (only eleven States were estimated to be in deficits), the14th FC has only given grants for local bodies and for Disaster Management.

### 6.5 Comparison of RD Projections given by13th, and 14thFC to Actual RD

In this section, we compare the Revenue Deficits for Sikkim as estimated by the 13th and 14th FC for the purpose of giving gap-filling grants to the actual Revenue Deficit/Surplus position experienced by the State.

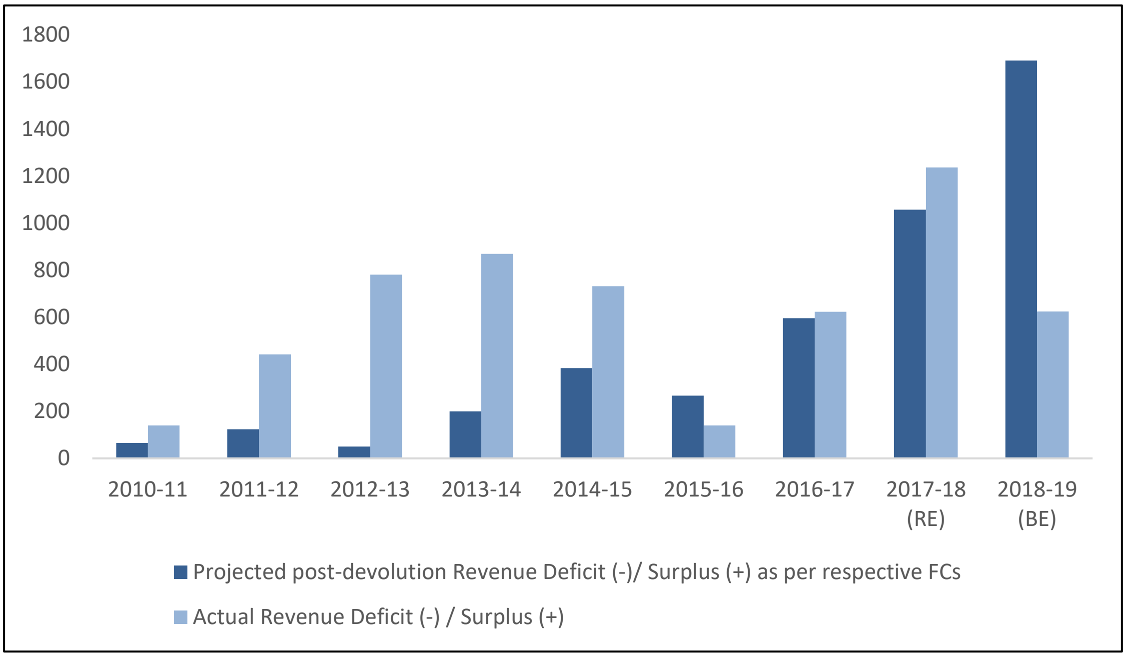
**Table 6.3: Post-devolution Revenue Deficit (-) or Surplus (+) as estimated by 13th and 14th FCs, Grants given to Sikkim to cover RD, Actual Revenue Account Position of the State (Rs Cr.)**

| Year | Projected post-devolution Revenue Deficit (-)/ Surplus (+) as per respective FCs | Grants given to cover Revenue Deficit | Actual Revenue Deficit (-) / Surplus (+) |
|---|---|---|---|
| 2010-11 | 65 | 0 | 139.78 |
| 2011-12 | 124 | 0 | 442.49 |
| 2012-13 | 50 | 0 | 780.97 |
| 2013-14 | 200 | 0 | 868.48 |
| 2014-15 | 383 | 0 | 731.00 |
| 2015-16 | 266 | 0 | 139.71 |
| 2016-17 | 595 | 0 | 622.23 |
| 2017-18 (RE) | 1057 | 0 | 1236.53 |
| 2018-19 (BE) | 1691 | 0 | 624.66 |
| 2019-20 | 2572 | 0 | N/A |

*Source: Various Budget Documents, Government of Sikkim and 13th and 14th FC Reports*

The Table 6.3 presents the projected Revenue Surplus by the 13th and 14th FCs and the actual revenue Surplus achieved by the State of Sikkim from 2010-11 to 2019-20. We can observe that both the 13th and the 14th FC projected that the State would achieve Revenue Account surplus due to its administrative measures, in all the years under their preview and therefore did not allocate any grant to cover the Revenue Account deficit. Interestingly the State managed to out pass the Revenue Surplus projections of the 13th FC and in case of the 14thFC the actual surplus figures were somewhat similar to the projections which can be visualised from the Figure 6.2. The Probable reason for the actual surplus figures not to significantly exceed the projections may be the projected amounts were significantly high and the 14th FC also had cut down on the grants thereby reducing the level of Revenue Surplus.

**Figure 6.2: Post-devolution Revenue Surplus as estimated by 13th and 14th FCs Vs Actual Revenue Surplus achieved by the State of Sikkim**




### 6.6 Trends in Fiscal Deficit in Sikkim

We now examine the trends and patterns in the fiscal deficit (FD) position of the State from 2010-11 to 2018-19 (BE). Examination of FD helps in understanding how the debt position of the State has changed over a period of time. This analysis serves as a useful building block in ultimately commenting on the debt sustainability of the State.

From the Table 6.1 Figure 6.1 we can observe that the State's fiscal position improved from 2010-11 onwards as the Fiscal deficits declined from Rs -316.25 Cr in 2010-11 to -52.94 Cr in 2013-14 in absolute terms and from -4.27 % to -0.43 % (Figure 6.1) as a percentage of the GSDP. In this particular period the State's Revenue Surplus saw a sharp increase resulting from significant central grants therefore enhancing the Revenue Receipts, which forms a significant proportion of the Total Receipts thereby bringing down the overall fiscal deficit. Similarly, as the surplus in the revenue account declined in 2014-15 and 2015-16 the fiscal deficits also started surging. It was only in the year 2016-17 that the State recorded a Fiscal Surplus of Rs86.31 Cr for the first time largely because of increase in the Revenue Surplus.

**Table 6.4: Fiscal Deficits (Rs Cr.) and % to GSDP arranged by FCs**

| FC | Average Fiscal Surplus (+)/ Deficit (-) | % to GSDP |
|---|---|---|
| 13th FC | -178.07 | -1.83 |
| 14th FC (2015-16 to 2018-19 (BE)) | -465.41 | -2.28 |
| 2010-11 to 2018-19 (BE) | -305.78 | -2.03 |

Source: GOS, Budget in Brief, Various Years

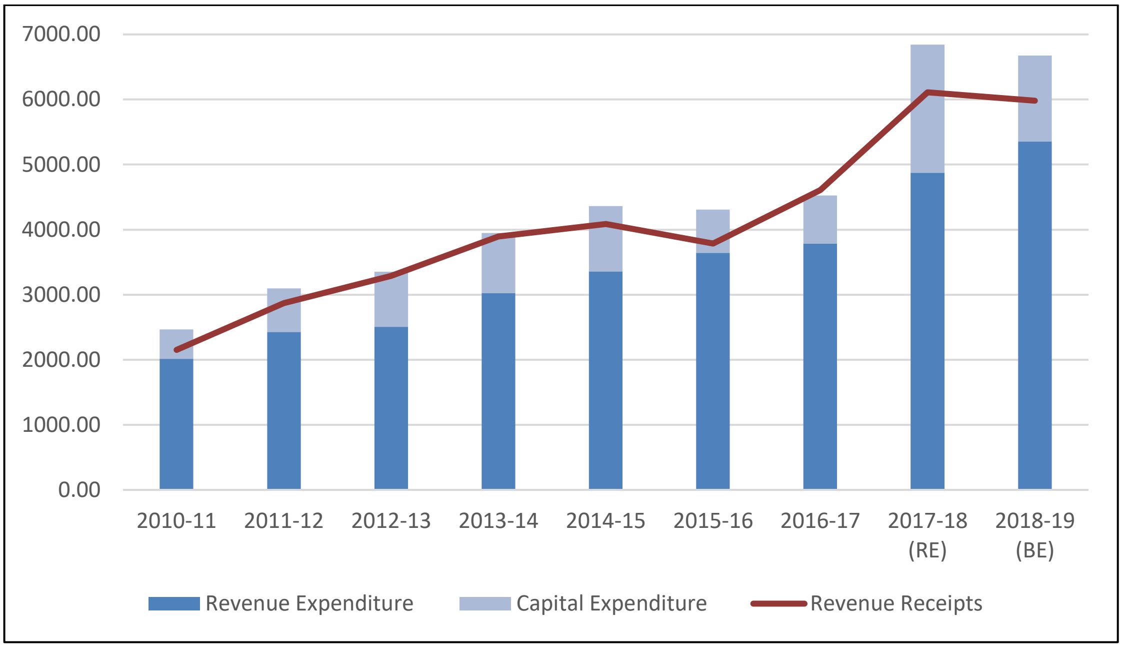
If we arrange the Fiscal Deficits of the State according to the period of the respective FCs (Table 6.4) we can observe that the 13th FC period recorded an average FD of -178 Cr which was -1.83 % of the GSDP. The average FD increased to -465 Cr during the period of 14th FC in absolute terms and to -2.28 % of the GSDP. The average FD for the period 2010-11 to 2018-19 stands at Rs -305 Cr or -2.03 % of GSDP, which is well within the limits prescribed in the State's FRBM Act of 2010.

### 6.7 Trends in Revenue Receipt

As we have observed in our analysis of Revenue and Fiscal Deficits, the quantum of Revenue Receipt received by the State plays a quintessential role in the determination of the Revenue and Fiscal Deficit as the Revenue Receipt forms the most significant part of total receipts net of debt receipts of the government.

From the Figure 6.3 we can observe an upward trend in the total Revenue Receipts by the State from 2010-11 to 2014-15 majorly due to a sharp rise in Grants from the Central government which includes both grants under FC and grants other than FC. In this particular period the fiscal indicators drastically improved for the State as the Revenue Surplus kept increasing sharply during the period resulting in significant decline in the Fiscal Deficit. In the period from 2015-16 onwards the Revenue Receipts did not increase proportionately as compared to the increase in both revenue and capital expenditure, therefore the Revenue Receipts were not enough to contain the Fiscal Deficit as it was the case in the earlier period.

**Figure6.3: Revenue Receipts compared to the Revenue Expenditure and Capital Expenditure of Sikkim from 2010-11 to 2018-19 (Rs Cr.)**




Thus, in the 14th FC period the Fiscal Deficits have worsened as the Revenue Deficits have decreased from the 13th FC period for the State of Sikkim. Debt taken by the Government of Sikkim and the usage to which it is put is a relevant issue from an FC perspective since it ultimately helps us to assess sustainability of debts. We will hence explore this issue more deeply in the next Chapter.

**Major Findings**

- Sikkim has managed to post Revenue Surplus in all the periods of $13^{th}$ and the $14^{th}$ FC
- The State of Sikkim is heavily dependent on the Grants from the Central government, to the extent that as the grants started to decline from the period of $14^{th}$ FC the level of Revenue Surplus also started to fall. Therefore, in order to achieve the RS target of 7% the State needs additional grants from the Government of India.
- The State is already in the path of fiscal consolidation and has managed to limit the Fiscal Deficit as a % of GSDP 2.28 % which is well within the target of 3.5%.

# CHAPTER - 7

# THE LEVEL OF DEBT

## 7.1 Introduction

The Finance Commissions are mandated to keep a check and assess the sustainability of the debt taken by the States at regular intervals. As the debt stock of a state goes up, it creates a pressure on the interest payments, thereby causing Revenue Deficits in the current year. Given that the FCs are required to fill revenue account gaps, they are particularly sensitive to factors such as debt that could put the revenue account into a deficit position.

In this chapter, we examine the trends and patterns in the debt taken by the Government of Sikkim for the period of 2005-06 to 2018-19 (BE).

## 7.2 Definitions

We classify the total debt stock of the Government of Sikkim as per the Overall Debt Position as reported by the Finance Department, in the Budget Documents. Following are the main components of the total debt stock (1+2+3):

1. Public Debt (a + b)

a. Internal Debt (Market Loans, WMA from the RBI, Negotiated loans from Banks and FIs)

b. Loans and Advances from the Central Government

2. Provident fund, Small Savings etc.

3. Other interest-bearing obligations (a + b)

a. Reserve funds

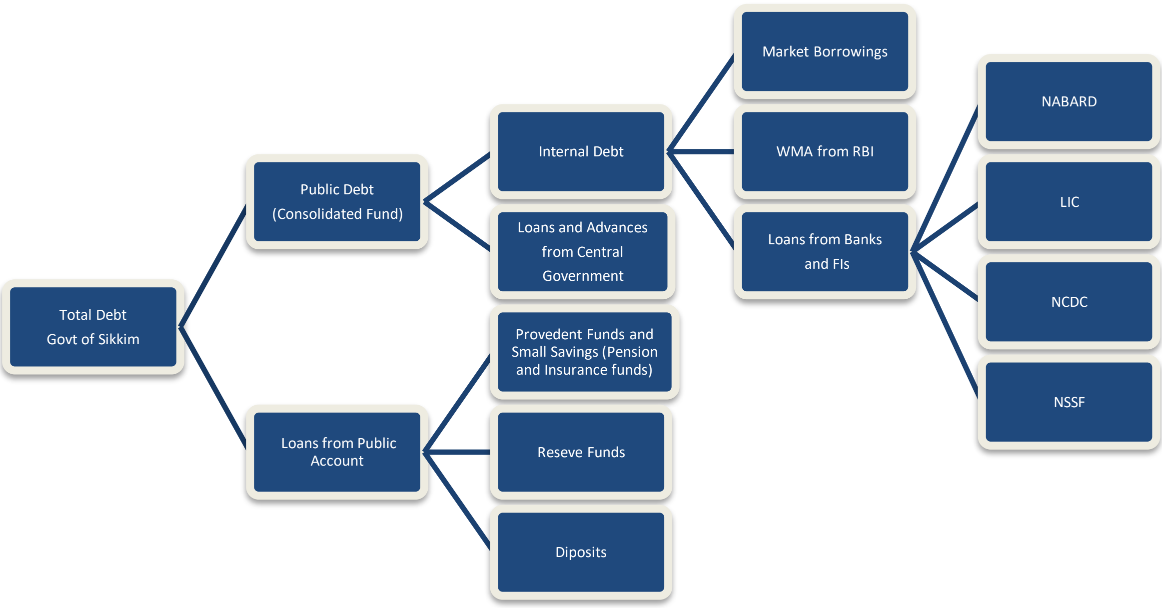
b. Deposits bearing interest

All loans raised under the head "Public Debt" are part of the Consolidated Fund of the State which is established under Article 266 (1) of the Constitution. Article 266 (2) provides for setting up the Public Fund. Moneys in the Public Account are those funds wherein the Government acts like a banker and are not subject to vote by the State Legislature. Receipts and disbursements pertaining to Provident funds, Small Savings (Insurance funds and Pension funds), Reserve Funds and Deposits and Advances (Civil deposits, deposits made by

PRIs etc.) are part of the Public Account. Since data on debt taken from Provident Funds and Small Savings under Public Account are reported separately from other interest-bearing obligations by the Government, we follow the same convention.

The Figure 7.1 gives a clear illustration of the components of the Total Debt Stock of the Government of Sikkim.

**Figure 7.1: Components of the Total Debt Stock of Government of Sikkim**




## 7.3 Trends and Pattern of Total Debt Stock and its components

Tables 7.1 and Figure 7.2 illustrates the components of total debt stock of the government of Sikkim. On an average Public Debt accounts for nearly 70 per cent. Borrowings from Provident funds and small savings account for 19 per cent of total debt stock. Borrowings from other interest-bearing liabilities (Reserve Funds and Deposits) account for 11 per cent. Thus, the debt from Public Accounts (Provident Funds and Small Savings, Reserve Funds and Deposits) accounts for 30 per cent of the total debt stock of the state of Sikkim. Of the debt from the Public Account, Reserves and Deposits show an upward trend as it increased from around 8 % in 2005-06 to 12 % in 2018-19 while in contrast the proportion of Provident fund debt declined from 23.29 % in 2005-06 to 13.86%. If we were to arrange the proportions of each debt component according to the period of FCs, we would observe that the Public Debt has a predominant share in the total debt stock followed by borrowings from Provident Fund and other Interest-bearing Obligations.

**Table 7.1: Total Debt Stock and Components (Rs. crores) from 2005-06 to 2018-19**

| YEAR | (1) Public Debt | (2) Provident Funds etc | (3) Other Interest-bearing Obligations | Total Debt Stock (1+2+3) |
|---|---|---|---|---|
| 2005-06 | 896.88 (68.53) | 304.87 (23.29) | 107.00 (8.18) | 1308.75 |
| 2006-07 | 1000.59 (69.60) | 321.13 (22.34) | 115.84 (8.06) | 1437.56 |
| 2007-08 | 1224.67 (71.11) | 335.11 (19.46) | 162.43 (9.43) | 1722.21 |
| 2008-09 | 1485.85 (72.48) | 366.18 (17.86) | 197.94 (9.66) | 2049.97 |
| 2009-10 | 1791.68 (74.03) | 411.75 (17.01) | 216.76 (8.96) | 2420.19 |
| 2010-11 | 1813.48 (70.16) | 510.28 (19.74) | 261.05 (10.10) | 2584.81 |
| 2011-12 | 1852.26 (66.42) | 578.80 (20.76) | 357.55 (12.82) | 2788.61 |
| 2012-13 | 1977.96 (66.13) | 624.15 (20.87) | 388.79 (13.00) | 2990.90 |
| 2013-14 | 2185.54 (65.62) | 685.64 (20.59) | 459.36 (13.79) | 3330.55 |
| 2014-15 | 2510.30 (66.24) | 710.20 (18.74) | 568.98 (15.01) | 3789.47 |
| 2015-16 | 2969.06 (68.76) | 747.85 (17.32) | 601.39 (13.93) | 4318.30 |
| 2016-17 | 3506.13 (68.96) | 831.15 (16.35) | 747.18 (14.70) | 5084.45 |
| 2017-18 (RE) | 4208.58 (71.91) | 844.25 (14.42) | 800.12 (13.67 | 5852.94 |
| 2018-19 (BE) | 4861.77 (73.45) | 917.35 (13.86) | 840.12 (12.69) | 6619.23 |

*Source: Various Documents, Government of Sikkim*

**Figure 7.2: Components of Total Debt Stock from 2005-06 to 2018-19 (Rs. Cr.)**

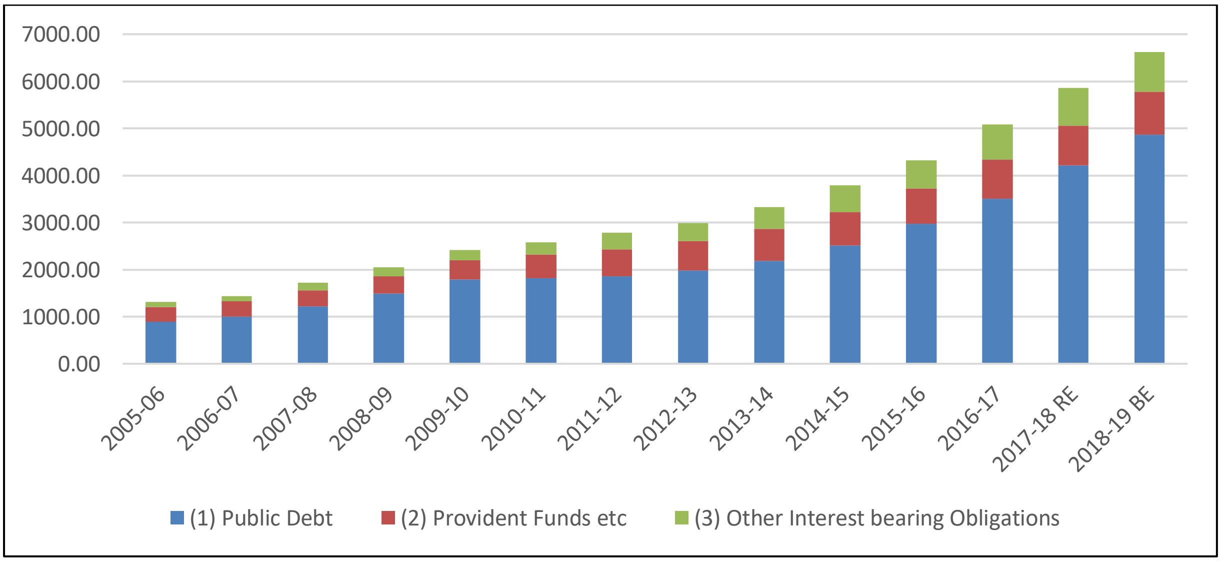


**Table 7.2: Total Debt Stock and Components by FCs (Rs. Cr.)**

| | | (1) Public Debt | (2) Provident Funds etc | (3) Other Interest-bearing Obligations | Total Debt |
|---|---|---|---|---|---|
| 12th FC | Mean | 1279.93 | 347.81 | 159.99 | 1787.74 |
| | % to Total Debt | 71.15 | 19.99 | 8.86 | |
| 13th FC | Mean | 2067.91 | 621.81 | 407.15 | 3096.87 |
| | % to Total Debt | 66.92 | 20.14 | 12.95 | |
| 14th FC 2015-16 to 2016-17 | Mean | 3886.39 | 835.15 | 747.20 | 5468.73 |
| | % to Total Debt | 70.77 | 15.49 | 13.75 | |
| 2005-06 to 2018-19 | Mean | 2306.05 | 584.91 | 416.04 | 3307.00 |
| | % to Total Debt | 69.53 | 18.76 | 11.71 | |

### 7.4 Public Debt

We now analyse further the composition of Public Debt as well as debt taken from Public Accounts. Public debt is made up of internal debt and loans and advances from the Central Government. The Table 7.3 we can observe that the state's overall debt from the Public Debt has remained somewhere around 70 % throughout the period of study i.e. 2005-06 to 2018-19. However, the composition of debt from the Public Debt has changed over time and also under different FCs. In the year2005-06 the share of Internal Debt and other stood at around 64 % while Loans and Advances from Central Government had a share of around of 36 %. In the year 2018-19 the share of Internal Debt rose to 98 % while the share of central loans fell to around 2 %. The interest burden on central loans are generally lower than the interest obligation of market loans which forms the Internal Debt, therefore interest burden from Public Debt also has risen during the period of study which ultimately increases the overall interest burden on the debt stock of the state.

**Table 7.3: Composition of Public Debt**

| | | Internal Debt to Public Debt (%) | Loans and advances from Central Government to Public Debt (%) |
|---|---|---|---|
| 12th FC | 2005-06 | 63.47 | 36.53 |
| | 2006-07 | 67.53 | 32.47 |
| | 2007-08 | 74.21 | 25.79 |
| | 2008-09 | 79.80 | 20.20 |
| | 2009-10 | 84.28 | 15.72 |
| 13th FC | 2010-11 | 91.19 | 8.81 |
| | 2011-12 | 91.52 | 8.48 |
| | 2012-13 | 92.46 | 7.54 |
| | 2013-14 | 94.19 | 5.81 |
| | 2014-15 | 95.18 | 4.82 |
| 14th FC | 2015-16 | 96.16 | 3.84 |
| | 2016-17 | 96.85 | 3.15 |
| | 2017-18 RE | 97.62 | 2.38 |
| | 2018-19 BE | 98.15 | 1.85 |

*Source: Various Documents, Government of Sikkim*

**Table 7.4: Composition of Public Debt by FC**

| | Internal Debt to Public Debt (%) | Loans and advances from Central Government to Public Debt (%) |
|---|---|---|
| 12th FC | 73.86 | 26.14 |
| 13th FC | 92.91 | 7.09 |
| 14th FC | 97.19 | 2.81 |
| 2005-06 to 2018-19 | 87.33 | 12.67 |

### 7.5 Loans taken in Public Accounts

The state's overall debt from the public account has remained somewhere around 30 % throughout the period of study i.e. 2005-06 to 2018-19. However, the composition of debt from the public account has changed over time and also under different FCs. In the year2005-06 the share of provident funds and other small savings stood at around 74 % while Reserve Funds and Deposits had a share of around of 20 % and 5 % respectively. In the year 2018-19 the share of provident funds fell to 52 % while the share of reserve Funds and Deposits rose to 34 % and 13 % respectively. The interest burden on Reserve Funds and Deposits are generally lower than the interest obligation of provident funds, therefore interest burden from public account debt also fell which ultimately lowers the overall interest burden on the debt stock of the state.

**Table 7.5: Share of Components (%) within Debt from Public Accounts**

| Ratios to Debt from Public Account | | | |
|---|---|---|---|
| **YEAR** | **Provident Funds and Small Savings** | **Reserve Funds** | **Deposits** |
| 2005-06 | 74.02 | 20.16 | 5.81 |
| 2006-07 | 73.49 | 19.78 | 6.73 |
| 2007-08 | 67.35 | 26.01 | 6.63 |
| 2008-09 | 64.91 | 25.25 | 9.84 |
| 2009-10 | 65.51 | 24.08 | 10.40 |
| 2010-11 | 66.16 | 22.77 | 11.07 |
| 2011-12 | 61.81 | 27.15 | 11.04 |
| 2012-13 | 61.62 | 24.29 | 14.10 |
| 2013-14 | 59.88 | 27.35 | 12.77 |
| 2014-15 | 55.52 | 33.66 | 10.82 |
| 2015-16 | 55.43 | 32.71 | 11.86 |
| 2016-17 | 52.66 | 32.13 | 15.21 |
| 2017-18 RE | 51.34 | 34.06 | 14.60 |
| 2018-19 BE | 52.20 | 34.14 | 13.66 |

*Source: Various Documents, Government of Sikkim*

### 7.6 Interest Payments to Revenue Expenditure

From the table 7.6 we can observe that the level interest payments have risen during the years 2010-11 to 2017-18 in absolute terms as the level of debt kept on piling up in the said period. However, the Interest Payments as a ratio of the revenue Expenditure show a declining trend, as it fell from 9.8 % in 2010-11 to 7.6 % in 2017-18. This can be further highlighted by clubbing the periods according to the different Finance Commissions, wherein it can be observed the Interest Payments as a percentage of the Revenue Expenditure has declined from 8.29 % in the 13$^{th}$ FC to 8 % in the 14$^{th}$ F. This is an encouraging indicator of fiscal responsibility since the state's interest burden has fallen with respect to its Revenue Expenditure.

**Table 7.6: Interest payments as a percentage of Revenue Expenditure (2010-11 to 2017-18)**

| Year | Interest Payment | Revenue Expenditure | Interest Payment as % of Revenue Expenditure |
|---|---|---|---|
| 2010-11 | 198.77 | 2011.93 | 9.88 |
| 2011-12 | 202.83 | 2429.61 | 8.35 |
| 2012-13 | 210.92 | 2507.39 | 8.41 |
| 2013-14 | 221.16 | 3025.06 | 7.31 |
| 2014-15 | 251.55 | 3356.64 | 7.49 |
| 2015-16 | 274.07 | 3644.58 | 7.52 |
| 2016-17 | 336.39 | 3788.08 | 8.88 |
| 2017-18 (RE) | 374.66 | 4873.86 | 7.69 |

*Source: Various Documents, Government of Sikkim*

**Table 7.7: Interest Payments as a Percentage of Revenue Expenditure (Arranged by FC)**

| | Interest Payment as % of Revenue Expenditure (Average) |
|---|---|
| 13th FC | 8.29 |
| 14th FC 2015-16 to 2017-18(RE) | 8.03 |
| 2010-11 to 2017-18(RE) | 8.19 |

### 7.7 Public Debt to GSDP

The legal framework for total debt of the Government of Sikkim is the Sikkim Fiscal Responsibility and Budgetary Management Act (FRBM) 2010. The FRBM envisaged adherence to the following three objectives in order to bring about fiscal prudence in budgetary management.

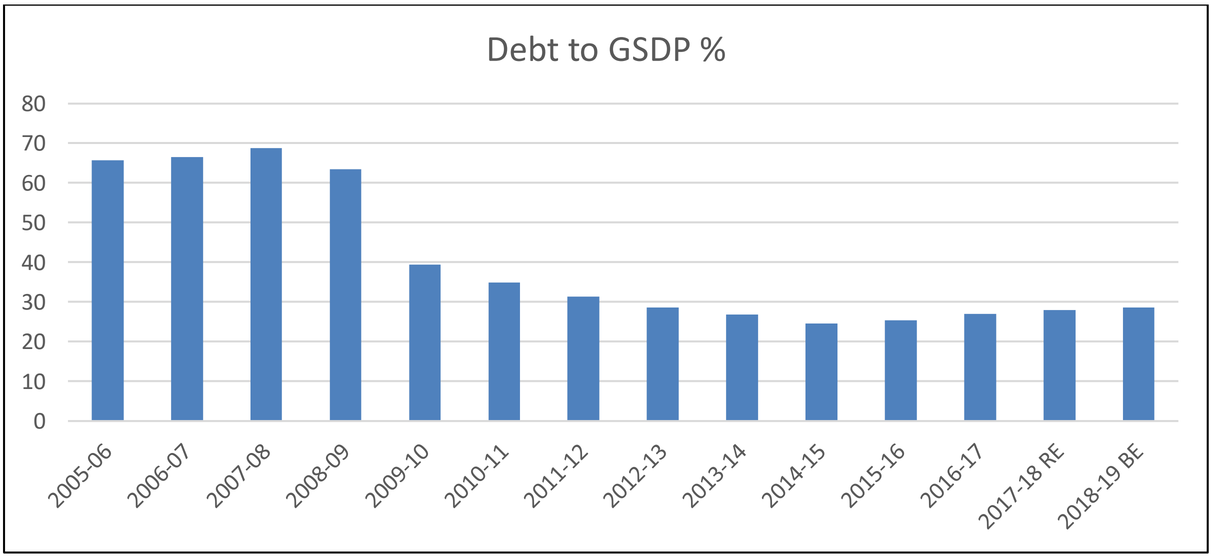
- Progressive elimination of Revenue Deficits
- Reduction in Fiscal Deficits
- Prudent Debt Management for fiscal sustainability

Under the Guidelines given in 2010, the State Government was given the target of maintaining the Public Debt to GSDP up to 25 per cent in 2011-12. From 2015-16 to 2017-18, the State Government was to bring the Public Debt to GSDP ratio to 26 per cent from the level of 39% in the period of 13th FC. We find that the debt management of the Government of Sikkim has come a long way close to the set target.

Table 7.8 indicates that the total debt stock of the Government of Sikkim to GSDP shows a secular fall from an average of 60 per cent during the 12th FC period to an average of 26 per cent in the 14th FC period. This is has come considerably close to the limits set by the Sikkim FRMB Act 2010.

Although the total debt has risen in absolute terms (Table 7.1) and yet has fallen as a percentage of GSDP (Table 7.8), the elasticity of total debt with respect to GSDP is lesser than 1 during the whole period under study. We show the elasticities of the different components of total debt in the following table (Table 7.9).

**Figure 7.3: Debt to GSDP % (2005-06 to 2018-19)**




As was expected, the elasticity of the total debt stock stands at 0.25, indicating that the rate of growth in Debt stock has been far lesser as compared to the growth rate of the GSDP. It is interesting to note that the elasticity of total Debt stock is higher in the period of the 14th FC (0.37) as compared to the 13th FC. This implies that the debt stock rose lesser than proportionately with respect to the GSDP in that period.

**Table 7.8: Debt Stock and Components as a percentage to GSDP (2005-06 to 2018-19) by FCs**

| Percentage to GSDP | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | (1) Public debt (a+b) | (a) Internal debt of the State Government | (b) Loans and Advances from the Central Government | (2) Provident Fund etc | (3) other interest-bearing obligations (a+b) | (a) Reserve fund | (b) Deposits | Total Debt Stock:(1)+(2)+(3) |
| 12th FC | 43.080 | 31.487 | 11.593 | 12.316 | 5.375 | 4.042 | 1.333 | 60.771 |
| 13th FC | 19.621 | 18.190 | 1.431 | 5.899 | 3.731 | 2.580 | 1.151 | 29.250 |
| 14th FC | 18.055 | 17.426 | 0.629 | 4.410 | 3.755 | 2.647 | 1.109 | 26.221 |

**Table 7.9: Elasticities of Debt Stock and Components with respect to GSDP (2005-06 to 2018-19) by FCs**

| | 12th FC | 13th FC | 14th FC | 2005-06 to 2018-19 |
|---|---|---|---|---|
| **(1) Public debt (a+b)** | 0.216 | 0.087 | 0.306 | 0.187 |
| **(a) Internal debt of the State Government** | 0.227 | 0.092 | 0.310 | 0.199 |
| **(b) Loans and Advances from the Central Government** | -0.011 | -0.005 | -0.004 | -0.011 |
| **Public Account Debt (1+2)** | 0.052 | 0.064 | 0.066 | 0.064 |
| **(2) Provident Fund etc** | 0.026 | 0.025 | 0.027 | 0.029 |
| **(3) other interest-bearing obligations** | 0.027 | 0.039 | 0.039 | 0.035 |
| **Total Debt Stock:(1)+(2)+(3)** | 0.268 | 0.151 | 0.372 | 0.251 |

If we do a component-wise analysis of the elasticity of the total debt stalk, we can observe that growth in public debt rose at a lesser pace with comparison to GSDP from FC 12th to FC 13th. However, the elasticity of public debt increased in the period of 14th FC, which indicates that the public debt grew at a slightly faster pace but still less than the growth rate of GSDP.

In the case of Debt from public account, we see a rise in the elasticity over the period of the FCs but sill at an insignificant level.

This is consistent with our observation in Chapter 5 that the Fiscal Deficit (which indicates the changes in debt stock or total borrowings of the Government) increased in the period under the 14th FC.The above table also shows that the elasticity associated with loans from Public Account is considerably lower than that associated with Public Debt. This implies that the growth rate of loans from Public Accounts has been much lesser than the growth rate of Public Debt.

**7.8 Sustainability of Debt**

In this Section we analyse the sustainability of debt taken by the Government of Sikkim.

C. Rangarajan and D. K. Srivastava (2005) defined debt sustainability as the capacity to keep balance between costs of additional borrowing with returns from such borrowing, which could be in the form of higher growth that results in higher government revenues that can be used for servicing the additional borrowing. They observed that sustainability issues should be viewed for combinations of debt and fiscal deficit, and not in isolation for either of the case as fiscal deficits force the governments to raise debt in order to balance their accounts, further servicing of such debt raised may land them in additional deficits.

There are several variables that help us to understand the sustainability position of debt taken by the Government. Different academics and researchers have formed different indicators to understand debt sustainability. We attempt to present different indicators of sustainability of debt in Table 7.13 using the methodology used by Balbir Kaur et.al. (2014). We also highlight those years in which the sustainability indicators were breached in any way. Finally, we try to identify those years in which maximum breaches to sustainability have occurred.

### Table 7.10: Fiscal Sustainability Indicators for Sikkim (2010-11 to 2017-18)

| Indicator | Description | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 RE |
|---|---|---|---|---|---|---|---|---|---|
| Rate of nominal growth of GSDP (Y) should be more than rate of growth of debt (D) | Y-D > 0 | 14.05 | 12.29 | 10.33 | 6.83 | 10.70 | -3.91 | -6.55 | -3.95 |
| Primary Balance should be in Surplus | (PB/GSDP)* 100> 0 | -1.75 | 0.12 | 1.27 | 1.26 | -0.23 | -1.52 | 2.18 | -1.77 |
| Primary Revenue Balance (PRB) as % to GSDP should be greater than zero | (PRB/GSDP) *100> 0 | 4.41 | 7.11 | 9.36 | 8.71 | 6.30 | 2.37 | 6.08 | 7.63 |
| Primary Revenue Balance (PRB) should be in surplus and adequate to meet interest payments (IP) | PBR/GSDP> 0 and \|(PBR/IP)*100\|>100 | 174.84 | 331.88 | 492.60 | 515.22 | 405.16 | 153.31 | 353.47 | 440.96 |
| Interest Burden defined by Interest Payments (IP) to GSDP ratio should decline over time | IP/GSDP | 2.52 | 2.14 | 1.90 | 1.69 | 1.55 | 1.55 | 1.72 | 1.73 |
| Interest Payments as a proportion of Revenue Expenditure should decline overtime | IP/RE | 9.28 | 7.85 | 7.93 | 6.91 | 7.14 | 7.19 | 8.56 | 7.44 |
| Interest Payments as a proportion of Revenue Receipts should decline overtime | IP/RR | 8.68 | 6.64 | 6.05 | 5.37 | 5.86 | 6.93 | 7.04 | 5.94 |
| Total Debt to GSDP ratio should decline over time | | 34.88 | 31.31 | 28.56 | 26.91 | 24.60 | 25.47 | 26.97 | 27.93 |

*Note: Highlighted cells indicate breach in sustainability*
*Source: Various Budget Documents, Government of Sikkim*

**Table 7.11: Number of breaches in the sustainability indicators from 2010-11 to 2017-18**

| Year | No. of breaches in Sustainability path indicators |
|---|---|
| **2010-11** | 1 |
| **2011-12** | 0 |
| **2012-13** | 1 |
| **2013-14** | 0 |
| **2014-15** | 3 |
| **2015-16** | 5 |
| **2016-17** | 6 |
| **2017-18 RE** | 4 |

**Table 7.12: Indicators and frequency of observed breaches**

| Indicator | Frequency of observed breaches |
|---|---|
| Rate of nominal growth of GSDP (Y) should be more than rate of growth of debt (D) | 3 |
| Primary Balance should be in Surplus | 5 |
| Primary Revenue Balance (PRB) as % to GSDP should be greater than zero | 0 |
| Primary Revenue Balance (PRB) should be in surplus and adequate to meet interest payments (IP) | 0 |
| Interest Burden defined by Interest Payments (IP) to GSDP ratio should decline over time | 2 |
| Interest Payments as a proportion of Revenue Expenditure should decline overtime | 4 |
| Interest Payments as a proportion of Revenue Receipts should decline overtime | 3 |
| Total Debt to GSDP ratio should decline over time | 3 |

Based on the indicators given above, we make the following observations on the sustainability of debt taken by the Government of Sikkim.

- The indicator on which the Government falls short of sustainability definitions consistently is the one of Primary Balance. In five years out of 10 years, the Primary Balance of the State is in a deficit. By definition, the Primary Balance = (Revenue Receipts + Non-debt creating Capital Receipts) less (Revenue Expenditure net of

Interest Payments + Capital Expenditure). If Primary Balance is negative, it indicates that the Revenue Receipts are not performing well and/ or Revenue Expenditures other than interest payments tend to be rigid.

- The difference of the nominal growth rate of the state's GSDP and the growth rate of the Total Debt Stock show a decline throughout the period of the $13^{th}$ FC as the Debt /GSDP ratio also clock a decreasing trend between 2010-11 to 2014-15. However, from the year 2015-16 the Debt/GSDP starts to rise. Similarly, the growth of debt out-passes the nominal growth of GSDP in the period, which suggests that the state's economic growth is partially funded by increasing its debt. Resultantly the ratio of Interest Payments to GSDP also starts to surge from 2016-17 onwards.

- The ratio of Interest Payments to both Revenue Expenditure and the Revenue Receipts record a gradual increase in the years 2014-15 to 2016-17 as the state government resorts to more borrowings which resultantly increases the amount of debt servicing required by the state. It also highlights the fact that the Revenue Receipts does not increase in proportion to the increase in debt burden

- The Government of Sikkim performs well on the indicator pertaining to Primary Revenue Balance (PRB). The Primary Revenue Balance of the Government of Sikkim is positive in all eight years from 2010-11 to 2017-18, which is encouraging. It implies that if we net out interest payments, the Revenue Receipts are enough to accommodate the other Revenue Expenditure items. Moreover, the PRB is enough to accommodate interest payments as the PRB/IP ratio which indicates the buoyancy of Revenue Earnings to interest payments remain above 100 throughout the period of study.

- Finally, the maximum number of breaches to sustainability seem to occur in 2016-17. The Fiscal Deficit reaches to a new high of 3.5 % to the GSDP in this year owing to declining grants from the Central Government and prompting the state to resort to more borrowings which ultimately puts the finances of the state in more stress leading to breaches in the sustainability indicators.

**Major Findings**

- The share of internal debt increased significantly as compared to the loans from the central government which increased the interest burden on of Public Debt
- The proportion of Reserves and Deposits rose while that of provident fund fell thereby slightly increasing the interest burden on debt from Public Account
- The burden of overall interest payments as a percentage of Revenue Expenditure
- Among the Debt Sustainability Analysis (DSA) indicators the Primary Balance kept on declining in period of the $14^{th}$ FC and was the worst performer while the year 2016-17 had the most number of breaches of DSA parameters.

# CHAPTER - 8

# IMPLICATION OF FRBM ACT

## 8.1 Introduction

The FRBM Act 2003 (Fiscal Responsibility and Budgetary Management Act) in its amended form was passed by the government to bring fiscal discipline and to implement a prudent fiscal policy. High fiscal deficit was the one major macroeconomic problem faced by Indian economy around 2000. It was argued that high deficits lead to inflation, reduces consumption, result in a crowding out of the private sector investment, rising unemployment and falling living standards of the people. Thus, arose a need to institutionalize a new fiscal discipline framework.

### 8.1.1 Features of FRBM Act

a. The revenue deficit should be reduced to an amount equivalent by 0.5% or more of GDP every year, beginning with the financial year 2004-05 and eliminate revenue deficit by March 2009,

b. The fiscal deficit should be reduced by 0.3% or more of the GDP every year, beginning with the financial year 2004-05and bringing it down to 3% of GDP by March 2009.

c. The Central Government should not provide guarantees in excess of 0.5% of GDP in any financial year, beginning with 2004-05

d. The Central Government should not assume additional liabilities in excess of 9% of GDP for financial year 2004-05 and progressive reduction of this limit by at least 1 % point of GDP in each subsequent year

e. The RBI should not subscribe to primary issues of Central Government securities from the year 2006-07.

f. The Finance Minister to make a quarterly review of trends in receipts and expenditure in relation to budget and place the outcome of such reviews before both the Houses of Parliament.

g. The Central Government should specify four fiscal indicators- Fiscal deficit as a percentage of GDP; Revenue deficit as a percentage of GDP; Tax revenue as a percentage of GDP; Total outstanding liabilities as percentage of GDP.

h. The Central Government should place in each financial year before houses of Parliament three Statements-Medium Term Fiscal Policy Statement; Fiscal policy strategy Statement; Macro-economic Framework Statement along with Annual Financial Statement and Demands for grants.

i. The FRBM Act States that the Central Government shall not borrow from RBI except by way of means and advances to meet temporary excess of cash disbursements over cash receipts.

j. The revenue and fiscal deficit may exceed the targets specified in Rules only on grounds of national security or national calamity or such other exceptional grounds as the Central Government may specify

**8.2 Sikkim FRBM Act 2010**

The State passed a legislature in line of the FRBM Act 2003 in 2010 named as The Sikkim Fiscal Responsibility and Budget Management Act 2010. Under the act in clause 7 (7), it prescribes that "the Government may assign to an independent external agency the task of carrying out the periodical review for the compliance of the provisions of this Act in the manner as may be prescribed".

The Act also provide that the Minister-in-charge of the Department of Finance, after reviewing the quarterly trends in receipts and expenditure and measures to be taken to achieve the budget targets place a half yearly review report before the Legislative Assembly.

The review report should contain a Statement explaining any deviation in fiscal targets specified under this Act and remedial measures to be taken. The spending proposals that have the potential to increase the deficit should be accompanied with compensating revenue-raising proposals.

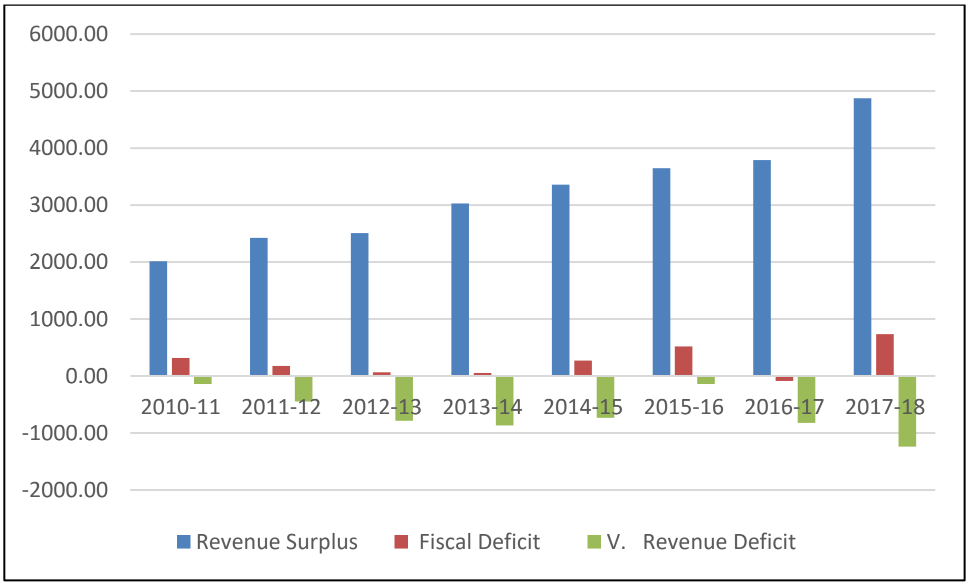
The impact of unforeseen events on Government finances should be specified. The supplementary estimates should be accompanied with Statement indicating the corresponding curtailment of expenditure and/or augmentation of revenue to offset the fiscal impact of the supplementary estimates.

The FRBM Act with its Stated objective to set up a sustainable fiscal policy over a long-run can improve the predictability of resource flow for the provision of physical and social infrastructure. This should help the State Government to establish an enabling environment for investments and creation of employment. However, it should be remembered that the State is a difficult hilly terrine and is largely dependent on Central Government Transfers.

### 8.3 Overview of State Finances

The State has been able to consolidate its financial position post the implementation of the FRBM Act in 2010-11. The introduction of rule based fiscal management framework with defined deficit and debt target has led to reduction in the fiscal deficit to GSDP from 4.27 percent in 2010-11 to 0.43 in 2013-14. It has stabilized at a slightly higher rate of 0.47 percent in the year 2016-17.

**Figure 8.1: Fiscal Outcome of Sikkim**



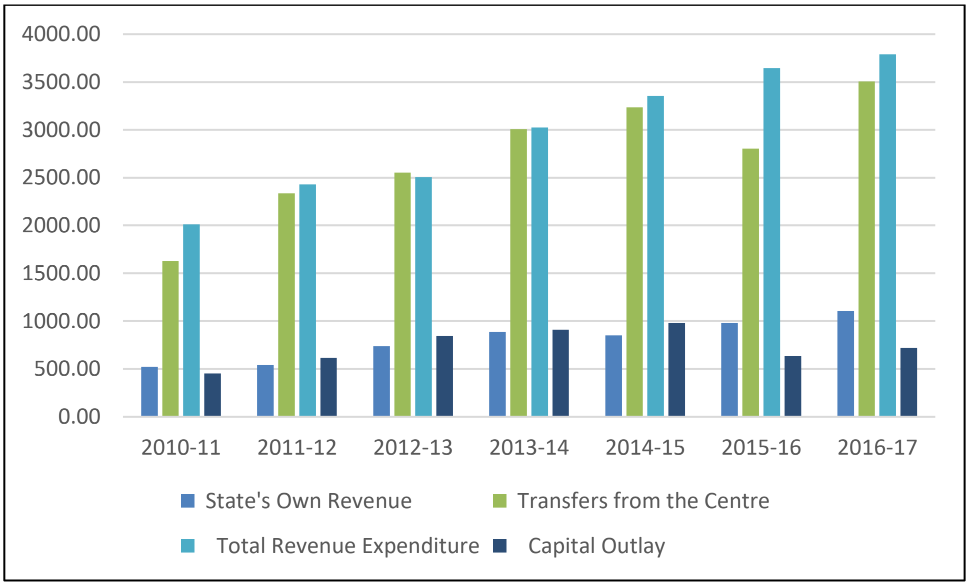

*Source: Budget Papers, Government of Sikkim*
*Note: 2017-18 is Revised Estimate*

The State has been able to increase its revenue surplus. However, it is important to note that Sikkim being a special category State its revenue surpluses is tied to Central transfers all of which is booked under revenue surpluses. Many of the Central grants are tied grants, proceeds from which are utilized for capital expenditure. The low fiscal deficit in the year

2016-17 shows structural problems and inability of the government to utilize the Central funds which accumulates and shows high revenue surplus in the subsequent year. The same can be observed in all the years about the low revenue deficit in the State.

The fiscal outcomes of 2016-17 look favourable with a sizable revenue surplus, small fiscal deficit, debt-GSDP ratio below 28 percent. During the period 2010-11 to 2016-17, the average capital outlay has remained at 5.27 percent of GSDP for the State.  Although this is quite high in comparison to other States of India, the State needs to look intoexpenditure and revenue trends both at broad and decomposed levels to get a realistic idea of the implications of the observed fiscal stance of the Government.

**Figure 8.2: Broad Fiscal Trends in Sikkim**




*Source: Budget Papers, Government of Sikkim*

Figure 8. 2 depicts the broad fiscal trends of the State in terms of State's own revenue, transfer from Centre, total revenue expenditure and capital outlay. It is dismayed to observe that the State has not been able to control its revenue expenditure from 2013-14 to 2016-17. It shows that since 2010-11, the own revenue of the State, both tax and non-tax receipts taken together has remained almost same at about 5.6 percent of GSDP. The Central transfer that includes both the share in Central taxes and grants, to the State shows an increasing trend during this period.  The central transfer has increased by 21.5 percent from 2010-11 to 2016-17.  In the same period the revenue expenditure has decreased by 18 percent.  In the period of 2014-15 to 2016-17 the decrease in revenue expenditure is about 12 percent. The capital

outlay shows a decreasing trend. The decline in capital outlay in the period 2013-14 to 2016-17 as percentage of GSDP with the revenue expenditure controlled in terms of Central transfer and resources position remain comfortable is a matter of concern.

The total revenue receipts in the State have increased by 2.41 percent from 2010-11- 2015-16. It also shows that the States won non-tax revenue (including lottery income) is an important component and has increased by 6 percent of GSDP. The total revenue to GSDP has increased by about 20 percent of GSDP. The sales tax revenue and excise duty of the State remained with little change. The tax buoyancy rate is averagely 0.65 which is due to the fact that tax has not been high in commensurate of the change in own income of the State.

**Table 8.1: Tax Buoyancy 2010-11 to 2017-18**

| | |
|---|---|
| Own Tax Revenues | 1.18 |
| Sales Tax | 0.710 |
| State Excise Duties | 0.760 |
| Motor Vehicle Tax | 1.06 |
| Stamp Duty and Registration Fees | 3.71 |
| Other Taxes | 0.58 |

*Source: Budget Papers, Government of Sikkim*

The State had been largely dependent on the Central transfer. This has happened due to subdued revenue efforts by the State over years.

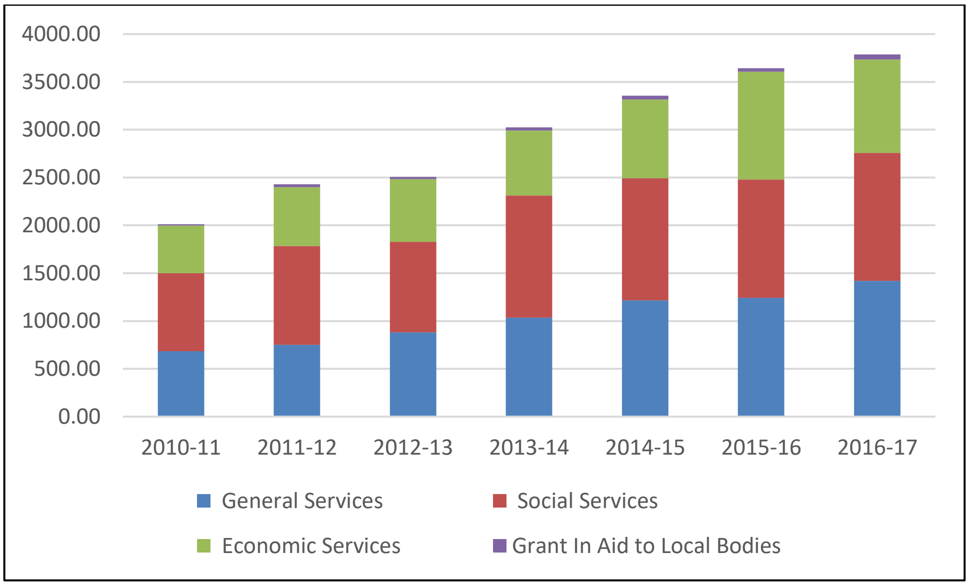
**Table 8.2: Revenue receipts of Government of Sikkim (in Rs Cr)**

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|---|---|---|
| **Total Revenue Receipts** | **2151.70** | **2872.10** | **3288.36** | **3893.54** | **4087.64** | **3784.29** | **4610.31** |
| State's Own Revenue | 521.69 | 537.95 | 737.48 | 886.51 | 851.33 | 979.81 | 1104.20 |
| Total Tax Revenue | 279.54 | 293.92 | 435.48 | 524.92 | 527.55 | 566.82 | 652.56 |
| State Sales Tax | 34.87 | 25.70 | 62.03 | 83.20 | 101.41 | 134.66 | 151.53 |
| State Excise *of which* | 70.64 | 96.26 | 111.12 | 120.64 | 131.36 | 142.08 | 156.24 |
| Stamps Duty | 1.31 | 1.38 | 1.30 | 1.22 | 1.34 | 1.50 | 2.18 |
| Taxes on Vehicles | 10.66 | 16.56 | 16.38 | 18.52 | 19.41 | 22.36 | 24.90 |
| Transfers from the Centre | 1630.01 | 2334.15 | 2550.88 | 3007.03 | 3236.32 | 2804.48 | 3506.11 |
| Own Non-Tax Revenues | 242.15 | 244.04 | 302.00 | 361.59 | 323.78 | 412.99 | 451.64 |
| Grants from Centre | 1105.02 | 1722.50 | 1852.40 | 2244.41 | 2427.00 | 934.20 | 1436.91 |
| Tax devolution | 524.99 | 611.65 | 698.48 | 762.62 | 809.32 | 1870.28 | 2069.20 |

*Source: Budget Papers. Government of Sikkim*

Although the value of the electricity generated by the newly commissioned hydroelectric units contributes to the growth numbers, it does not enlarge the tax base. Similarly, the improved production by the pharmaceuticals in the manufacturing sector, though adds to the growth, most of it goes out of the State in the form of consignments attracting no VAT which .15 percent is only. However, the expanded economic activity due to the construction and higher employment in these sectors and rise in business should have resulted in higher tax collection beyond the normal growth. It is necessary for the State to look into these issues to improve the tax mobilization.

**Figure 8.3: Composition of Revenue Expenditure in Sikkim**




*Source: Budget Papers, Government of Sikkim*

The revenue expenditure has increased over years. Revenue expenditure has increased about 35 percent over year. The Social services expenditure has increased by 33 percent on average Economic services expenditure by 25 percent and grant in aid by 0.01 percent.

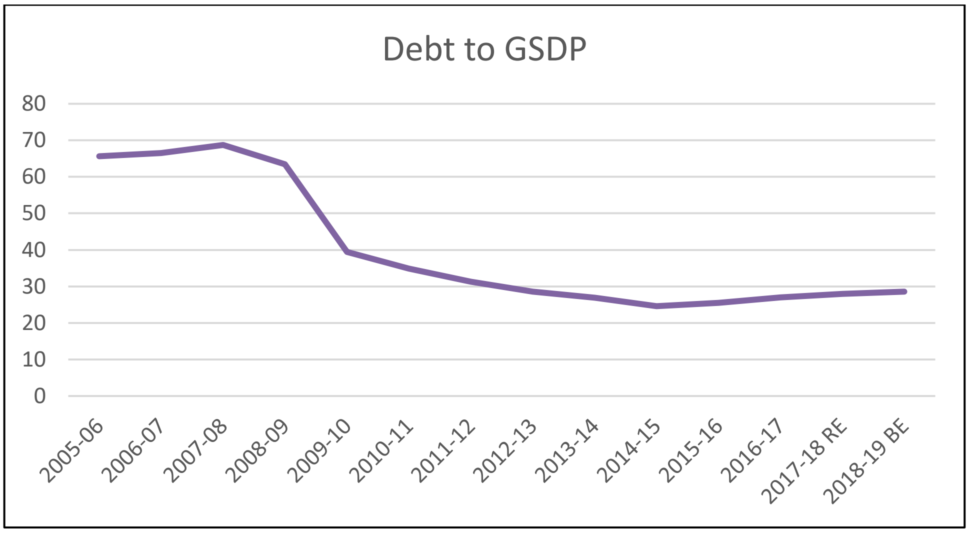
**Table 8.3: Capital Outlay of Sikkim**

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|---|---|
| Capital expenditure | 615.76 | 842.35 | 911.95 | 980.71 | 633.98 | 720.29 |
| Capital expenditure % of GSDP | 5.515044 | 6.82704 | 6.57882 | 6.36547 | 3.73945 | 3.8208 |

*Source: Budget Papers, Government of Sikkim*

The capital outlay for the State has decreased marginally as a percentage of GSDP. This was possible to push it up as the fiscal deficit was low by investing in more socially relevant projects.

**Figure 8.4: Debt to GSDP percent of Government of Sikkim**




*Source: Budget Papers, Government of Sikkim*

Under the Guidelines given in 2010, the State Government was given the target of maintaining the Public Debt to GSDP up to 25 per cent in 2011-12. From 2015-16 to 2017-18, the State Government was to bring the Public Debt to GSDP ratio to 26 per cent from the level of 39% in the period of 13th FC. We find that the debt management of the Government of Sikkim has come a long way close to the set target.

Figure8.4 indicates that the total debt stock of the Government of Sikkim to GSDP. It shows a secular fall from an average of 60 per cent during the 12th FC period to an average of 26 per cent in the 14th FC period. This is has come considerably close to the limits set by the Sikkim FRMB Act 2010.

### 8.4 FRMB Targets and Fiscal Achievements of the Government of Sikkim

The FRBM Act calls upon the State to ensure fiscal stability and sustainability through maintaining balance in revenue account and planned reduction of fiscal deficit and prudent debt management. The major provisions of the Sikkim FRBM Act are as follows;

a. Present a Medium-Term Fiscal Plan (MTFP).

b.Undertake appropriate fiscal management principles indicated in the Act to achieve the targets.

c. Achieve fiscal targets relating to deficit, stock of debt, and outstanding guarantees.

d. Take suitable measures to ensure greater transparency in the fiscal operation.

e. Conform to the measures prescribed for enforcing compliance to the Act.

The FRBM Act stipulates to present a medium-term fiscal plan (MTFP) for three years including the budget year in the State legislature along with the budget documents. The Act has prescribed the fiscal targets to be achieved since 2011-12. It mandates the State Government to present a half-yearly report card on progress to achieve the FRBM targets as part of the enforcement mechanism. The rules to the FRBM Act detail the fiscal transparency measures, which are disclosures on fiscal operations and data and information to be given along with the budget to ensure greater transparency. Fiscal management principles enshrined in the FRBM Act are guiding principles to conduct the fiscal policy in the State to facilitate achievement of the required fiscal targets.

The Government of Sikkim presented the MTFP Statement based on the FRBM rule format that contains macroeconomic Statement, projections of fiscal targets and fiscal management principles with regard to revenues and expenditures for three years along with the 2015-16 budget documents.

The Government of Sikkim, as per the FRBM Act, is required to achieve the following mandatory fiscal targets;

1. Maintain revenue account balance beginning from the year 2011-12.

2. Reduce the fiscal deficit to 3.5 percent of the estimated Gross State Domestic Product in each of the financial year starting from 2011-12 and reduce the fiscal deficit to not more than three percent of the estimated Gross State Domestic Product at the end of 31st March 2014 and adhere to it thereafter;

3. Cap the total outstanding guarantees within the specified limit under the Sikkim Ceiling on Government Guarantees Act, 2000 (21 of 2000);

4. Ensure that the outstanding debt-GSDP ratio follows a sustainable path emanating from the above targets of the deficit as specified by the Government beginning from the fiscal year 2011-12. The level of debt-GSDP is fixed based on the recommendations of the Central Finance Commission. For Sikkim, the debt-GSDP ratio recommended by the 14th Finance Commission for the year 2015-16 was 25 percent.

**Table 8.4:FRBM Act Targets and Fiscal Achievements during 2016-17**

| | Target | Estimate | Achievement |
|---|---|---|---|
| Revenue Deficit % of GSDP | 7.05 | 3.12 | 3.45 |
| Fiscal Deficit % of GSDP | -3.5 | -3.00 | -2.28 |
| Total Debt Stock % of GSDP (FFC Target) | 25 | 23 | 26.22 |
| Outstanding Guarantee | | Restricted to the limit under the Sikkim Ceiling on Government Guarantees Act, 2000 | |

*Source: Calculated from Budget Documents, Government of Sikkim*

### 8.5 Guarantees given by the State

As per the Sikkim Government Guarantee Act, 2000, the ceiling on total outstanding government guarantee in a year is restricted to three times of the State's tax revenue receipts of the second preceding year. The outstanding sum guaranteed by the State government on 31st March 2015 was Rs.109.50 corer (Budget Documents – 2015-16), which is below the permissible limit.

### 8.6 Achievements of the State under FRBM

In accordance to the FRMB, the State of Sikkim has been able to consolidate its financial position to a large extent. Having a special status, the State is heavily dependent on the Central assistance and grants. Its own revenue generation has increased over a period of time. However, its expenses are commensurate to its revenue. The capital outlay of the State has increased and so has its indebtedness. It is heartening to observe that the State has been well within its limit and has been able to achieve its fiscal and revenue targets as laid down by the $14^{th}$ FC. However, the State needs to consolidate its debt and put more effort on the spending.

**Major Finding**

- The State has been able to garner to the financial requirement as laid down in the State’s FRBM Act.
- The State has been able to manage its Fiscal and Revenue defect and are within the permissible limits as envisaged in the FRBM Act.
- The State has to keep a track of debt and its expenses as it has been observed that the Debt to GSDP show an upward trend and has missed the target of 25 %

# CHAPTER - 9

# FINANCES OF LOCAL BODIES

## 9.1 STRUCTURE OF LOCAL BODIES IN SIKKIM

As per Article 243 I and 243 Y of the Constitution of India read with Chapter X of Sikkim Panchayat Act 1939, The Sikkim Municipalities Act 2007 and in pursuance of section 3 of the Sikkim (Constitution of Finance Commission) Rules 1995, the Governor of Sikkim vide Notification No. 22/FDC/Fin/198 dated 17/08/2016 constituted the Fifth State Finance Commission of Sikkim to review the trends in the financial situation for the award period of 2020 – 2025.

In order to carry out all the roles and responsibilities, the Commission engaged the services of PRIA (Society for Participatory Research in Asia) for providing assistance to the Commission in terms of technical support, analyzing information and facilitating them to reflect on recommendations for the period 2020-2025. PRIA has been working in the State of Sikkim from 2007-08 on the issues related to strengthening of local self-government, local development and gender mainstreaming.

### 9.1.1 Distribution of Gram Panchayats

The district-wise distribution of Gram Panchayats along with their total area and population is given below.

**Table 9.1: Gram Panchayats, Area and Population**

| Name of District | No of Gram Panchayats | Area of GPs (hectares) | Population (2011 Census) |
|---|---|---|---|
| South | 47 | 39222 | 146850 |
| West | 55 | 42269 | 136435 |
| North | 22 | 39244 | 43709 |
| East | 50 | 41986 | 283583 |
| **Total** | **176** | **162721** | **610577** |

Source: *Census Report 2011, Govt. of India*

With rapid urbanization, the needs and aspirations of the people are increasing day by day. The enhanced expectations have led to an increased pressure on PRIs and ULBs to provide quality services, infrastructure and employment opportunities to the people of Sikkim. Due to certain political reasons the tax, fees and charges collection in Sikkim has not been at par with the local tax and fees collection by PRIs and ULBs of many other States. This makes the LGIs in Sikkim highly dependent on Central and State Government. The lack of emphasis on generation of local resource mobilization is a constraint for greater innovation initiatives by the local government. Urban areas have potential for growth has economic drivers as well as locational and competitive advantages. There is a greater need for rural – urban linkage.

### 9.1.2LOCAL BODIES IN SIKKIM

Table 9.2 provides the composition of local bodies in Sikkim

**Table 9.2: No. of Local Bodies in Sikkim**

| | | |
|---|---|---|
| Rural Local Bodies (RLB) (as on 1st April 2018) | Gram Panchayat (GP) | 185 |
| | Zilla Panchayat (ZP) | 4 |
| Urban Local Bodies (ULB) (as on 1st April 2018) | Municipal Corporation | 1 |
| | Municipal Council | 3 |
| | Nagar Panchayat | 3 |

*Source: DESME, Govt. of Sikkim*

#### 9.1.3 Devolution of powers to local bodies

The State Govt. has devolved 29 subjects as mentioned in Schedule XI of the Constitution of India to the Panchayati Raj Institutions (PRIs). As per the assessment of Govt. of India, the State has ranked among the top 5 States of India to have devolved powers and authorities to PRIs. The devolution of power to urban bodies is comparatively less.

Successive FCs have been sensitive about increasing the consolidated funds of the States that the resource needs of the local bodies (LBs) can be met. Apart from FC grants, LBs also receive transfers from the State Government.

**9.2Expenditure profile of Sikkim as a percent to GSDP is given below.**

The Table 9.3 illustrates the expenditure profile of the people of Sikkim.

**Table 9.3: Expenditure Profile of Sikkim as Percentage to GSDP**

| Particulars | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 (RE) | 2017-18 (BE) |
|---|---|---|---|---|---|---|
| Revenue Expenditure | 20.32 | 21.82 | 22.07 | 21.91 | 24.68 | 22.72 |
| General Services | 7.14 | 7.47 | 7.98 | 7.48 | 8.21 | 8.13 |
| Interest Payment | 1.61 | 1.60 | 1.58 | 1.58 | 1.77 | 1.82 |
| Pension | 1.82 | 1.88 | 2.19 | 2.42 | 2.62 | 2.67 |
| Other | 3.70 | 3.99 | 4.22 | 3.48 | 3.82 | 3.63 |
| Social Services | 7.68 | 9.21 | 8.41 | 7.43 | 9.00 | 7.60 |
| Education | 4.17 | 4.55 | 4.68 | 4.54 | 4.88 | 4.59 |
| Medical and Public health | 1.02 | 1.04 | 1.20 | 1.06 | 1.27 | 1.15 |
| Other Social Services | 2.49 | 3.62 | 3.07 | 2.09 | 3.62 | 2.04 |
| Economic Services | 5.32 | 4.89 | 5.40 | 6.77 | 7.15 | 6.66 |
| Assignment to LBs | 0.19 | 0.26 | 0.28 | 0.23 | 0.32 | 0.33 |
| Capital Outlay | 6.86 | 6.65 | 6.62 | 3.96 | 6.56 | 6.30 |

*Source: MTFP for Sikkim: 2017-18 to 2019-20, FRED, Govt. of Sikkim*

The average percentage of assignment to Local Bodies in Sikkim is very meagre i.e. 0.27% of GSDP. There is a high developmental aspiration of the state for not only the people of Sikkim but also for the increasing number of tourists to the state.

### 9.2.1 GRANTS FROM FINANCE COMMISSION

PRIs as well as Urban Local Bodies depend mostly on Development Fund from Central Government and Fund transfer from Government of Sikkim.

**Table 9.4: Grants from Finance Commissions (In Rs Crore)**

| Particulars | Grants from 13th FC | | | Grants from 14th FC | | |
|---|---|---|---|---|---|---|
| | Recommended for 5 years (2010-15) | Actual Release (2010-15) | Actual Expenditure incurred (2010-15) | Recommended for (2015-16) | Actual Release (2015-16) | Actual Expenditure incurred (2015-16) |
| General Basic Grant | 12240.00 | 10674.95 | 10745.95 | 2083.00 | 1844.00 | 1843.00 |
| PRI | 12071.00 | 10674.95 | 10674.95 | 1604.00 | 1604.00 | 1604.00 |
| ULB | 169.00 | 71.00 | 71.00 | 479.00 | 240.00 | 239.00 |
| General Performance Grant | 6480.00 | 1375.16 | 1370.16 | N/A | N/A | N/A |
| PRI | 6390.00 | 1365.16 | 1365.16 | N/A | N/A | N/A |
| ULB | 90.00 | 10.00 | 5.00 | N/A | N/A | N/A |

*Source: Budget Papers, Government of Sikkim*

The General Basic Grant is much higher than that of General Performance Grant. Maximum allocation goes to PRIs.

**Table 9.5: Fund Transfers from State Government to GPs (In Rs Crore)**

| **Particulars** | **2013-14** | **2014-15** | **2015-16** | **2016-17 (RE)** |
|---|---|---|---|---|
| General Basic Grant | 1893.38 | 1973.69 | 1604.00 | 2220.00 |
| GeneralPerformance Grant | 0.00 | 240.91 | 713.39 | 291.00 |
| **Total** | **1893.38** | **2214.60** | **2317.39** | **2511.00** |

*Source: Budget Papers, Government of Sikkim*

The fund transfers from State Government to GPs are in the form of Share of state taxes, Special Incentive Grant, Primary Grant, Assistance to Gram Panchayats in the form of General Education- Grant in aid salaries and grant to GPs for Administrative Expenses. General Education- Grant in aid salaries constitute 98% in 2013-14 and 91% in 2016-17. This reflects slight decline in expenditure on the head salaries.

### 9.2.4 Taxes levied by GPs in Sikkim

The principal taxes levied by GPs in Sikkim are as follows:

i. House hold tax
ii. Sale of tender forms
iii. Building Construction Fee
iv. Other Misc. receipts (Bank Interest, donation, disposal of unserviceable items, Charges for use of Panchayat Ghar, Conference Hall.

In addition, as per Panchayat resolution duly approved by Gram Sabha certain other fees such as Trade License Fee, Hawker License Fee, Fees for mela/ picnic in rural areas, fees for construction of temporary sheds for any kind of social gathering, fees for minor dispute redressal etc. are collected by GPs.The expenditureof PRs primarily consists of honorarium payments, discretionary grants, expenditure on salaries/ wages and office expenses.

### 9.2.5 Own Revenue of Local Bodies of Sikkim

Own non-tax revenue is an important source of revenue of the State. The own non-tax revenue of rural bodies was H 7.1 crore in 2010-11 and raised to H 15.01 crore in 2015-16. Thus, it registered 111 % increase over a period of 6 years. In a similar fashion the own non-tax revenue ofurban bodies was H 87.86 crore in 2010-11 and raised to H 683.89 crore in 2015-16. This amount to a rise of 678% increase. The Rural Local Bodies collects Water charges whereas the Table does not reflect the collection of water charges by Urban Local Bodies. Revenue to GSDP for local bodies was 0.131839 and it increased to 7.509115 in the year 2015-16. For Urban Local Bodies Revenue to GSDP was 9.883599 in 2010-11 and decreased to 0.241603 in the year 2015-16.

**Table 9.6: Own Revenue of Local Bodies of Sikkim (In Rs Crore)**

| | Rural Local Bodies | | | | | | Urban Local Bodies | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| A. Tax Revenue | 0 | 0 | 0 | 0 | 0 | 0 | 9.41 | 54.66 | 66.65 | 68.36 | 67.89 | 72.38 |
| i. Bazar Tax | 0 | 0 | 0 | 0 | | 0 | 9.41 | 54.66 | 66.65 | 68.36 | 67.89 | 72.38 |
| B. Non-Tax Revenue | 7.1 | 6.01 | 14.91 | 14.91 | 14.91 | 15.01 | 87.86 | 364.56 | 543.09 | 567.89 | 632.96 | 683.89 |
| Water Charges | 0.12 | 0.78 | 1.03 | 1.03 | 1.03 | 1.03 | 0 | 0 | 0 | 0 | 0 | 0 |
| Fees | 3.62 | 3.81 | 9.75 | 9.75 | 9.75 | 9.75 | 85.2 | 346.99 | 508.86 | 603.08 | 638.33 | 637.89 |
| Irrigation Charges | 0 | 0 | 0 | 0.01 | 0.01 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | | | | | | | | | | | | |
| Sales and Tender and Rental Income | 1.42 | 4.12 | 4.12 | 4.12 | 4.12 | 4.12 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bank Interest | | | | | | | 2.66 | 17.53 | 34.23 | 36.33 | 36.56 | 36.87 |
| Total | 12.26 | 14.72 | 29.81 | 29.82 | 29.82 | 29.91 | 194.54 | 838.4 | 1219.48 | 1344.02 | 1443.63 | 1503.41 |
| Revenue to GSDP | 0.131839 | 0.241603 | 0.215122 | 0.193552 | 0.17642 | 7.509115 | 9.883599 | 9.695783 | 9.370131 | 8.867671 | 0.131839 | 0.241603 |

Source: Budget Documents, Govt. of Sikkim

The rural local bodies do not collect any tax revenue. The Urban local bodies tax revenue increased from H9.41 crore to Rs 72.38. An insight into the table reveals that the Urban Local Bodies Tax revenue is from the head Bazar Tax.

Own revenue receipts are composed of Own Tax Revenue and Own Non-Tax Revenue. The local bodies are empowered to raise Tax and Non-Tax Revenue in Sikkim. Government of Sikkim vides Notification No. 05/RM&DD/P dated 27-09-2010 has fixed the taxes, Rates and the Fees to be levied by Gram Panchayats.

The various sub-heads of Own Tax Revenue are coming in the form of Land Revenue, Stamps and Registration Fees, State Excise, Taxes on Sales, Trades etc., Taxes on Vehicles and Others. The State also has a share of net proceeds of Taxes in the form of Corporation Tax, Taxes on Income other than Corporation Tax, Taxes on Wealth, Customs, Union Excise Duties, Service Tax, Other Taxes and Duties on Commodities and Services. Non-Tax Revenue comprises of Interest Receipts, Miscellaneous General Services, Power, Police, Road Transport, Forestry and Wild Life, Dividends and Profits, Contributions and Recoveries towards Pension and Other Retirement Benefits, Other Administrative Services, Public Works, Tourism, Plantations, Water Supply and Sanitation, Medical and Public Health, Stationery and Printing, Education, Sports, Art and Culture, Urban Development and Animal Husbandry. Even though, both the Own Tax Revenue and Own non-Tax Revenue show rise in nominal terms, the Own Revenue receipt show a decline relative to GSDP. However, due to implementation of GST, the own tax revenue is likely to increase considerably in future.

The Panchayati Raj Institutions (PRIs) as well as Urban Local Bodies (ULBs) have been depending on funds from Central and State Government. The following Table highlights the Fund Transfer from Central Government to PRIs and ULBs.

**Table 9.7: Fund Transfer from Central Government to PRIs and ULBs**

(Rs in Lakh)

| Particulars | | 13$^{th}$ Finance Commission (2010-15) | 14$^{th}$ Finance Commission (2015-16) |
|---|---|---|---|
| General Basic Grant | PRIs | 10674.95 | 1604.00 |
| | ULBs | 71.00 | 240.00 |
| General Basic Grant | PRIs | 1365.16 | NA |
| | ULBs | 10.00 | NA |

Source: FRED, Govt. of Sikkim

However, the own resource mobilization has been very weak in the State. The following Table provides the Fund Transfer from Central and State Government to GPs.

**Table 9.8: Fund Transfer from Central and State Government to GPs**

(Rs in Lakh)

| Year | Central Government* | State Government |
|---|---|---|
| 2013-14 | 1893.38 | 26080.92 |
| 2014-15 | 2214.60 | 27567.68 |
| 2015-16 | 2317.39 | 31150.33 |
| 2016-17 (RE) | 2511.00 | 31518.86 |

*Only from Central Finance Commission grants
Source: FRED, Govt. of Sikkim

The data relating to funds from Ministry of Panchayati Raj and other Central Ministries are not available. However, it is evident that the GPs depend largely on grants from Central as well as State Governments.

As per State Government's Notifications, the taxes and non-taxes levied by GPs in Sikkim are as follows:

- Household tax
- Water and Sanitation Tax
- Village Road and Environment Tax
- Sale of Tender Forms
- Building Construction Fee
- Other Miscellaneous Receipts such as Bank Interest, Donation, Disposal of Unserviceable items, Charges for use of Panchayat Ghars, Conference Halls, Other Properties etc.). In addition, as per Panchayat Resolution duly approved by Gram Sabha certain other fees such as Trade License Fees, Hawker License Fees, Fees on Mela /Picnic in rural areas, fee for construction of temporary sheds for any kind of social gathering in public property and fees for minor dispute redressal can also be levied.

The GPs are not taking advantage in this front. It is a potent area for significant improvement.

Funds from the Central Government to ZPs have been reduced significantly. The following Table illustrates the Fund Transfer from Central Government to ZPs.

**Table 9.9: Fund Transfer from the Central Government to ZPs**

(Rs in Lakh)

| 13th/14th Finance Grant | 2013-14 | 2014-15 | 2015-16 | 2016-17 (RE) |
|---|---|---|---|---|
| General Basic Grant | 828.39 | 947.10 | 0.00 | 0.00 |
| General Performance Grant | 0.00 | 103.25 | 201.61 | 0.00 |
| Total | 828.39 | 1050.35 | 201.61 | 0.00 |

Source: FRED, Govt. of Sikkim

After 14th Finance Commission Report, the Central Government did not make any allocation to intermediate and District tier of PRIs. In the absence of any compensation (due to lack of funding from Central Government) from the State, the financial and functional aspects of the ZPs have been severely affected.

**Table 9.10 Fund Transfer from Central and State Governments to ULBs**

(Rs in Lakh)

| Year | Central Government* | State Government |
|---|---|---|
| 2013-14 | 18.12 | 330.60 |
| 2014-15 | 17.14 | 375.32 |
| 2015-16 | 244.67 | 223.18 |
| 2016-17 (RE) | 859.00 | 449.29 |

*Only from Central Finance Commission grants

Source: FRED, Govt. of Sikkim

The State Government has been transferring fund to ULBs in the form of Share of State Taxes, Primary Grant and Improvement Grant. The Central Government has been transferring funds in the form of General Basic Grant and General Performance Grant. It has been observed that bulk of the total expenditure goes towards administrative and capital expenditure. As a result, little money is left for expenditure on development head. Further, Gangtok Municipal Corporation being the only Municipal Corporation in the State has significant influence over the financial position.

### 9.2.5.1 Steps taken by the State to increase revenue

The Government has been focusing on capacity building of representatives and functionaries of PRIs and ULBs for better resource mobilization and financial management. The GPs and ULBs located in difficult terrains and in disadvantageous locations are eligible to get special support grants. With a view to avoiding duplicity of work, RM&DD, Government of Sikkim has prepared activity mapping which will demarcate the role of GPs and ZPs. However, the implementation of activity mapping is not encouraging. The Government is considering the recommendation of State Finance Commission to prepare a Responsibility Matrix to address delineation of roles and responsibilities amongst various bodies. Further, the Government is actively involved not only in sensitizing Panchayat representatives but also monitoring their efforts in this direction.

### 9.2.6 REVENUES OF ZILLA PANCHAYATS IN SIKKIM

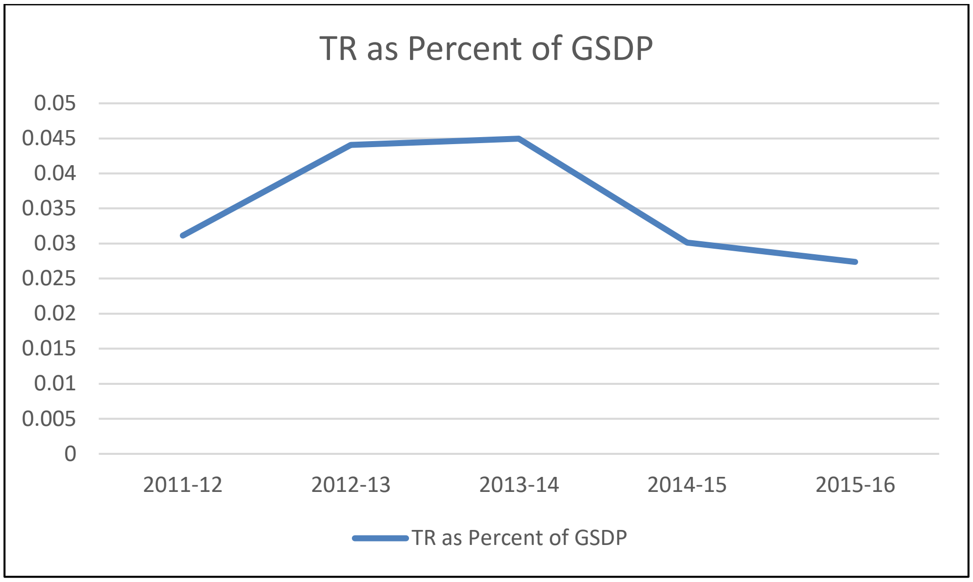
The table below gives the revenue of Zilla Panchayat.

**Table 9.11: Revenue of Zilla Panchayats in Sikkim(In Rs Crore)**

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| Own Tax | 0 | 0 | 0 | 0 | 0 |
| Own Non-Tax | 0.026 | 0.007 | 0.012 | 0.012 | 0.012 |
| Total Own Revenue | 0.026 | 0.007 | 0.012 | 0.012 | 0.012 |
| Assignment +Devolution | 0 | 0.72 | 0.71 | 1.21 | 1.21 |
| Grant in Aid from State Govt | 3.45 | 4.71 | 5.51 | 3.42 | 3.42 |
| Total Revenue | 3.476 | 5.437 | 6.232 | 4.642 | 4.642 |

*Source: Budget Papers, Government of Sikkim*

**Figure 9.1: TR of Zilla Panchayats as Percentage of GDP**




*Source: Budget Papers, Government of Sikkim*

### 9.2.6 EXPENDITURE OF ZILLA PARISHAD

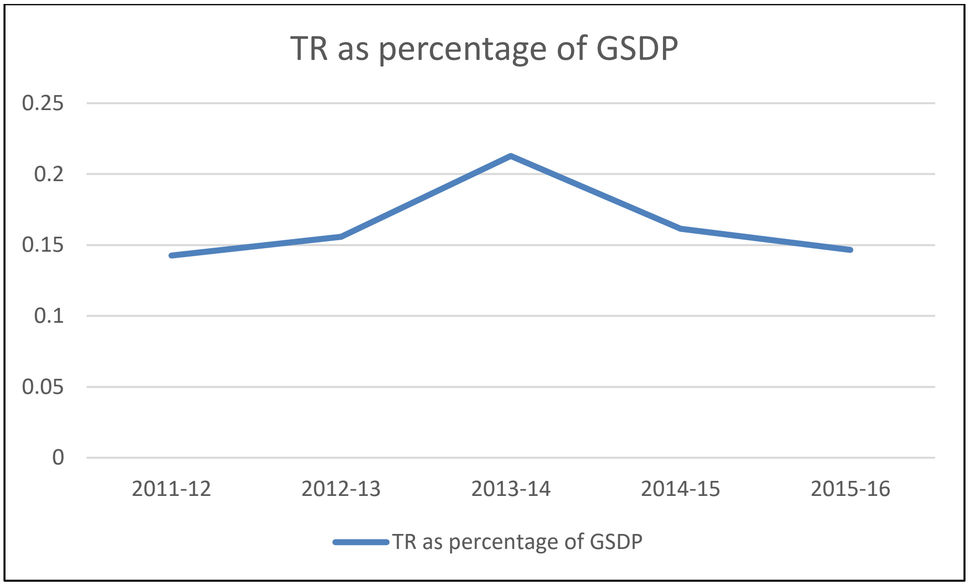
The table below shows the expenditure of the Zilla Parishad

**Table 9. 12: Expenditure of Zilla Parishad (in Rs Crore)**

| | Total expenditure ZillaParisad | | | | |
|---|---|---|---|---|---|
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Revenue Expenditure | 11.58 | 6.93 | 21.56 | 19.45 | 19.45 |
| Capital Expenditure | 4.34 | 12.3 | 7.94 | 5.41 | 5.41 |
| Total Expenditure | 15.92 | 19.23 | 29.5 | 24.86 | 24.86 |
| TR as percentage of GSDP | 0.142587 | 0.155855 | 0.212814 | 0.161358 | 0.146634 |

*Source: Budget Papers, Government of Sikkim*

**Figure 9.2: TE of Zilla Parishad as Percentage of GSDP**




*Source: Budget Papers, Government of Sikkim*

### 9.2.7 Revenue of Gram Panchayat

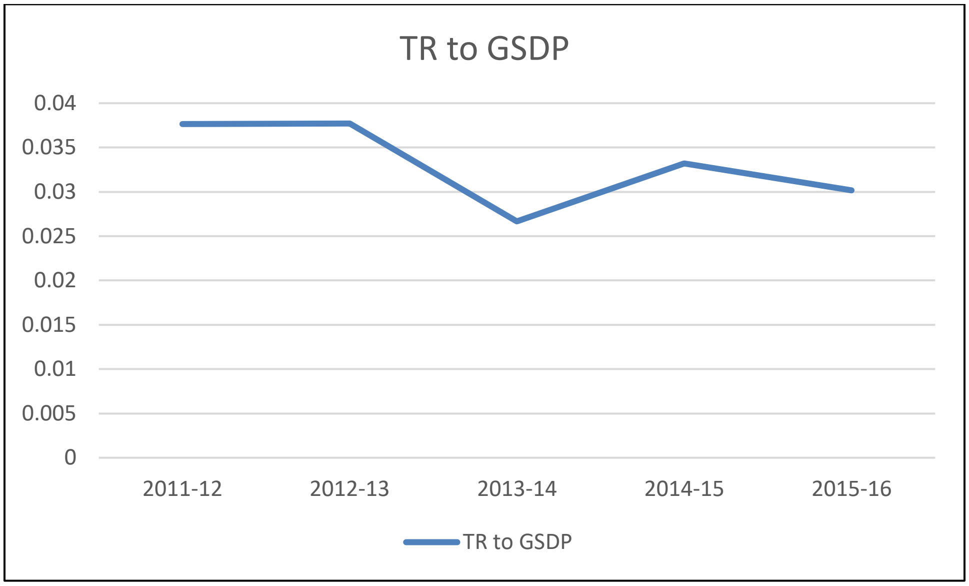
The table below gives the revenue patter of the Gram Panchayat

**Table 9.13: Revenue of Gram Panchayat (In Rs Crore)**

| | Total Revenue Gram Panchayat | | | | |
|---|---|---|---|---|---|
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Own Tax | 0 | 0 | 0 | 0 | 0 |
| Own Non-Tax | 0.045 | 0.053 | 0.137 | 0.137 | 0.137 |
| Total Own Revenue | 0.045 | 0.053 | 0.137 | 0.137 | 0.137 |
| Assignment +Devolution | 0 | 1.74 | 1.57 | 2.58 | 2.58 |
| Grant in Aid from State Govt | 4.16 | 2.86 | 1.99 | 2.4 | 2.4 |
| Total Revenue | 4.205 | 4.653 | 3.697 | 5.117 | 5.117 |
| TR to GSDP | 0.037662 | 0.037711 | 0.02667 | 0.033213 | 0.030182 |

*Source: Budget Papers, Government of Sikkim*

**Figure 9.3: TR of Gram Panchayat as Percentage of GSDP**




*Source: Budget Papers, Government of Sikkim*

The urban areas prior to Sikkim became the 22nd state of India was looked after by Bazaar Department and after the merger, Gangtok Municipal Corporation Act was enacted. The GMC was abolished under the Sikkim (Repeal and Miscellaneous Provisions) Act 1985and its power and functions were reverted to Local Self Government. Vide Notification No.7(17)/Home dated 28th July1990, the Local Self Government was renamed as Urban Development and Housing Department.

In Sikkim the degree of decentralization of power in rural areas is a remarkable achievement of the State Government. More Powers have transferred to villages through Panchayats to make the people partners in finalizing schemes and implementing them at the grass root level. The State has done a mapping to clarify delegation of functions between the State Government and the local governments both in the rural and urban areas. The Government allocates funds to functionaries to effectively discharge such functions. Primary schools, health centers, libraries, community information centers and small-scale irrigation projects have been transferred to the Panchayats. Sikkim judged as the 3rd Best State in Panchayati Raj in 2006-07, 2nd Best State in Panchayati Raj in 2009-10 and 3rd Best State in 2010-11 26 February 2016.

Urban Local Bodies formed in 2010-11 are still in their early stages. The urban bodies require funds for carrying out functions and responsibilities entrusted to them.

Analysis of State's transfers to urban and rural local bodies (LBs) entail an understanding of the quantum of funds transferred to the local bodies as well as of the qualitative aspects of the transfers. Transfer of funds to local bodies can be analyzed against the backdrop of the recommendations Central and State Finance Commissions.

### 9.2.8 Expenditure of Gram Panchayat

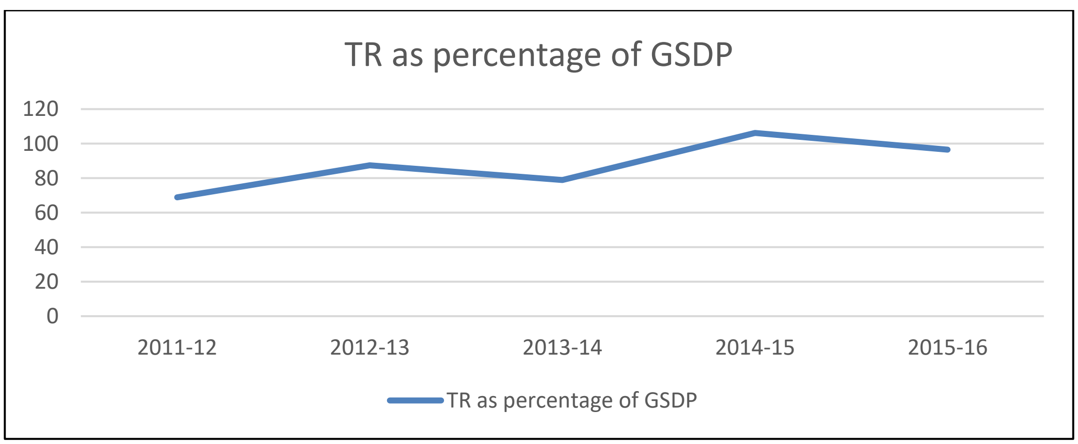
The expenditure pattern of the Gram Panchayat is given below. There is a steady trend of growth in the revenue, However, after 2014-15 it is static.

**Table 9.14: Expenditure of Gram Panchayat (In Rs lakh)**

| | | Total expenditure Gram Panchayat | | | |
|---|---|---|---|---|---|
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Revenue Expenditure | 7690 | 10790 | 10940 | 16360 | 16360 |
| Capital Expenditure | 0 | 0 | 0 | 0 | 0 |
| Total Expenditure | 7690 | 10790 | 10940 | 16360 | 16360 |
| TR as percentage of GSDP | 68.87535 | 87.45042 | 78.92135 | 106.1874 | 96.49737 |

*Source: Budget Papers, Government of Sikkim*

**Figure 9.4: TE as Percentage of GDP of Gram Panchayat**




*Source: Budget Papers, Government of Sikkim*

### 9.3 Revenue and Expenses of Urban Bodies

The tables show that the earning in the urban local bodes have decreased and so has its hare in the GSDP. The corresponding years expenditures have increased for all the three categories of the Urban Local Bodies, including Municipal Corporation, Municipal Councils and Nagar Panchayat.

## 9.3 Revenue and Expenses of Urban Bodies

### Table 9.15: Revenue patterns of Urban Bodies (In Rs Crore)

| | Total Revenue Urban Bodies | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Municipal Corp | | | | | Municipal Council | | | | | Nagar Panchyat | | | | |
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Own Tax | 0 | 0.26 | 0.26 | 0.26 | 0.26 | 0.07 | 0.06 | 0.09 | 0.09 | 0.09 | 0.22 | 0.35 | 0.36 | 0.36 | 0.36 |
| Own Non-Tax | 0.64 | 2.76 | 4.16 | 0.02 | 0.02 | 0.19 | 0.37 | 0.21 | 0.21 | 0.21 | 0.7 | 0.7 | 0.9 | 0.9 | 0.9 |
| Total Own Revenue | 0.64 | 3.02 | 4.42 | 0.28 | 0.28 | 0.26 | 0.43 | 0.3 | 0.3 | 0.3 | 0.92 | 1.05 | 1.26 | 1.26 | 1.26 |
| Assignment +Devolution | 0 | 0 | 0 | 0 | 0 | | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | 0 |
| Grant in Aid from State Govt | 2.56 | 2.57 | 1.62 | 0.33 | 0.55 | 0.26 | 0.97 | 1.13 | 1.13 | 1.13 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Total Revenue | 3.2 | 5.59 | 6.04 | 0.61 | 0.83 | 0.52 | 1.4 | 1.43 | 1.43 | 1.43 | 1.62 | 1.75 | 1.96 | 1.96 | 1.96 |
| TR to GSDP | 0.028661 | 0.045306 | 0.043573 | 0.003959 | 0.004896 | 0.004657 | 0.011347 | 0.010316 | 0.009282 | 0.008435 | 0.01451 | 0.014183 | 0.014139 | 0.012722 | 0.011561 |

*Source: Budget Papers, Government of Sikkim*

**Table 9.16: Expenditure of the Urban Bodies (In Rs Crore)**

| | MunicipalCorporation | | | | | Municipal Council | | | | | Nagar Panchayat | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Revenue Expenditure | 1.8 | 3.88 | 4.08 | 4.08 | 4.08 | 0.76 | 0.73 | 0.73 | 0.73 | 0.73 | 0.3 | 1.11 | 1.2 | 1.2 | 1.2 |
| Capital Expenditure | 0.52 | 0.34 | 0.68 | 0.68 | 0.68 | 0.01 | 0.17 | 0.02 | 0.02 | 0.02 | 0.46 | 0.46 | 0.13 | 0.13 | 0.13 |
| Total Expenditure | 2.32 | 4.22 | 4.76 | 4.76 | 4.76 | 0.77 | 0.9 | 0.75 | 0.75 | 0.75 | 0.76 | 1.57 | 1.33 | 1.33 | 1.33 |
| TE to GSDP | 0.02 | 0.03 | 0.03 | 0.03 | 0.03 | 0.01 | 0.01 | 0.01 | 0.00 | 0.00 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |

*Source: Budget Papers, Government of Sikkim*

### 9.4 Prevailing mechanism of auditing of accounts of PRIs and ULBs.

In pursuance with the recommendations of 11th Finance Commission and the Guidelines issued by Ministry of Finance, Government of Sikkim has entrusted the task of audit of accounts of PRIs to C&AG under section 20(1) of C&AG's DPC Act 1971 in August 2001. Accordingly audit of GPs is being conducted biannually and ZPs annually by the Office of Principal Accountant General, Sikkim since May 2003. The Audit team follows the methodology and procedure enshrined in Auditing Standards and the Guidelines issued by C&AG from time to time. Accounts of PRIs are also audited by Local Fund Audit and by a Chartered Accountant hired for the purpose. The State Government has adopted the revised format prepared by C7AG for accounting purposes.

The accounts of ULBs are maintained by ULB themselves. Statutory audit of financial statements is carried out by Chartered Accountants. The Technical Guidance & Support (TG&S) is provided by AG Office and the audit is also being carried out by the Director, Local Fund Audit, FRED, and Government of Sikkim. The ULBs follow Sikkim Municipal Accounting Manual which is based on National Municipal Accounting Manual designed by Ministry of Urban Development, Government of India for uniform procedure.

The accounting framework and codification pattern consistent with model Panchayat Account system as prescribed by C&AG has been put in place. Similarly, the accounting framework of ULBs is as per the National Municipal Accounting Manual and has been recorded as Sikkim Municipal Accounting Manual. The Annual Technical Inspection Report as well as Annual Report of the Director of Local Fund Audit are placed before State Legislature.

The State Government passed a legislation vide Notification No. 6/LD/P14dated 27-02-2014 for putting in place a system of independent local body ombudsmen. The State Government vide Notification No. 21/RMDD/P dated 20-01-2014 has appointed Inquiring Ombudsman for both ULBs and PRIs.

As per Guidelines issued by Ministry of Finance, Government of India vide Office Order No. 12(2)FCD/2010 dated 23-09-2010, grants to local bodies is electronically transferred to elected local bodies within 10 days of receipt of grants from Central Government. However, due to election related norms and in some cases due to technical reasons , delay in remittance to PRIs ULBs happen.

**9.5 Major decentralization initiatives taken by the State Government**

Sikkim ushered new age of decentralization by implementing Constitution 73rd Amendment Act , 1993. In doing so, it enacted the Sikkim Panchayat Act which was notified in October 1993. Sikkim follows a two-tier system of Panchayati Raj with th Zilla Panchayat at the district level and Gram Panchayat at the village level. The Sikkim Panchayat Act 1993 enable the GPs and ZPs to levy taxes, rates and fees. The duties cast by the Constitution to the State Government viz periodic holding of local elections, bringing out enabling legislations for the transfer of funds, functions and functionaries, constitution of State Finance Commission has been fully adhered to by the State in case of Panchayat Raj Institutions (PRIs).

The State has implemented the 74th Constitutional Amendment Act with the setting up of Urban Local Bodies (ULBs) and the enabling legislation. The Sikkim Municipalities Act 2007 was enacted by the Legislative Assembly of Sikkim in March 2007. Even though the Act was passed in 2007, ULBs were formed in 2010-11. Sikkim follows a three-tier structure for ULBs namely Municipal Corporation, Municipal Council and Nagar Panchayats. The State has adhered to all provisions of 74th Constitutional Amendment Act.

Power has been transferred to villages through Panchayats to make the people partner in finalizing schemes and implementing them at the grass root level. Sikkim has routinely been acknowledged as the best State in the country in the category of smaller states for its outstanding performance in strengthen and developing PRIs. The State Government has adopted a strategy that mixes power decentralization, people’s involvement and benefit centric activities. The schemes are finalized and implemented at grassroot level. The hallmark of rejuvenation of PRIs in the State is the involvement of people in the schemes that affect them. Primary schools, health centers, Libraries, Community Information Centers, small scale irrigation projects have been transferred to Panchayats. Local problems are also resolved through Panchayats. There has been a sustained effort to make the PRIs effective institutions of local self-governance through training of elected representatives, providing them funds for development, setting up of various supporting bodies and institutions such as State Election Commission, State Finance Commission, Block Administrative Centers (renamed as Gram Vikash Kendras) , District Planning Committee (DPCs), Social Audit cum Vigilance Committees and the Gram Planning Forums (GPFs). Activity mapping has been taken up which provides clarity with regard to delegation of functions between the State Government, ZPs and GPs.

In 2005 Sikkim Panchayat Act was amended to insert a provision for one third reservation for women in Gram and Ward Sabha to ensure active participation of women in all decision making. Later in 2007, it was increased to 40%. In November 2012, it was raised to 50%.

The 11$^{th}$ Schedule added to the Constitution by the 73$^{rd}$ Amendment lists 29 functions which are devolvable to PRIs. States are free to set the speed and design of their approach to decentralization under the general framework of Constitutional mandate. The Sikkim Panchayat Act 1993 has the provision to transfer these functions to PRIs. The State Government through executive order Notification No. 03/RMDD/P dated 29-04-2008 issued by RM&DD, Government of Sikkim transferred functions to ZPs and GPs. With a view to delineating the role and responsibilities of the State Government and each tier of the PRIs for each of the subjects transferred, activity mapping was done in April 2010.

In a similar fashion, the 12$^{th}$ Schedule added to the Constitution by the 74$^{th}$ Amendment lists 18 functions which are devolvable to ULBs. States are free to set the speed and design of their approach to decentralization under the general framework of Constitutional mandate. The Sikkim municipalities Act 2007 provides for devolution of all 18 functions included in the 12$^{th}$ Schedule to the Municipal Corporations, Municipal Councils, and Nagar Panchayats.

The State has received various National awards for transferring power to the people. The following Table highlights the award received by the State in this front.

**Table 9.17: National Awards Conferred to the State for transferring power to the people**

| Year | Name of the award |
|---|---|
| 2006-07 | 3$^{rd}$ Best State in Panchayati Raj |
| 2008-09 | 2$^{nd}$ Best State in Panchayati Raj |

| | |
|---|---|
| 2009-10 | 3rd Best State in Panchayati Raj |
| 2010-11 | 3rd Best State in Panchayati Raj |
| 2013-14 | State Award for Devolution Index Rashtriya Gram Swaraj Abhiyaan (RGSA) |
| 2014-15 | 1st on Cumulative Devolution Index in the NE Region.<br>2nd on Incremental Devolution Index in the Country |
| 2015-16 | Best performing State award for e-Panchayat |

*Source: Budget in Brief, Govt. of Sikkim*

## 9.4 Conclusion

There is a pressure on PRIs to enhance resource mobilization. Presently, the local bodies are primarily dependent on external sources. Internal revenue generation is insignificant even though the state is bestowed with natural resources. Lesser dependence on external sources should be the orientation of these local bodies. Local resource mobilization must be encouraged and supported. There should be innovative practices to augment revenue generation by local bodies. Sikkim Panchayat Act 1993 and Sikkim Municipalities Act 2007 have provisions to levy tax and fees. However, these are not implemented. SOPs for imposition and collection of fees is the need of the hour. There is ample scope for the local bodies to collect tax from parking facilities; car washing centers, local market facilities, home stays etc. Institutionalization of local social entrepreneurship by the PRIs and ULBs may be encouraged. Pink car ( women oriented car), orphanage, waste disposal etc. are potential for increasing the revenues of local bodies. The FC may note the following:

- Capacity of PRIs to generate own resources for carrying out the responsibilities assigned to them is weak and grossly inadequate.
- Adequate finances be available with the PRIs to match the transferred functions based on the activity mapping for the devolution of funds, functions and functionaries (3Fs).
- State’s ability to meet the resource requirements of the PRIs based on the recommendations of SFC is not adequate as State is constrained by its committed liabilities which are a priority.

- Eligibility conditions for the entitlement of grants and fines for delay in transferring grants to PRIs not be imposed due to Sikkim's vulnerability to occurrence of frequent landslides, difficult terrain, inadequate communication infrastructure, etc.
- Taking into consideration the above issues, the 15th FC is urged that the volume of local body grants be substantially increased.
- The State has taken initiative to decentralize its Local Body activities.

**Major Finding**

- Capacity of generating own resources is not up to the mark
- funds, functions and functionary's activity mapping for devolution of fund necessary
- Eligibility conditions for the entitlement of grants and fines for delay in transferring grants to PRIs not be imposed due to Sikkim's vulnerability to occurrence of frequent landslides, difficult terrain, inadequate communication infrastructure, etc.

# CHAPTER - 10

# IMPACT OF STATE PSU ON STATE FINANCE

## 10.1 Introduction

State PSU(SPSU) forms an important and integral part of the functioning of the States. They provide for creation of employment, opportunity for Investment and make an overall impact in the economic growth of the State. Sikkim has a moderate number of SPSUs most of them being corporate in nature. The table below gives the list of SPSUs in Sikkim along with their economic status.

**Table 10.1: List of SPSUs in Sikkim**

| SL. NO. | NAME | TYPE | COMPETITIVENESS/COMMERCIAL |
|---|---|---|---|
| 1. | SIDCO | Financial | Non- Competitive/Commercial |
| 2 | State Bank of Sikkim | Financial | Non-Competitive/Commercial |
| 3 | Sikkim State Cooperative Bank | Financial | Non-Competitive/ Commercial |
| 4 | Sikkim Hatchery | Manufacturing | Competitive/Commercial |
| 5 | Sikkim Poultry | Manufacturing | Competitive/Commercial |
| 6 | Tea Board of Sikkim | Manufacturing | Competitive/Commercial |
| 7 | Sikkim Milk Union | Manufacturing | Competitive/Commercial |
| 8 | Sikkim Handloom and Handicraft | Promotional | Non-Competitive/Commercial |
| 9 | Khadi and Village Industry Board | Promotional | Non-Competitive/Commercial |
| 10 | State Trading Corporation | Trading | Non-Competitive/Commercial |
| 11 | Sikkim Consumers Cooperation Society | Trading | Non-Competitive/Commercial |
| 12 | SIMFED | Trading | Competitive/Commercial |
| 13 | Denzong Agricultural Coop Society | Trading | Competitive/Commercial |
| 14 | Sikkim National Transport | Utility | Non-Competitive/Commercial |
| 15 | Sikkim Energy and Department of Power | Utility | Non-Competitive/Commercial |
| 16 | Sikkim Power Development Corporation | Utility | Non-Competitive/Non-Commercial |
| 17 | SABCCO | Welfare | Non-Competitive/Non-Commercial |

*Source: Compiled from Various Government of Sikkim's Publications*

Sikkim being a small and non-industrialized State had to fall back on the growth of the SPSUs to sustain itself. However, over a period of time as the some of the units became loss making it had to take decision for closure of these organizations. Companies like Sikkim Jewels Ltd and Sikkim Times Corporation had to be shut down. The continuance of the State PSUs has been marred with debate as there is pressure on the State exchequer by them.

### 10.2 Composition of SPSUs in Sikkim.

The State has 17 SPSUs which are denoted in the table 10. 1 above. The SPUS are categorized as follows.

**Table 10.2: Categorization of SPUs in Sikkim**

| Sl. No. | Name | Structure |
|---|---|---|
| 1. | SIDCO | Company |
| 2 | State Bank of Sikkim | Company |
| 3 | Sikkim State Cooperative Bank | Company |
| 4 | Sikkim Hatchery | Company |
| 5 | Sikkim Poultry | Company |
| 6 | Tea Board of Sikkim | Board |
| 7 | Sikkim Milk Union | Cooperative |
| 8 | Sikkim Handloom and Handicraft | Board |
| 9 | Khadi and Village Industry Board | Board-Departmental Organization |
| 10 | State Trading Corporation | Company |
| 11 | Sikkim Consumers Cooperation Society | Cooperative-Departmental Organization |
| 12 | SIMFED | Cooperative-Departmental Organization |
| 13 | Denzong Agricultural Coop Society | Cooperative-Departmental Organization |
| 14 | Sikkim National Transport | Departmental Organization |
| 15 | Sikkim Energy and Department of Power | Departmental Organization |
| 16 | Sikkim Power Development Corporation | Corporation-Departmental Organization |
| 17 | SABCCO | Departmental Organization |

*Source: Compiled from Various Government of Sikkim's Publications*

Of all there are six companies, tow board (of which one is a departmental organization and seven departmental organizations.

### 10.3 Financing Patter of the SPSUs

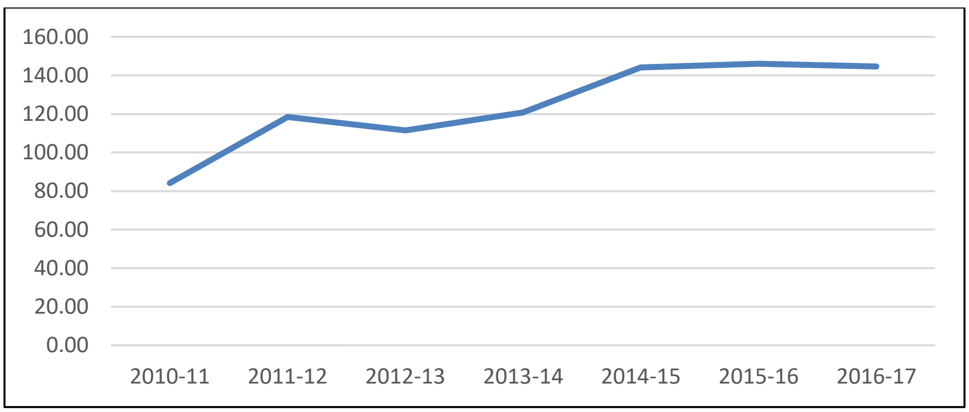
The State provides finance to the SPSUs through capital support, budgetary support and grants. The total financial support of the SPSUs has gone up from 84.16 crore to 144.65 crore during the period of 2010-11 to 2016-17. Table 10.3 depicts the sectarian investment of the State in SPSUs from the period of 2010-11 to2016-17.

**Table 10.3: Sectarian Investment of the State in SPSUs (in Rs Cr)**

| Sector | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|---|---|---|
| Welfare of SCs/STs/OBCs | 13.31 | 19.12 | 19.99 | 25.99 | 27.31 | 30.92 | 29.11 |
| Dairy Development | 1.04 | 2.32 | 2.99 | 1.74 | 3.73 | 5.43 | 0.93 |
| Co-operation | 8.81 | 8.85 | 11.07 | 10.96 | 9.81 | 11.49 | 13.66 |
| Village & Small Industries | 16.14 | 16.55 | 15.91 | 19.36 | 19.39 | 22.24 | 22.48 |
| Industries | 2.19 | 27.52 | 6.23 | 6.97 | 16.70 | 7.02 | 4.50 |
| Non- Ferrous Mining and Metallurgical Industries | 2.49 | 2.53 | 3.15 | 3.58 | 3.78 | 3.70 | 4.56 |
| Road Transport Services | 28.25 | 32.13 | 35.84 | 39.65 | 44.38 | 43.13 | 49.94 |
| Tourism | 11.31 | 8.92 | 15.86 | 11.97 | 18.69 | 21.33 | 18.52 |
| Civil Supplies | 0.61 | 0.44 | 0.47 | 0.49 | 0.62 | 0.81 | 0.96 |
| Total | 84.16 | 118.40 | 111.50 | 120.71 | 144.42 | 146.07 | 144.65 |

*Source: Budget Papers, Government of Sikkim*

**Figure 10.1: Financing pattern of SPSUs in Sikkim(in Rs Cr)**




*Source: Budget Papers, Government of Sikkim*

It is clear that the State had increased the investment in SPUS during the beginning of the period and then started to withdraw it thereafter. Though, increased industrialization activities during the period of 2013-14 lead to substantial increase in investment, the State has started to withdraw thereafter from the SPSUs again. This in itself is a welcome trend as this would decrease the pressure on the exchequer.

## 10.4 Total income from the SPSUs

The State has moderate income from the SPSUs both in the revenue and capital form. The total income sectarian is given below.

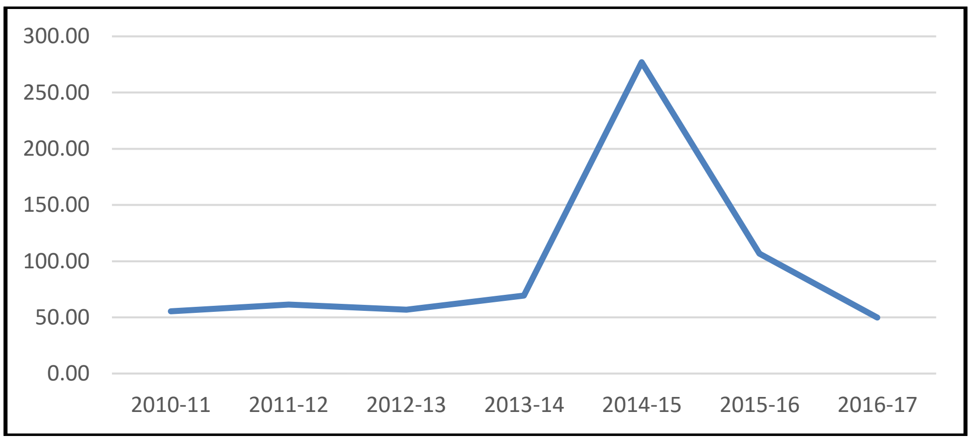
**Table 10.4 Sectarian Total income from SPSUs in Sikkim (Rs. in Cr)**

| Sector | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|---|---|---|
| Dividends and Profits *from* SPSUs | 2.37 | 0.00 | 1.53 | 0.55 | 0.87 | 12.70 | 2.01 |
| Welfare of SCs/STs/OBCs | 0.44 | 1.30 | 0.70 | 1.86 | 1.40 | 3.67 | 6.64 |
| Food, Storage & Warehousing | 0.70 | 0.60 | 0.55 | 0.55 | 2.73 | 1.89 | 0.00 |
| Cooperation | 1.00 | 1.70 | 3.00 | 3.27 | 5.50 | 0.00 | 1.00 |
| Village & Small Industries | 1.24 | 0.72 | 1.48 | 0.00 | 0.00 | 0.00 | 0.00 |
| Tourism | 49.72 | 57.00 | 49.64 | 63.08 | 266.56 | 88.34 | 40.18 |
| **Total** | **55.47** | **61.32** | **56.90** | **69.30** | **277.05** | **106.60** | **49.83** |

*Source: Budget Papers, Government of Sikkim*

The trend of income during the period is given in the figure below. It shows that there was a steep rise in the income during the period of 2012-15 and then a fall in the income.

**Figure 10.2: Total income from the SPSUs in Sikkim**




*Source: Budget Papers, Government of Sikkim*

The State has taken up several reforms for the SPSUs. In the recent past several SPSUs based on their market structure and competitiveness have been closed in order to reduce the burden on State exchequer.

### 10.5 Total Investment in SPUCs

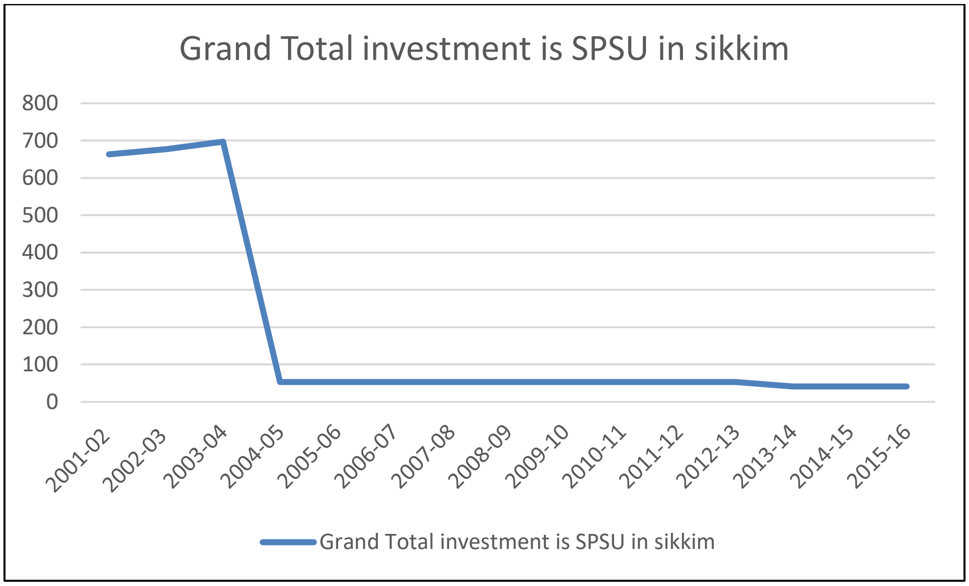
The total investment of the State is depicted in the table below. It shows that the investment stands at Rs. 852 crores in the year 2015-16. The general pattern in the investment is falling as the State had taken steps to close down few enterprises in the period preceding the study.

# Table 10.5: Investments in SPUS

| Name of the enterprise | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SIDICO Financial | 19.46 | 19.48 | 19.66 | 19.66 | 19.66 | 19.66 | 19.71 | 19.71 | 19.71 | 19.71 | 19.71 | 19.71 | 19.71 | 19.71 | 19.71 |
| State Bank of Sikkim Financial | 4.56 | 4.98 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 |
| Sikkim State Co-operative Bank Financial | 8.5 | 8.91 | 9.36 | 9.36 | 9.36 | 9.36 | 9.36 | 9.36 | 9.36 | 9.36 | 9.38 | 9.39 | 9.39 | 9.39 | 9.39 |
| **Total** | **32.52** | **33.37** | **34.42** | **34.42** | **34.42** | **34.42** | **34.42** | **34.42** | **34.42** | **34.42** | **34.42** | **34.42** | **34.42** | **34.42** | **34.42** |
| Sikkim Jewels Manufacturing | 7.1 | 7.82 | 7.04 | 7.04 | 7.04 | 7.04 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sikkim Hatchery Manufacturing | | 0.46 | 0.46 | 0.46 | 0.46 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sikkim Poultry Manufacturing | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 | 0.79 |
| Sikkim Precision Industries Manufacturing | 0 | 0 | 3.7 | 3.7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SITCO Manufacturing | 11.96 | 12.03 | 11.74 | 11.7 | 11.7 | 11.7 | 11.7 | 11.7 | 11.7 | 11.7 | 11.7 | 11.7 | 0 | 0 | 0 |
| Tea Board of Sikkim Manufacturing | 19.52 | 20.44 | 22.71 | 22.73 | 23 | 23 | 23 | 23 | 23 | 23 | 23 | 23 | 23 | 23 | 23 |
| Sikkim Milk Union Manufacturing | 0.1 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 | 0.14 |
| Govt. Fruit Preservation Factory Manufacturing | 0.76 | 1.07 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **40.69** | **45.2** | **41.63** | **115.4** | **111.97** | **111.51** | **104.56** | **104.56** | **104.56** | **104.56** | **104.58** | **104.59** | **92.85** | **92.85** | **92.85** |
| Sikkim Tourism Promotional | 4.79 | 4.79 | 6.06 | 6.06 | 6.06 | 6.06 | 6.06 | 6.06 | 6.06 | 6.06 | 6.06 | 6.06 | 6.06 | 6.06 | 6.06 |
| Sikkim Handloom and Handicrafts Dev. Corp Promotional | 0 | 0 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Khadi and Village Industries Board Promotional | 10.09 | 11.24 | 12.01 | 12.01 | 12.01 | 12.01 | 12.01 | 12.01 | 12.01 | 12.01 | 12.01 | 12.01 | 12.01 | 12.01 | 12.01 |
| **Total** | **14.88** | **16.03** | **18.87** | **18.87** | **18.87** | **18.87** | **18.87** | **18.87** | **18.87** | **18.87** | **18.87** | **18.87** | **18.87** | **18.87** | **18.87** |
| State Trading Corp. Trade and Service | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 |
| Sikkim Consumer Co-operative Society Trade and Service | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 | 0.17 |
| SIMFED Trade and Service | 1.01 | 1.01 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 |
| Denjong Agricultural Co-Operative Society Ltd Trade and Service | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Total** | **2.53** | **2.49** | **2.5** | **40.24** | **40.24** | **40.24** | **40.24** | **40.24** | **40.24** | **40.24** | **40.24** | **40.24** | **40.24** | **40.24** | **40.24** |
| Sikkim Nationalized Transport Corp. Utility | 33.08 | 34.49 | 34.39 | 34.39 | 34.39 | 34.39 | 34.39 | 34.39 | 34.39 | 34.39 | 34.39 | 34.39 | 34.39 | 34.39 | 34.39 |
| State Energy and Department of Power Utility | 470.92 | 470.92 | 514.79 | 514.79 | 514.79 | 514.79 | 612.12 | 612.12 | 612.12 | 612.12 | 612.12 | 612.12 | 612.12 | 612.12 | 612.12 |
| Sikkim Power Dev. Corp. Utility | 53.01 | 53.01 | 53.01 | 53.01 | 53.01 | 53.01 | 53.01 | 53.01 | 53.01 | 53.01 | 53.01 | 53.01 | 53.01 | 53.01 | 53.01 |
| **Total** | **557.01** | **558.42** | **602.19** | **602.19** | **602.19** | **602.19** | **699.52** | **699.52** | **699.52** | **699.52** | **699.52** | **699.52** | **699.52** | **699.52** | **699.52** |
| SABCCO Welfare | 15.61 | 20.1 | 21.5 | 21.5 | 21.5 | 21.5 | 21.5 | 21.5 | 21.5 | 21.5 | 21.5 | 21.5 | 21.5 | 21.5 | 21.5 |
| **Total** | **15.61** | **20.1** | **21.5** | **21.5** | **21.5** | **21.5** | **21.5** | **21.5** | **21.5** | **21.5** | **21.5** | **21.5** | **21.5** | **21.5** | **21.5** |
| **Grand Total** | **663.24** | **676.86** | **697.11** | **770.88** | **767.45** | **766.99** | **864.37** | **864.37** | **864.37** | **864.37** | **864.39** | **864.4** | **852.7** | **852.7** | **852.7** |

*Source: Budget Papers, Government of Sikkim*

**Figure 10.3: Investment in SPSUs (in Rs Cr)**




The figure above shows that the total investment in SPSUs has decreased in the State. The State had taken significant steps to close loss-making enterprises over the year. Besides, in several enterprises, the State has not brought in new investment. This has helped the State to consolidate its finances.

## 10.7 Policy of Government of Sikkim on Privatization and Disinvestment

### 10.7.1 Rationale

i. The GoS accepts, by and large, the need for restructuring SPSUs in the era of economic liberalization paving the growth of private sector.

ii. The restructuring of the SPSUs would be decided on a case to case basis

iii. The manpower in the SPSUs would be right sized through VRS.

iv. The social consequences of restructuring the SPSUs would be given due consideration in deciding about the portfolio of their retention with the GoS.

### 10.7.2 Objectives

- Releasing large amount of public resources locked up in non-productive SPSUs, for redeployment in areas that are much higher on the social priority, such as, basic health, family welfare, primary education and social and essential infrastructure.
- Stemming further outflow of scarce public resources for sustaining the unviable SPSUs.
- Reducing the public debt that is threatening to assume unmanageable proportions.
- Transferring the commercial risk, to which the taxpayers' money locked up in the public sector, is exposed, to the private sector wherever the private sector is willing and able to step in. The money that is deployed in the SPSUs is really the public money and is exposed to an entirely avoidable and needless risk, in most cases.
- Releasing other tangible and intangible resources, such as, large manpower currently locked up in managing the SPSUs, and their time and energy, for redeployment in high priority social sectors that are short of such resources.

### 10.7. 3 Preconditions and Criteria

The Government of Sikkim proposes to ensure that disinvestment does not result in unwarranted alienation of State assets. Further, it does not propose to take any action that may result in formation of private monopolies. The criteria for is investment/ privatization are as follows:

i. Government would disinvest/privatize public sector undertakings, which are making losses for the last three years.
ii. Government would disinvest/privatize public sector undertakings, which have not paid dividends to the Government of Sikkim for the last three years.
iii. Government would disinvest/Privatize public sector undertakings from which the return on investments is less than the prime-lending rate of the Nationalized Banks.

### 10. 8 Reform status of the SPSUs in Sikkim

The table below shows the reforms enterprise was taken up in the form of SPSUs in Sikkim

## Table 10.6: Government Investment and Reforms of SPSUs in Sikkim (2015-16) (Rs. in Cr)

| Sl. No | Name | Investment (Rs. in crore) | Share holding pattern | Period upto which accounts have been finalized/audited |
|---|---|---|---|---|
| 1. | State Bank of Sikkim | 0.53 | Equity share | 2005-06 |
| 2. | Sikkim Mining Corporation | 6.12 | Equity share | 2006-07 |
| 3. | State Trading Corporation of Sikkim | 1.61 | Equity share | 2010-11 |
| 4. | Sikkim Time Corporation | 13.72 | Equity share | 2011-12 |
| 5. | Sikkim Industrial Development and Investment Corporation | 16.83 | Equity share | 2010-11 |
| 6. | Sikkim Livestock Development Corporation | 0.22 | Equity share | Closed |
| 7. | Sikkim Livestock Development Processing | 0.35 | Equity share | Info. not available |
| 8. | Sikkim Tourism Development Corporation | 7.05 | Equity share | 2011-12 |
| 9. | Sikkim Power Development Corporation | 11.36 | Equity share | 2011-12 |
| 10. | Sikkim SC/ST/OBC Finance Development Corporation | 4.55 | Equity share | 2011-12 |
| 11. | Sikkim Jewels Limited Company | 11.54 | Equity share | Closed |
| 12. | Sikkim Distilleries Limited | 2.42 | Equity share | Info Not available |
| 15. | Sikkim Flour Mills Ltd. | 2.44 | Equity share | 1994-95(Privatized) |
| 16. | Cold Storage | 0.28 | Equity share | (Privatized) |
| 17. | Ginger Processing Plant | 0.01 | Equity share | Non-Existing |
| 18. | Chandmari Workshop & Automobiles Ltd. | 0.30 | Equity share | 1994-95 (Closed) |
| 19. | Sikkim Precision Industries Ltd. | 4.30 | Equity share | 2010-11 |
| 20. | Sikkim Himalayan Orchid Ltd. | 0.16 | Equity share | Information not available |
| 21. | Sikkim Handloom & Handicraft | 1.02 | Equity share | Information not available |
| 22. | Sikkim Flora Ltd. | 0.15 | Equity share | Information not available |
| 23. | Sikkim Consumers‘Co-operative Society | 0.99 | Equity share | 2011-12 |
| 24. | Multi-purpose Co-operative Society | 1.14 | Equity share | 2011-12 |
| 25. | Investment in State Co-operative Bank (SISCO) | 9.36 | Equity share | 2011-12 |
| 26. | Sikkim Dairy Co-operative Society (Sikkim Milk Union) | 0.03 | Equity share | 2011-12 |
| 27. | Wood Working Centre, Singtam | 0.01 | Equity share | Closed |
| 28. | Sang-Martam Tea Growers Co-operative Society Ltd. | 0.01 | Equity share | Information not available |

*Source: Memorandum to the 14th Finance Commission, Vol. III, pp-87-88*

**10.7 Profile of SPSUS in Sikkim (as of 2015-16) ( Rs in Crore)**

| Sl. No | Name | Investment | Net Profit/Loss | Net Worth |
|---|---|---|---|---|
| 1. | State Bank of Sikkim | 0.53 | -17.85 | 10.6 |
| 2. | Sikkim Mining Corporation | 6.12 | - | - |
| 3. | State Trading Corporation of Sikkim | 1.61 | 59.4 | 4.8 |
| 4. | Sikkim Time Corporation | 13.72 | - | - |
| 5. | Sikkim Industrial Development and Investment Corporation | 16.83 | 2.51 | 7.84 |
| 6. | Sikkim Livestock Development Corporation | 0.22 | - | - |
| 7. | Sikkim Livestock Development Processing | 0.35 | - | - |
| 8. | Sikkim Tourism Development Corporation | 7.05 | 0.67 | 4.8 |
| 9. | Sikkim Power Development Corporation | 11.36 | 0 | - |
| 10. | Sikkim SC/ST/OBC Finance Development Corporation | 4.55 | 0.35 | 6.14 |
| 11. | Sikkim Jewels Limited Company | 11.54 | - | - |
| 12. | Sikkim Distilleries Limited | 2.42 | - | - |
| 13. | Sikkim Flour Mills Ltd. | 2.44 | - | - |
| 14. | Ginger Processing Plant | 0.01 | - | - |
| 15. | Chandmari Workshop & Automobiles Ltd. | 0.30 | - | - |
| 16. | Denjong | 0.20 | -0.42 | 1.13 |
| 16 | Sikkim Precision Industries Ltd. | 4.30 | 0 | - |
| 17. | Sikkim Himalayan Orchid Ltd. | 0.16 | 0 | - |
| 18. | Sikkim Handloom & Handicraft | 1.02 | -0.36 | 1.28 |
| 19 | Sikkim Flora Ltd. | 0.15 | 0 | - |
| 20 | Sikkim Consumers‘Co-operative Society | 0.99 | 0.009 | 0.46 |
| 21. | Multi-purpose Co-operative Society | 1.14 | 0 | - |
| 22. | SISCO | 9.36 | 0.6 | 0 |
| 23. | Sikkim Dairy Co-operative Society (Sikkim Milk Union) | 0.03 | 1.28 | 1.41 |
| 24. | Wood Working Centre, Singtam | 0.01 | -1.26 | 1.33 |
| 25. | Sang-Martam Tea Growers Co-operative Society Ltd. | 0.01 | - | - |

*Note: - indicates data not available*
*Source: Compiled from various sources*

### 10.9 Suggested Reform for the SPSUs of Sikkim

Based on the earlier discussion we had in this chapter, it can be observed that the SPSUs in the Sikkim are either profit making and high on public purpose or are loss making and low on public purpose. Besides some of them are also low on resource mobilization as they are not commercial in nature. Hence, a grid for their classification is given below to categorize them for their reform so that public resources can be saved.

**Table 10.8: Reform Matrix for SPSUs of Sikkim**

| **Group 1** | | | | **Group 2** | | | |
|---|---|---|---|---|---|---|---|
| **Name of SPSU** | **Criterion** | **Reform Suggested** | **Resulting Public Finance impact** | **Name of SPSU** | **Criterion** | **Reform Suggested** | **Resulting Public Finance Impact** |
| Sikkim Co-operative Milk Producers Union<br>Tea Board of Sikkim<br>Sikkim Nationalised Transport<br>Sikkim Energy and Department of Power<br>SABCCO<br>Sikkim Tourism Dev. Corp | Profitable /High on Public Purpose and able to mobilize resources | To be retained by the Government | Invest and expand | State Trading Corp Ltd<br>Sikkim Consumer Co-operative Society<br>Sikkim Hatchery Ltd<br>Sikkim Poultry Dev. Corp. Ltd<br>Sikkim Precision Industries<br>Govt. Fruit Preservation Compa | Loss Making/ High on Public purpose and not able to mobilize resources | Privatize or divesture | Save scarce public fund |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | ny Sikkim Time Corporation Sikkim Power Dev. Corp | | | |
| **Group 3** | | | | **Group 4** | | | |
| **Name of SPSU** | **Criterion** | **Reform Suggested** | **Resulting Public Finance impact** | **Name of SPSU** | **Criterion** | **Reform Suggested** | **Resulting Public Finance impact** |
| Sikkim Handloom Corporation Sikkim Handicraft Dev. Corp. Sikkim Livestock Development Corporation Sikkim Flora Ltd | Have high potential for profit and resource mobilization | Retain and invest to be developed and make PPP investment | Reduce pressure on exchequer | The Denjong Agricultural Co-operative Society and Sikkim State Co-operative Supply and Marketing Federation | Low on Profit making ability and public purpose | Merge with profit making sector or jointly hold with private sector (part divesture) | Reduce pressure on exchequer |

*Source: Based on analysis.*

The State should actively look into all the possible options to reduce the pressure on public exchequer by engaging in various reforms which it has already calked out for itself. The State should use the avenues currently available for reform and in addition explore possibilities to share responsibility with private sector and look at brown and green field privatization for its enterprises.

### 10.10 Conclusion

The State has taken substantial steps to rationalize its investment in the SPSUs. It has closed the enterprises which have earned recurrent loss and or failed to pay dividend to the State for the last three accounting years. The State has also taken care to reduce its investment in the SPSUs thereby reducing its burden on the exchequer.

**Major Findings**

- The State had invested in SPSUs as a part of economic compulsion
- These enterprises were company, cooperatives or Board spanning over manufacturing, services and developmental activities.
- The State has taken to close its Loss-making enterprises over a period of time.
- The State has also rationalized its investment in SPSUs too.

## CHAPTER - 11

# IMPACT OF THE POWER SECTOR REFORMS ON THE FISCAL HEALTH OF THE STATE

### 11.1 Power Sector in Sikkim

Use of electricity in the State was introduced as far back as on 27th May 1927 with the commissioning of first Micro Hydel project at Ranikhola near Gangtok by the then ruler with an installed capacity of 50 KW which catered to the needs of Gangtok and the royal family. During this era, activities under power sector in Sikkim were not at all significant. Till the year 1954, operation and maintenance of power supply system were managed with the help of a foreman and an electrician under the supervision of Sikkim Public Works Department. The growing demand for electricity and as a standby measure, a Diesel power house was established and commissioned in 1957 with a capacity of 257 KW. One more 150 KW SKODA Diesel generating set was also added in this Diesel Power House. Power supply till the end of 1975 was confined to the State capital, Gangtok, the district head-quarters and four other towns.

Since then the demand is ever increasing and a number of transmission and distribution of electricity schemes have been taken up.

It is estimated that Sikkim has a peak potential capacity of 8,000 MW and a steady 3,000 MW hydroelectric power. About 28 hydropower projects are being set up in the State under the Public Private Partnership (PPP) mode.

As of January 2013, Sikkim had a total power generation installed capacity of 206.48 MW, out of which hydropower generation installed capacity was 75.27 MW.

The Teesta and the Rangeet are two major rivers with nearly hundred tributaries. The Teesta descends from an elevation of about 3600 m to about 300 m over a distance of 175 km. It could be harnessed for power generation in six stages.

The 1,200 MW Teesta-III hydropower projects in the State is commissioned by December 2013.

The present peak demand of the State is of 96 MW even with considering industrial units. The State currently generates 38.2 MW, but since 32.2 MW is generated through hydel projects, which are run of the river scheme, there output comes down to 50% (up to 12 MW) during the winter months. Now with the liberalized power policy, Sikkim can look forward for developing and exploiting its huge Hydo Power Potential which has been assessed to 8000 MW peak with a firm base of 3000MW. The following are the status of generating stations in the State.

Table below shows the energy generation in Sikkim by station.

**Table 11.1:Electricity Generation in Sikkim**

| Sl Number | **General Station (Under Operation** | **Installed Capacity (MW)** | **Gross Generation (MU)** |
|---|---|---|---|
| 1 | Lower Lagyap HEP | 12.00 MW | 24.195 MU |
| 2 | Jali Power House (JPH) | 2.00 MW | 3.163 MU |
| 3 | Rimbi Micro Hydel I | 0.60 MW | 0.165 MU |
| 4 | Rimbi Stage II | 1.00 MW | 0.415 MU |
| 5 | Rongnichu | 2.50 MW | 0.854 MU |
| 6 | Mayongchu HEP | 4.00 MW | 6.589 MU |
| 7 | LachungMicro Hydel | 0.20 MW | 1.025 MU |
| 8 | KalezKhola HEP | 2.00 MW | 0.76 MU |
| 9 | Rabomchu | 3.00 MW | 3.522 MU |
| 10 | Diesel Power Stations, Gangtok | 4.00 MW | 0.153 MU |
| 11 | DPH, LLHP, Ranipool | 1.00 MW | 0.001 MU |
| 12 | Rangit HEP | 60.00 MW | 30.00MW |

*Source: The Census Report of India 2011*

**Table 11.2: Electricity Consumption in Sikkim (in KWh)**

| **Category** | **2008-09** | **2009-10** | **2010-11** | **2011-12** | **2012-2013** | **2013-14** | **2014-15** | **2015-16** |
|---|---|---|---|---|---|---|---|---|
| **Agriculture** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Domestic** | 56.20 | 58.40 | 57.97 | 82.77 | 78.98 | 83.98 | 78.93 | 74.96 |
| **Commercial** | 28.90 | 29.30 | 29.23 | 29.72 | 38.26 | 35.43 | 35.33 | 37.43 |
| **Public Lighting** | 2.60 | 2.60 | 2.60 | 2.30 | 0.43 | 0.35 | 0.29 | 0.15 |
| **Temporary Supply** | 0.10 | 0.10 | 0.15 | 0.30 | 0.09 | 1.61 | 1.36 | 1.16 |
| **HT Industrial consumers** | 57.50 | 59.20 | 58.39 | 71.63 | 91.76 | 97.11 | 110.49 | 126.30 |
| **LT Industrial consumers** | 1.20 | 1.90 | 1.31 | 8.63 | 1.15 | 1.15 | 1.37 | 1.34 |
| **Bulk Supply** | 13.50 | 14.50 | 13.35 | 13.21 | 16.23 | 17.74 | 20.98 | 23.37 |
| **Outside State** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | 160.00 | 166.00 | 163.00 | 208.00 | 226.90 | 237.37 | 248.75 | 264.71 |

*Source: Tariff Order for FY 2017-18, (March 2017 Report), Sikkim State Electricity Regulatory Commission, Gangtok, Sikkim,Energy and Power Department, Government of Sikkim*

### 11.2 Electricity Consumption

The total electricity consumption of electricity is the State is about 264.71 KWh. The trend is in an increasing order. The Highest consumption of electricity is Industrial consumption followed by Bulk consumption. Table 11.2 shows a sector wise consumption of electricity in the State.

It is however, interesting to note that the State has no power utilized for agriculture as irrigation in the State is largely gravity based.

**Table 11.3 Electricity by Source Type**

| Year | Production (inMillion Kwh/Annum) | Installed Capacity (in Million Kwh/Annum) |
|---|---|---|
| 2002-03 | 120.68726 | 3820 |
| 2003-04 | 387.093084 | 3820 |
| 2004-05 | 498.95401 | 3820 |
| 2005-06 | 564.39700 | 3820 |
| 2006-07 | 583.91670 | 3820 |
| 2007-08 | 624.37625 | 5830 |
| 2008-09 | 802.30579 | 5830 |
| 2009-10 | 884.87986 | 5830 |
| 2010-11 | 924.77754 | 5830 |
| 2011-12 | 910.58787 | 5830 |
| 2012-13 | 910.68363 | 5830 |
| 2013-14 | 9120.66742 | 5830 |
| 2014-15 | 916. 66740 | 5830 |
| 2015-16 | 916.66740 | 5830 |

*Source: Source: Tariff Order for FY 2017-18, (March 2017 Report), Sikkim State Electricity Regulatory Commission, Gangtok, Sikkim,Energy and Power Department, Government of Sikkim*

**Table 11.4: Hydel Power Generation**

| Year | Production (inMillion Kwh/Annum) | Installed Capacity (in Million Kwh/Annum) |
|---|---|---|
| 2002-03 | 60.845145 | 330 |
| 2003-04 | 79.979480 | 330 |
| 2004-05 | 80.935710 | 330 |
| 2005-06 | 79.271747 | 330 |
| 2006-07 | 67.085301 | 330 |
| 2007-08 | 90.029382 | 840 |
| 2008-09 | 330.21803 | 840 |
| 2009-10 | 420.38495 | 840 |
| 2010-11 | 426.61700 | 840 |
| 2011-12 | 416.80264 | 840 |
| 2012-13 | 416.80324 | 840 |
| 2013-14 | 417.80265 | 840 |
| 2014-15 | 417.80267 | 840 |
| 2015-16 | 418.80267 | 840 |

*Source: Source: Tariff Order for FY 2017-18, (March 2017 Report), Sikkim State Electricity Regulatory Commission, Gangtok, Sikkim,Energy and Power Department, Government of Sikkim*

The electricity production in the State has moved up. However, it took and deep during the year 2011-12 and has hence picked up. Largely depended on National Hydro Power corporation to harness the river in the State, the electricity production is more a function of the national utility rather than the State's own economic activity.

The State is highly dependent on hydel power. As discussed earlier, the State has been harnessing the mountain river, especially Tista to generate power. The National Hydro Power Corporation is in the forefront of partnering with the State for the generation of Hydel power.

Interestingly the State despite its limitation both geographic and economic is expanding the electricity network in the State. The State has been able to create an incremental power generation scenario for the State.

### 11.3 Financial Performance of Power Utility

The power utility of the State has increased its expenses where as its revenue has fallen. The surplus of the utility has increased in the last three years. However, during 2014-15 it has reduced. The expenses have largely gone up due to increase in operational cost purchase of power, repairs and maintenance**.** The table and figure below have depicted the position of the power utility over the period of time.

**Table 11.5: Financial Performance of the Power Utility (In Rs. Crore)**

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|---|
| TOTAL REVENUE | 200.16 | 238.22 | 189.63 | 184.64 | 237.84 |
| TOTAL EXPENDITURE | 222.7 | 253.08 | 272.12 | 275.64 | 298.14 |
| SURPLUS | -22.54 | -14.86 | -86.01 | -90.76 | -60.30 |

*Source: Budget Papers, Government of Sikkim*

Despite being a utility and support of the State in its welfare function, power utility has been able to improve its performance in terms of managing its utility. It must be remembered here that the entire State is dependent only on hydro power for its electricity source.

The power sector being a Department of the State does not generate a profit and loss Statement for itself. This may be a difficult for the State later as measuring efficiency for the enterprise may be difficult for the State.

## 11.6 Technical details of Power Sector

### Table 11.6 The Technical details of Power Sector (inRs Cr)

| Technical Details of Power Utilities | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ITEMS | | Actuals | | | | | | | RE | BE |
| | | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
| **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** |
| 1 | **PHYSICAL PARAMETERS** | | | | | | | | | |
| 1.1 | **INSTALLED CAPACITY(MW):** | | | | | | | | | |
| A | Hydro | 35.70 | 35.70 | 35.70 | 35.70 | 35.70 | 35.70 | 35.70 | 27.70 | 27.70 |
| B | Thermal - Coal Fired | - | - | - | - | - | - | - | - | - |
| C | Gas | - | - | - | - | - | - | - | - | - |
| D | Others(Diesel) | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| | **TOTAL (1.1A+1.1B+1.1C+1.1D)** | **39.70** | **39.70** | **39.70** | **39.70** | **39.70** | **39.70** | **39.70** | **31.70** | **31.70** |
| 1.2 | **ENERGY GENERATED (MKWH)** | | | | | | | | | |
| A | Hydro | 41.51 | 21.03 | 4.12 | 4.70 | 6.80 | 11.09 | 8.14 | 8.10 | 8.91 |
| B | Thermal - Coal Fired | - | - | - | - | - | - | - | - | - |
| C | Gas | - | - | - | - | - | - | - | - | - |
| D | Others(Diesel) | 0.15 | 0.09 | 0.06 | 0.10 | 0.05 | 0.14 | 0.02 | 0.02 | 0.02 |
| | **TOTAL (1.2A+1.2B+1.2C+1.2D)** | **41.66** | **21.12** | **4.18** | **4.80** | **6.85** | **11.23** | **8.16** | **8.12** | **8.93** |
| 1.3 | **AUX. CONSUMPTION (MKWH):** | | | | | | | | | |
| A | Hydro | 0.13 | 0.05 | 0.01 | 0.04 | 0.02 | 0.04 | 0.02 | 0.02 | 0.02 |
| B | Thermal - Coal Fired | - | - | - | - | - | - | - | - | - |
| C | Gas | - | - | - | - | - | - | - | - | - |
| D | Others(Diesel) | 0.02 | 0.01 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **TOTAL (1.3A+1.3B+1.3C+1.3D)** | **0.15** | **0.06** | **0.01** | **0.04** | **0.02** | **0.04** | **0.02** | **0.02** | **0.02** |
| 1.4 | Energy Generated - Net of Aux. Consumption (1.2-1.3) | 41.51 | 21.06 | 4.17 | 4.76 | 6.83 | 11.19 | 8.14 | 8.10 | 8.91 |
| 1.5 | Energy Purchased(Mkwh) Other Than Ipps& Captive Power | | | | | | | | | |
| 1.6 | Energy Purchased(Mkwh) - Ipps | 356.35 | 354.72 | 368.36 | 397.51 | 381.96 | 375.32 | 458.00 | 465.00 | 470.00 |
| 1.7 | Energy Purchased(Mkwh) - Captive Power | - | - | - | - | - | - | - | - | - |
| 1.8 | Energy Available For Sale(Mkwh) (1.4+1.5+1.6+1.7) | 397.86 | 375.78 | 372.53 | 402.27 | 388.79 | 386.51 | 466.14 | 473.10 | 478.91 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 1.9 | Energy Sold (Mkwh) (Details In Ann. 1) | 163.00 | 208.00 | 196.14 | 213.42 | 226.16 | 245.20 | 302.31 | 320.00 | 335.00 |
| 1.10 | T&D Losses(Mkwh) (1.8-1.9) | 234.86 | 167.78 | 176.39 | 188.85 | 162.63 | 141.31 | 163.83 | 153.10 | 143.91 |
| 1.11 | T&D Losses (%) (1.10/1.8*100) | 59.03 | 44.65 | 47.35 | 46.95 | 41.83 | 36.56 | 35.15 | 32.36 | 30.05 |
| 1.12 | AT&C Losses (%) | 51.96 | 49.58 | 45.44 | 48.10 | 42.38 | 37.13 | 40.89 | 37.00 | 34.00 |
| **2** | **TRANSMISSION NETWORK (CKT) (Please see Note 1 below):** | | | | | | | | | |
| | 133 KV Single Circuit in Km. | 60.50 | 60.50 | 10.00 | 60.50 | 60.50 | 60.50 | 60.50 | 60.50 | 60.50 |
| | 66 KV Double circuit in Km. | 25.19 | 25.19 | 25.19 | 25.19 | 25.19 | 25.19 | 25.19 | 29.19 | 29.54 |
| | 66 KV Single circuit in Km. | 196.05 | 196.05 | 196.05 | 196.05 | 196.05 | 196.05 | 196.05 | 200.55 | 200.55 |
| | 11 KV / 3 phase | 3037 | 3110.00 | 3117.00 | 3125.00 | 3161.00 | 3187.00 | 3210.00 | 3242 | 3264 |
| | 11 KV / 2 phase | 337 | 297.00 | 305.00 | 301.00 | 288.00 | 296.00 | 297.00 | 299 | 302 |
| **3** | **DISTRIBUTION NETWORK (CKT) Please see Note 2 below):** | | | | | | | | | |
| | LT / 3 phase (.043KV) | 2969 | 2985 | 3220 | 3256 | 3392 | 3482 | 4264 | 4306 | 4359 |
| | LT / Single phase (0.23KV) | 1979 | 2037 | 2059 | 2076 | 2095 | 2118 | 2150 | 2171 | 2192 |
| **4** | **RURAL DISTRIBUTIONWORK:** | | | | | | | | | |
| | Total Length (Ckt) | 4411 | 4589 | 4767 | 4945 | 5123 | 5301 | 5479 | 5657 | 5835 |
| | Total No. of Transformers | 1619 | 1781 | 1856 | 1934 | 2021 | 2243 | 2457 | 2582 | 2811 |
| | Total No. of Villages | 443 | 443 | 443 | 443 | 443 | 443 | 443 | 443 | 443 |
| | Total No. of Villages Electrified As Per Old Policy of GOI | 418 | 418 | 418 | 418 | 418 | 418 | 418 | 418 | 418 |
| | % of Villages Electrified As Per Old Policy of GOI | 94% | 94% | 94% | 94% | 94% | 94% | 94% | 94% | 94% |
| | Total No. of Villages Electrified As Per New Policy of GOI | 418 | 418 | 418 | 418 | 418 | 418 | 418 | 418 | 418 |
| | % of Villages Electrified As Per New Policy of GOI | 94% | 94% | 94% | 94% | 94% | 94% | 94% | 94% | 94% |
| | % of Households Electrified In Rural Areas | ` | 85% | 85% | 85% | 85% | 85% | 85% | 85% | 85% |
| | Total No. of Rural Consumers Excl. Pump Sets | 28166 | 28166 | 29134 | 30102 | 31070 | 32038 | 33006 | 33974 | 34942 |
| **5** | **METERING:** | | | | | | | | | |
| | % of Metering - 11 Kv Feeders | 9% | 15% | 16% | 16% | 16% | 17% | 17% | 18% | 20% |
| | % of Consumer Metering | 57% | 74% | 74% | 77% | 79% | 83% | 85% | 87% | 90% |
| **6** | **AVG. COST OF POWER RECD./KWH AS STATE'S SHARE FROM :** | | | | | | | | | |
| | Hydro (in Rs./Kwh) | 1.89 | 2.42 | 2.25 | 2.52 | 2.35 | 2.06 | 2.43 | 2.25 | 2.30 |

*Source: Budget Papers, Government of Sikkim*

The technical details of power sector of the Statethat the State has substantially invested in the electrification of the entire State. The State purchases power at the national tariff from NHPC (RangeetHydo power plant at Rs. 3.80 and Teesta V at Rs. 2.33 per unit without adjustment for water tariff).However, there are special arrangements of supply of power to the state by the production companies for fifteen years from the date of commencement of the power plant.The rural electrification efforts are commendable by the State. One importing aspect of the metering details is that the State has given importance to the metering of electricity which is a very important aspect in checking the financial leakage in the system.

### 11.4 Power Sector Reform

The State is not in the forefront of the power generation in the country. It is capable to meet its own demand of power largely supplied by the National level hydro power companies and in exchange provide free electricity to the State for a agreed period of time after which the state has to purchase power from them. The State manages its distribution network and manages it merge power requirement. Since Industrial development is a very recent origin, that too only pharmaceutical companies. As a result the pressure on the exchequer from the power sector is not there. Hence the State has not taken any significant reforms in the sector.

### 11.4 Conclusion

Power generation in the State is largely hydro power harnessed from the Mountain Rivers. The national power generation majors have partnered with the State to generate power. The State has a share in the power generated and suffices in its consumption from it. Since, the State does not have any major heavy industry; the power consumption is low too. The power sector has not witnessed any major reforms in the State.

**Major Findings**

- The State generates power mostly from the Hydel sources. The major Hydro power production centers are managed by the National Power Majors.
- The State has ashare in the electricity produced in the State.
- The consumption of electricity is very nominal as there are not many heavy Industry which require electricity.
- The expenditure is mounting on the utility as a result of increase in operational cost.
- The Power Utility of the State over a period should be made in corporation to make it more efficient.

# CHAPTER - 12

# PERFORMANCE OF THE SIKKIM NATIONALISED TRANSPORT

## 12. 1 Introduction

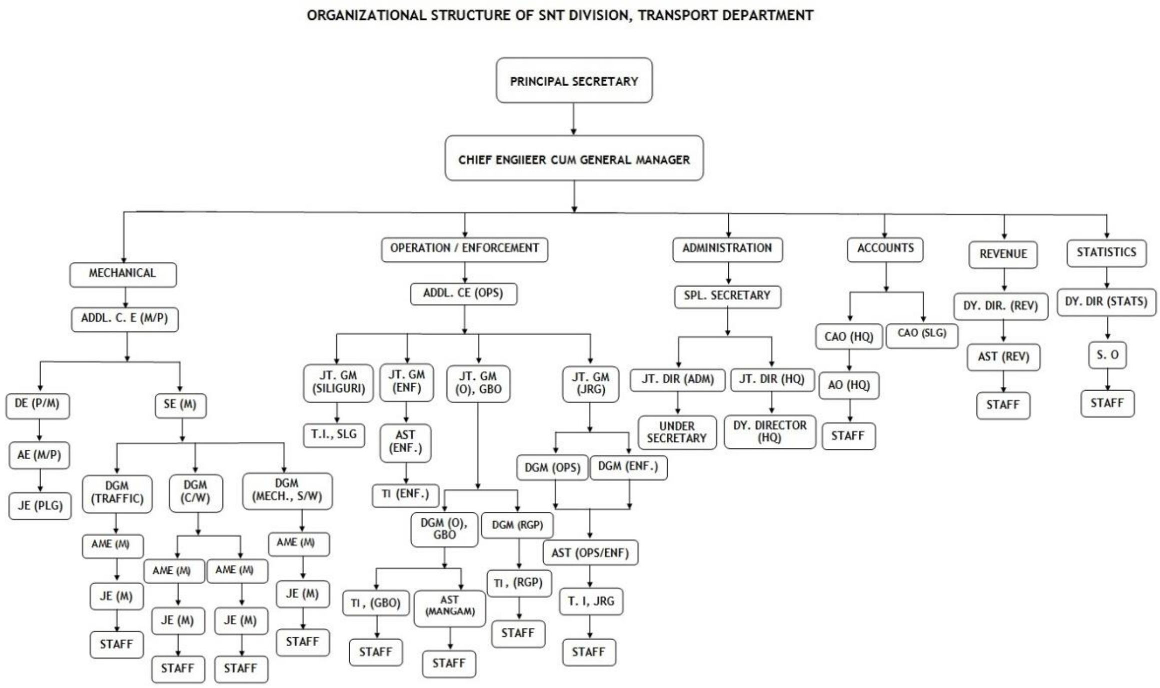
The Bus and Vehicular transport in Sikkim is looked after by Sikkim Nationalised Transport (SNT). The transport system was introduced in the year 1944 as Sikkim State Transport and had been re christened as Sikkim Nationalized Transport from the year 1955 and is a part of the Transport Department, Government of Sikkim.

SNT was looking after both vehicular and goods transport until 1988 until Central Motor Vehicle Act came into force. There after this system was relaxed and vehicular traffic is allowed with private Buses from the neighbouring State of West Bengal.

## 12.2 About Sikkim Nationalised Transportation

Organised under the Transport Department of the State, SNT is an independent organisation with a distinctive organisational structure.

**Figure12.1: Organisational Structure of SNT**




*Source: Sikkim Nationalised Transport*

SNT has 13 depots of Bus with one operation from Siliguri in West Bengal. Sikkim being highly dependent on Road transports both for passenger and good transport SNT play a major role in the State. The National Highway 31 A and 10 Connects Siliguri to Gangtok and is the major life line of the State. The State is therefore dependent on the vehicular traffic of this major road connectivity. SNT is currently the only Governmental public transport facility in the State.

### 12.2.1 Fleet Size and Review of Operations of SNT

At present SNT has 75 buses, 51 trucks and 33 tankers. It operates through 40 bus routes covering the entire span of the State alongside the connectivity to Siliguri in West Bengal. Besides, SNT also provides for the City Bus services which are operative through 7 am to 6 pm on a daily basis. SNT employs close to 677 people and is one of the major employers of the State.

Covering a total distance of the 2668 Km the SNT is a operative through 40 routs out of which 1 is dedicated to Siliguri. The table below shows the operational span of SNT.

**Table 12.1: Operational Span of SNT**

| Sl. No. | Depot | Bus Operations | | | Fleet Size | | |
|---|---|---|---|---|---|---|---|
| | | Routs | Schedule Services | Distance | Bus | Trucks | Tankers |
| 1. | Gangtok | 17 | 21 | 1347 | 36 | 1 (REC Van) | - |
| 2. | Rangpo | 2 | 3 | 21 | 9 | 49 | 33 |
| 3. | Rhenock | 1 | 1 | 111 | - | - | - |
| 4. | Jorethang | 20 | 24 | 1189 | 30 | 1 | - |
| Total | | 40 | 49 | 2668 | 75 | 51 | 33 |

*Source: Consultancy study on Performance Improvement measures for SNT*

### 12.2.2 Manpower of SNT

SNT is a major employer of the State. However, the State is downsizing its manpower with a mission to cut down on cost and increase its utilisation. Table below shows the man power of SNT during the period of study.

**Table 12.2: Manpower of SNT**

| Description | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-2016 | 2016-17 |
|---|---|---|---|---|---|---|---|
| **No. of Persons Employed** | 780 | 718 | 701 | 717 | 774 | 723 | 677 |

*Source: Budget Papers, Government of Sikkim*

As is evident from the table 12.2 the State has been able to deal with the reduction of manpower in SNT with reasonable degree of success. This is however prudent to understand here that being a highly road dependent State, further decrease of manpower may not be very lucrative for the State as long as its efficiency of manpower remain good.

## 12.3 Financial Performance

### 12.3.1 Revenue and Profit and Loss performance of SNT

Financial performance of any organisation is the hallmark of its operative efficiency. Here it should be remembered that SNT is a public utility and is an extension of the State which is welfare in nature. Table 12.3 below shows the revenue and profit performance of the SNT.

**Table 12.3: Revenue and Profit and Loss performance of SNT**

| Criterion | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-2016 | 2016-17 |
|---|---|---|---|---|---|---|---|
| Revenue Receipts(i+ii) | 25.69 | 32.65 | 31.55 | 31.41 | 30.92 | 38.42 | 45.33 |
| (i) Traffic | 8.678 | 9.639 | 8.850 | 10.44 | 10.24 | 10.98 | 11.45 |
| (ii) Non- Traffic | 17.02 | 23.01 | 22.70 | 20.97 | 20.67 | 27.43 | 33.87 |
| Profit/Loss | (-)7.92 | (-)6.23 | (-)9.65 | (-)13.57 | (-)15.10 | (-)12.22 | (-)13.42 |

*Source: Budget Papers, Government of Sikkim*

It is of great importance that SNT have been able to increase its revenue receipt over the years. This is definitely an interesting issue since SNT is a public utility; revenue management is quite an issue. With an average increase of 5 percent of revenue gain, SNT has done a commendable service. It is interesting to note that average increase of 11 percent of revenue on Non-traffic receipts, SNT has done a good job. However, the average increase in traffic revenue is about 1 percent. SNT has however been in Loss for the entire period of study and the loss has averagely increased by 1 percent which is quite well contended.

### 12.3.2 Cost Positions of SNT

The table below shows the cost structure of SNT during the study period. The cost is generally accelerated in SNT.

**Table 12.4: Cost Structure of SNT (in Rs Lakh)**

| Criterion | **2010-11** | **2011-12** | **2012-13** | **2013-14** | **2014-15** | **2015-2016** | **2016-17** |
|---|---|---|---|---|---|---|---|
| 1. Personnel Cost | | | | | | | |
| (a) Salary & Wages | 21.34 | 24.2 | 27.2 | 28.42 | 30.63 | 32.85 | 34.76 |
| (b) Other Cost | 5.49 | 6.14 | 7.13 | 8.32 | 9.11 | 8.47 | 11.84 |
| 2. Material Cost | | | | | | | |
| (a) Fuel (Diesel) | 4.94 | 4.77 | 4.87 | 4.84 | 4.14 | 6.3 | 8.97 |
| (b) Lubricants | 0.11 | 0.20 | 0.17 | 0.20 | 0.21 | 0.17 | 0.23 |
| (c ) Auto Spare Parts | 0.64 | 0.56 | 0.74 | 0.79 | 0.97 | 1.10 | 1.23 |
| (d) Tyres & Tubes | 0.30 | 0.40 | 0.40 | 0.48 | 0.30 | 0.34 | 0.44 |
| (e) Batteries | 0.02 | 0.21 | 0.03 | 0.03 | 0.04 | 0.06 | 0.09 |
| (f) General Items | 0.16 | 1.70 | 0.13 | 1.36 | 0.15 | 0.18 | 0.28 |
| 3. Taxes | | | | | | | |
| (a) M.V.Tax | 0.236 | 0.205 | 0.206 | 0.210 | 0.179 | 0.219 | 0.223 |
| (b) Passenger Tax | | | | | | | |
| © Other Taxes on Buses | 0.380 | 0.303 | 0.325 | 0.338 | 0.292 | 0.417 | 0.694 |
| **Total Cost (1 to 6)** | 33.616 | 38.880 | 41.201 | 44.988 | 46.021 | 50.646 | 58.757 |

*Source: Budget Papers, Government of Sikkim*

The average cost has gone up by 1 percent. Amongst the cost, personnel and fuel expenses has gone up the most.

In terms of material cost the fuel cost has increased the most. Spare Parts follow as the second lead. The rest are not of great concern for SNT.

### 12.3.2 Revenue from Passengers

SNT has increased the revenue per passenger over a period of time. On an average the increase is about 6 percent. This is quite a good sign for SNT as this shows that the organisation has been able to manage its revenue efficiently.

**Table 12.5:Revenue per Bus**

| DESCRIPTION | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-2016 | 2016-17 |
|---|---|---|---|---|---|---|---|
| Revenue/Day (Rs. In lakhs) | 0.1141 | 0.1168 | 0.1215 | 0.1422 | 0.1541 | 0.1521 | 0.213 |
| Earnings per Km. (Rs.) | 21.24 | 22.76 | 24.8 | 27.57 | 33.55 | 29.24 | 34.02 |

*Source: Budget Papers, Government of Sikkim*

SNT has also been able to increase its earning per kilometre alongside by about five percent. This is also quite heartening for SNT.

**12.3.3 Performance of SNT on Basis of Utilization**

**Table 12.6: Operational performance of SNT**

| Criterion | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-2016 | 2016-17 |
|---|---|---|---|---|---|---|---|
| 3. Fleet Utilisation (in%(as on 31 March) | 0.78% | 0.94% | 0.94% | 0.97% | 0.76% | 0.83% | 0.84% |
| 2. Average buses off-road (as on 31 March) | 23 | 6 | 6 | 3 | 20 | 22 | 19 |
| 11. Bus Staff Ratio | 1:0135 | 1:747 | 1:737 | 1:770 | 1:855 | 1:609 | 1:509 |

*Source: Budget Papers, Government of Sikkim*

The table shows that SNT has been able to increase its fleet utilization and decrease its average buses off road. It may be note that the buss staff ratio has marginally decreased. This is good both for the Organisation and the State.

## 12.3.5 Staff Productivity

SNT has been able to increase its staff productivity. This was possible by reducing the manpower, which has increased the utilisation and bus staff ratio. The table below shows the staff productivity of SNT.

**Table 12.7: Staff Productivity of SNT**

| DESCRIPTION | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-2016 | 2016-17 |
|---|---|---|---|---|---|---|---|
| Bus Staff Ratio | 1:0135 | 1:747 | 1:737 | 1:770 | 1:855 | 1:609 | 1:509 |

*Source: Budget Papers, Government of Sikkim*

SNT has been able to manage its Bus Staff efficiency well. The marginal fluctuations have been affected by various economic transactions. Hence, it can be understood that SNT has performed well in the time frame as far as the staff productivity is comcerend.

### 12.4 Reforms in SNT

The reforms of SNT have been mostly to manage its resources. Streamline of manpower, reduction of operational cost and managing the fleet utilization are the major issues. The State uses SNT as a major welfare tool as it is heavily depended on road transport and connectivity. The State has been able to bring in competition by allowing the private buses from the State of West Bengal between Siliguri and Gangtok. This provided as an initiative to SNT as it has allowed them to create a bench mark.

### 12.4 Conclusion

SNT has been able to manage its business well. The State has allowed completion by giving buses from West Bengal to operate in the State. The revenue performance of SNT is quite impressive. However, the cost has not been properly managed by SNT. The organisation has been able to reduce its manpower and increase its efficiency in terms of fleet utilization.

**Major Findings**

- SNT being a departmental organization does the major public transport in the State.
- The State has allowed the private bus operators to incorporate competition
- The financial performance in terms of revenue is impressive
- SNT has not been able to manage its Cost effectively.
- The Fleet utilization and staff productivity is good in SNT.
- There are no major reforms in SNT other than internal management of resources and allowing private bus operators in the State especially the West Bengal and Sikkim route.

# CHAPTER- 13

# ANALYSIS OF CONTINGENT LIABILITY

## 13.1INTRODUCTION

With limited borrowing capacities and almost systemic revenue deficits, State Governments have had to generate capital savings to balance the budget. This implies that the investment done by the State Government is ultimately bears the brunt of the hard budget constraints faced by the State Governments. In response to the issue, State Governments have resorted to issuing guarantees on behalf of public sector companies or co-operative societies, which then contribute to critical infrastructural and social sector development within the State. These and such guarantees are called as contingent liabilities. Such guarantees, if invoked due to default on behalf of the company or co-operative society, have the potential to destabilize the fiscal mathematics of the budget.

## 13.2DEBT AND LIABILITIES

Article 293 of the Constitution of India empowers the State Government to borrow on the security of the Consolidated Fund of the State within such limits, if any, as may be fixed from time to time by the State Legislature. Details of the Public Debt and other liabilities of the State Government are as under (Figures are progressive balances to end of the year.

**Table 13.1 Total Liabilities and percentage to GSDP (in Rs Cr)**

| Year | Public Debt | Percentage to GSDP | Public Account* | Percentage to GSDP | Total Liabilities | Percentage to GSDP |
|---|---|---|---|---|---|---|
| 2011-12 | 1852 | 22 | 701 | 08 | 2553 | 30 |
| 2012-13 | 1,978 | 20 | 779 | 08 | 2,757 | 28 |
| 2013-14 | 2,186 | 18 | 882 | 07 | 3,068 | 25 |
| 2014-15 | 2,510 | 17 | 971 | 07 | 3,481 | 24 |
| 2015-16 | 2,969 | 18 | 992 | 06 | 3,961 | 24 |
| 2016-17 | 3,506 | 19 | 1,163 | 06 | 4,669 | 25 |

*Note: (*) Excludes Advances, Suspense and Miscellaneous and Remittance balances*
*Source: CAG Report, Various Years*

Public debt and other liabilities of the Government jumped from 24 per cent of GSDP at the end of 2014-15 to 25 per cent of GSDP at the end of 2016-17. The Public Debt to GSDP ratio, however, was within the FRBM target of 30.

### 13.3CONTINGENT LIABILITIES

Contingent liabilities may be classified as explicit or implicit. Explicit guarantees are contractual obligations of the Government and are driven by explicit laws or contracts. Thus, standing as a guarantor to a loan taken by a co-operative society from KVIC is an explicit guarantee. Implicit guarantees often involve moral obligations to the society and may not be covered by any contract. Instances of Public Works initiated by the Government following occurrences of natural disasters are implicit guarantees.

In addition to directly raising loans, State Government through contractual obligations guarantee loans raised by Government companies and corporations from the market and financial institutions for implementation of various plan schemes and programmers. These guarantees are projected outside the State budget.

The Sikkim Ceiling on Government Guarantees Act-2000 came into force from 16thDecember 2000. As per the Act, total outstanding Government Guarantee on the 1st day of April of any year should not exceed thrice the State ‘s Tax Revenue Receipt of the second preceding year.

The position of guarantees by the State Government for repayments of loans (payment of principal and interest thereon) raised by Statutory Corporations, Government Companies, Corporations, Co-operative Societies, etc., is given below.

**Table 13.2 Guarantee Amount (in Rs Cr)**

| At the end of the year | Maximum amount guaranteed | Guarantees outstanding at the end of year |
|---|---|---|
| 2011-12 | 310 | 164 |
| 2012-13 | 310 | 187 |
| 2013-14 | 157 | 121 |
| 2014-15 | 157 | 113 |
| 2015-16 | 157 | 89 |
| 2016-17 | 518 | 441 |

*Source: CAG Report, Various Years*

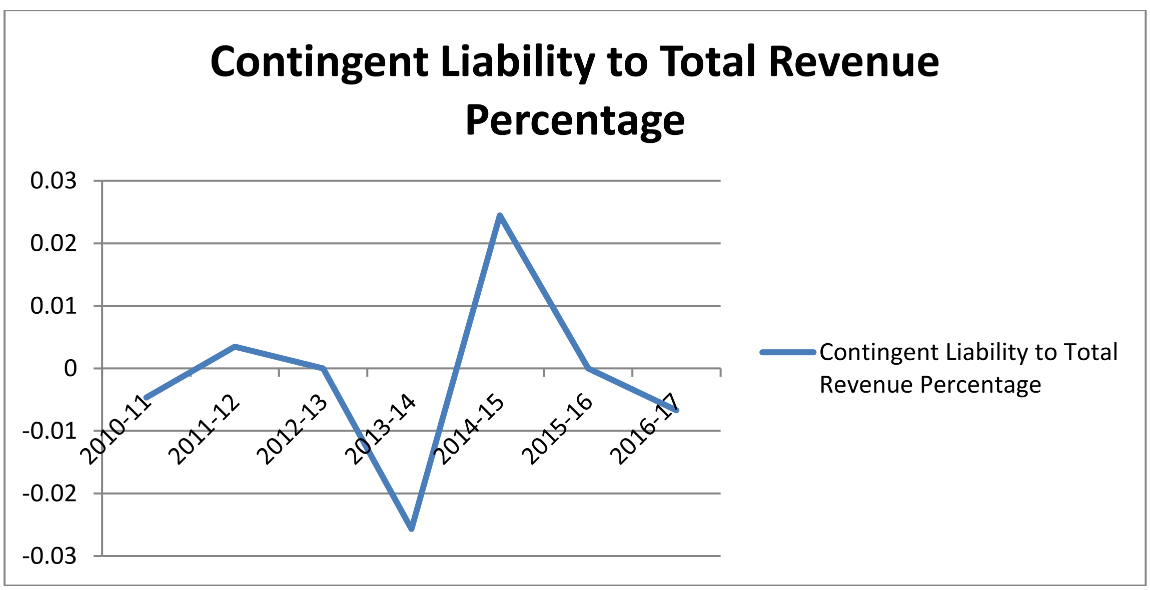
Guarantee fees are calculated at 1 per cent. During 2016-17, the State Government transferred ` 2 crore to the Guarantee Redemption Fund and out of total balance of Rs. 42 crores, Rs. 42 crores were invested. As per the version of officials of Finance Department, there are no cases of default on guaranteed loans given after 2007-08. The guarantee is given for repayment of loans/ overdraft, amount raised by issue of bonds and payment of interest at stipulated rates obtained from nationalized banks and other financial institutions. For joint stock company's guarantee for repayment of loans were obtained from nationalized banks and other financial institutions.

**Table 13.3 Outstanding Contingent Liability to Total Revenue Ratio**

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---|---|---|---|---|---|---|
| Contingent Fund (net) | -0.10 | 0.10 | 0.00 | -1.00 | 1.00 | 0.00 | -0.31 |
| Revenue Receipts | 2151.70 | 2872.10 | 3288.36 | 3893.54 | 4087.64 | 3784.29 | 4610.31 |
| Contingent Liability to Total Revenue Percentage | - 0.004647 | 0.0034818 | 0 | - 0.025684 | 0.024464 | 0 | - 0.006724 |

*Source: Budget Papers, Government of Sikkim*

**Figure 13.1: Contingent Fund to Total Revenue**




*Source: Budget Papers, Government of Sikkim*

The State has shown a erratic pattern of Contingent Liability. The Contingent liability as a percentage of Total revenue fell in the several years as depicted in the fig 13.1. This show that the State was not providing for contingent liability. This may be because of The Sikkim Ceiling on Government Guarantees Act-2000 which made the State not invoke any guarantee and if at all done no loss on it was incurred.

### 13.5 Conclusion

The State has performed well in terms of Contingent Liability. The State has an Act which limits the scope of Guarantee to the enterprises. This is one of the major reasons of good performance.

**Major Finding**

- Sikkim Ceiling on Government Guarantees Act-2000 is an additional Act on Guarantee. The Act requires that total outstanding Government Guarantee on the 1st day of April of any year should not exceed thrice the State 's Tax Revenue Receipt of the second preceding year.

- The contingent liability is minimal and erratic in respect to total revenue. The State has no loss on account of the contingent guarantee

## CHAPTER - 14

# ANALYSIS OF STATE SUBSIDIES OF SIKKIM

### 14.1 Introduction

Subsidy is an inevitable component in the government budget. In the context of Sikkim there is no exception in the regard. There are two components of subsidies. One is explicit and other is implicit. The explicit subsidy in Sikkim are provided to three sectors, such as Agricultural sector for the co-operation in agricultural marketing; food civil supply and consumer affairs; and in medical and public health.

Table 14.1 provides the figures given by the Sikkim Government for the aforementioned sectors/purposes. In case of providing subsidies, Sikkim government has emphasized the food civil supply and consumer affairs, as from 2010-11 to 2018-19 (RE) during these nine years total subsidy provided to this sector is greater than that of two other sectors. However, one important fact can be indentified in the context of subsidy provision that during nine-year period the explicit subsidies provided to all of the sectors mentioned above had changed significantly.

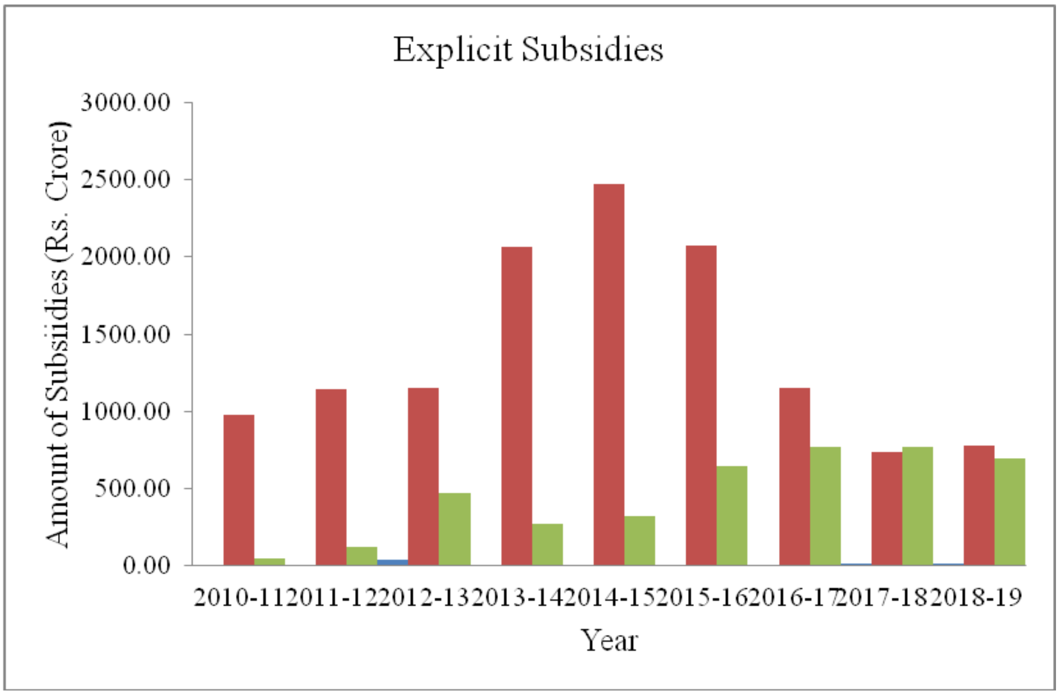
**Table 14.1: Amount of explicit subsidies for different purposes**

| Year | Explicit Subsidies (Rupees Crore) | | | |
|---|---|---|---|---|
| | Co-Operation Agriculture Marketing | Food Civil Supply & Consumer Affairs | Medical & Public Health | Total |
| 2010-11 | - | 982 | 50 | 1032 |
| 2011-12 | - | 1147 | 127 | 1274 |
| 2012-13 | 44.99 | 1149 | 475 | 1668.99 |
| 2013-14 | 8 | 2061 | 275 | 2344 |
| 2014-15 | 9.31 | 2475 | 325 | 2809.31 |
| 2015-16 | 10.17 | 2077 | 646 | 2733.17 |
| 2016-17 | - | 1149 | 771 | 1920 |
| 2017-18 (RE) | 20 | 738 | 771 | 1529 |
| 2018-19 (BE) | 20 | 778 | 696 | 1494 |

*Source: Budget Papers, Government of Sikkim*

During middle of the period these subsidies had declined and during last few years these subsidies had increased significantly. Likewise, total explicit subsidies had also declined during middle years of the period mentioned earlier. The highest value of the subsidy provided to the Food Civil Supply & Consumer Affairs rose to Rs.2475.00 (Crore) in 2014-15 and it has declined to only Rs.778.00 (Crore) in 2018-19 (BE). The value of explicit subsidy given to Medical & Public Health rose to Rs.771.00 (Crore) in 2016-17, however, it has declined to Rs.696.00 in 2018-19 (BE).

**Figure 14.1: Explicit Subsidies**




*Source: Budget Papers, Government of Sikkim*

Figure 14.1 is the bar diagram presenting the figures reported in Table 14.1 on the explicit subsidy given to the three sectors mentioned above. Another important fact can be noticed here that the explicit subsidy has been given for Agriculture Marketing is the lowest over the period of concern compared to the explicit subsidy given for all other purposes.

Moreover, according to the observations, it is also noteworthy to mention here that there was no implicit subsidy during the period of concern. The percentages of subsidy provision for agricultural marketing; food civil supply and consumer affairs; and in medical and public health in total are reported in Table 14.2, and the line diagram of these percentages are drawn in Figure 14.2.

## 14.2 Percentage of Subsidies Provided to Different Sectors

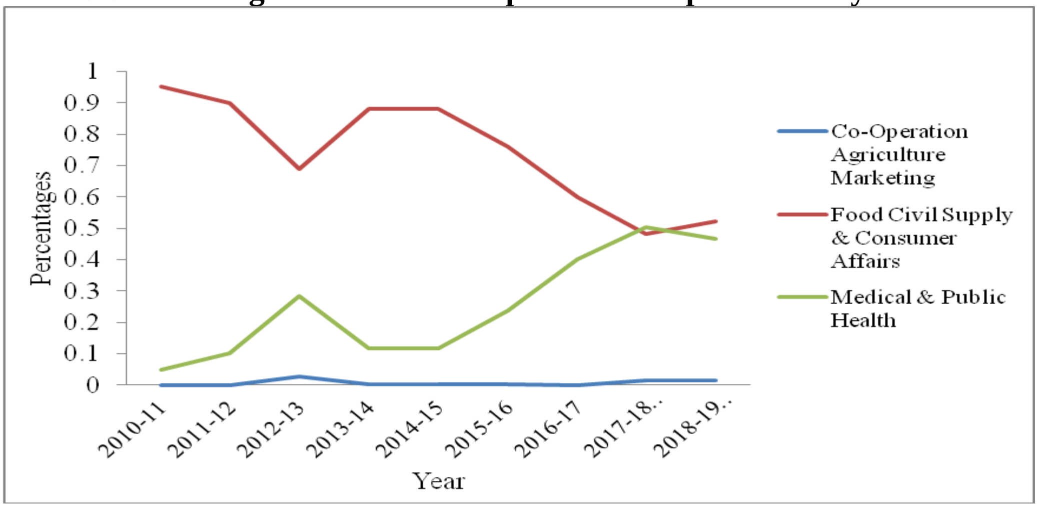
According to the percentage of subsidies provided to the mentioned sectors. Likewise, the amount of subsidies, the percentage of subsidies provided for agricultural marketing were the lowest, and highest percentage of subsidy was given to the food civil supply and consumer affairs. In addition, one important reality is that there was no implicit subsidy given by the Sikkim Government during the period. Therefore, the percentage of explicit subsidy given for agricultural marketing; food civil supply and consumer affairs; and in medical and public health in total explicit subsidy were same as the percentage of subsidy given to these sectors in total subsidy.

**Table 14.2: Percentage of subsidies in different components in total subsidy**

| Year | Explicit Subsidies | | |
|---|---|---|---|
| | Co-Operation Agriculture Marketing | Food Civil Supply & Consumer Affairs | Medical & Public Health |
| 2010-11 | 0 | 0.95 | 0.048 |
| 2011-12 | 0 | 0.9 | 0.099 |
| 2012-13 | 0.027 | 0.69 | 0.285 |
| 2013-14 | 0.003 | 0.88 | 0.12 |
| 2014-15 | 0.003 | 0.88 | 0.11 |
| 2015-16 | 0.004 | 0.76 | 0.24 |
| 2016-17 | 0 | 0.59 | 0.4 |
| 2017-18 (RE) | 0.013 | 0.48 | 0.5 |
| 2018-19 (BE) | 0.013 | 0.52 | 0.46 |

*Source: Budget Papers, Government of Sikkim*

**Figure 14.2: Percentage of different components of explicit subsidy in total subsidy**




*Source: Budget Papers, Government of Sikkim*

### 13.3 Conclusion

The State of Sikkim has managed the Subsidies well. Food and Civil supplies have fallen over a period of time. Medical and Public health subsides have mounted. The State had very low implicit subsides and large explicit subsides in term of Agriculture.

**Major Findings**

- In case of providing subsidies, Sikkim Government has emphasized the food civil supply and consumer affairs, as from 2010-11 to 2018-19 (RE) during these nine years total subsidy provided to this sector is greater than that of two other sectors.
- During nine-year period the explicit subsidies provided to all of the sectors mentioned above had changed significantly.
- The percentage of explicit subsidy given for agricultural marketing; food civil supply and consumer affairs; and in medical and public health in total explicit subsidy were same as the percentage of subsidy given to these sectors in total subsidy.
- One important reality is that there was no implicit subsidy given by the Sikkim Government during the period.

# CHAPTER - 15

# OUTCOME EVALUATIONS OF STATE FINANCE

## 15.1 Introduction

The function of State is to convert the interventions of the Finance Commission into an output-output frame work. The 14th Finance Commission recommended that the vertical devolution should be 42 per cent of divisible pool and grants for local bodies are the output indicators of the recommendation of the commission is the local bodies. The level to which the fund could actually reach the local bodies and could enhance their resources will be the outcome intervention. The idea was to create a mechanism to understand whether the state is being able to facilitate the transfer.

The purpose of the State finance is largely to comply with the Finance Commission and ensure a system of monitoring the process.

## 15.2 Recommendations of 14th Finance Commission

The 14th Finance Commission made the following major recommendations

### 15.2.1 Vertical devolution

The commission recommends increasing the tax devolution of the divisible pool to states to 42% for years 2015 to 2020. This is 10% more compared to 32% target set by 13th financial commission.

The commission recommended that the new tax devolution should be the primary route of Transfer of resources to States since it is formula based and thus conducive to sound fiscal federalism. However, to the extent that formula-based transfers do not meet the needs of specific States, they need to be supplemented by grants-in-aid.

The commission felt that new target serves the twin objectives of increasing the flow of unconditional transfers to the States and yet leave appropriate fiscal space for the Union to carry out other duties and specific purpose transfers to the States.

### 15.2.2 Horizontal devolution

The commission came up with new formula to divide the 42% share of the divisible pool between the states.

### 15.2.3 Local Government

The Commission had allocated grants and also identified many sources of income for local bodies and provided the guidelines to Union and State governments to empower them.

### 15.2.4 Grant allocation

The grants by Union government are to be used only on the basic services within the functions assigned to them by legislation, water supply, sanitation, sewerage, storm water drainage, solid waste management, street lighting, local body roads and footpaths, parks, playgrounds etc.

The Commission fixed the total size of the grant to be Rs. 2,87,436 crores for the period 2015-20, constituting an assistance of Rs. 488 per capita per annum at an aggregate level. Of this, the grant for panchayats is Rs. 2,00,292.2 crore and for municipalities is Rs. 87,143.8 crore

### 15.2.5 Grant devolution

The Commission recommended that distribution of grants shall be given to the States using 2011 population data with weight of 90 percent and area with weight of 10 per cent. The grant to each State will be divided into two - a grant to duly constituted gram panchayats and a grant to duly constituted municipalities, on the basis of urban and rural population of that State using the data of Census 2011.

### 15.2.6 Timetable

Each grant has two components, basic and performance. The commission recommends that 50 per cent of the basic grant for the year is to be released to the State as the first installment of the year. The remaining basic grant and the full performance grant for the year may be released as the second installment for the year. The State Government have to release the grants to the local bodies within fifteen days of it being credited to their account by the Union Government. In case of any delay, the State Governments have to pay the installment with interest paid from its own funds.

### 15.2.7 Gram Panchayats

In the case of Gram Panchayats, 90 per cent of the grant will be the basic grant and 10 per cent will be the performance grant. The grants for Panchayats should go only to them without any share for other levels of government in State. State Governments has to take care of the needs of the other levels and districts.

Grants for Gram Panchayats with in a State will be distributed using the formula chosen by a state finance commission. In case the SFC formula is not available, then the share of each gram Panchayat will be on the basis on 2011 population with a weight of 90 per cent and area with a weight of 10 per cent.

### 15.2.8 Municipalities

In the case of municipalities, the division between basic and performance grant will be on a 80:20 basis. The basic grant for urban local bodies will be divided into tier-wise shares and distributed across each tier, the municipal corporations, municipalities (the tier II urban local bodies) and the Nagar Panchayats (the tier III local bodies) using the formula given by a state finance commission. In case the SFC formula is not available for urban local bodies, shares of each of the three tiers will be on the basis of population of 2011 with a weight of 90 percent and area with a weight of 10 percent, and then distributed among the entities in each tier in proportion using same formula.

### 15. 2. 9 Performance Grants

The performance grants will be given from the second year or 2016 onwards. To be eligible for performance grants,

i. The local bodies and State government have to submit audited annual accounts that relate to a year not earlier than two years preceding the year in which the body seeks the performance grant.

ii. They have to show an increase in the own revenues of the local body over the preceding year.
iii. In case of urban local bodies, they have to measure and publish service level benchmarks for basic services.

The undisbursed amount should be distributed on an equitable basis among all the eligible local bodies for the performance grant in the State.

### 15.2.10 Empowering local bodies

State governments has to ensure that local bodies get revenue from all local sources. The State have to review existing rules to facilitate the levy of property tax and reassess properties by local bodies. The State have to strengthen SFC with timely constitution and administrative support. The State have to allow Panchayats to levy of vacant land tax and land conversion charges. The State have to take steps to empower local bodies to impose advertisement tax. The State too has to review entertainment tax and allow share to local urban bodies. Besides, allow local bodies to explore issuing the municipal bonds.

### 15.2.11 Fiscal Plan

Devolution to special States1.94 lakh Crores is to be used as the post devolution revenue deficit grant for the 11 states with gaping Revenue Deficits.Fiscal Deficit is to be reduced to 3% of GDP, Revenue Deficit to be 0% by 2017.Medium term fiscal plan (MTFP) is to be the statement of commitment instead of the statement of intent.A target of 62% of GDP is to be set for the combined debt of center and states. This is improvement over the 68% set by the previous commission.States are to be eligible for an additional borrowing limit of 0.25% of GSDP.

The current FRBM Act is to be amended to explain the nature of shocks which require relaxation from the target and to be merged with a Debt ceiling and Fiscal responsibility Act.

Actions to address the less fiscal space with the Center.An independent council is to be setup to assess the fiscal policy implications.

Interstate council to be expanded for co-operative federalism to identify sector specific grants to states.

Initiatives to reduce 30 central sponsored schemes. The central government has accepted 8 of them.

**15.2.12Good and Services Tax (GST)**

The commission recommended the Union to establish GST compensation fund. This compensation is to be used to address 100% of the shortfall in the first year, 75% in the second year and 50% in the third year. This additional fiscal burden on the Union government has to be taken as investment to get yields in the medium and long run.

**15.2.13 National Disaster Relief Fund**

The financing of the NDRF had been from levying cess on some selected items and some of them will be subsumed by GST. The commission recommended the Union Government to ensure an assured source of funding. The commission recommended to consider tax exemption to private contributions to the NDRF.

The commission recommended to review the reimbursement of expenditure incurred by the defense forces to not hinder their efficiency during disaster relief.

The commission recommended the Union Government to expedite the development and scientific validation of the Hazard Vulnerability Risk Profiles of States.

The commission recommended to keep an aggregate corpus for all States of Rs. 61,219 crores for the five years based on the expenditure from the past years. The commission recommended all States to contribute 10 per cent and Union with the remaining 90 per cent. Considering the need for regard to state-specific disasters, the commission recommended that up to 10 per cent of the funds available under the SDRF can be used by States for natural disasters that they consider to be 'disasters' within the local context in the State and which are not included in the notified list of disasters of the Ministry of Home Affairs.

**15.2.14 Public Utilities**

**a. Power**

The commission recommended that 100 per cent metering be achieved in a time-bound manner for all electricity consumers.The Electricity Act, 2003, currently does not have any provision of penalties for delays in the payment of subsidies by State Governments. The commission recommended that the Act be suitably amended to facilitate levy of such penalties.

Electricity Act allows a State Electricity Regulatory Commission Fund by State Governments, to enable the SERCs to perform their responsibilities. The commission recommended all States to setup SERC Fund, as statutorily provided.

**b. Transport**

The commission recommended Rail Tariff Authority (RTA) to do expeditious replacement of the advisory body with a statutory body with needed amendments to the Railways Act, 1989.
The commission recommended accounting systems in the SRTUs to make explicit all forms of subsidy, the basis for determining the extent of subsidies, and also the extent of reimbursement by State Governments.

The commission recommended to setup independent regulators for the passenger road sector to help in tariff setting, regulation of service quality, and the collection and dissemination of sector information.

**c. Water Supply**

The commission recommended all States to setup Water regulation authority(WRA) to set up pricing of water for domestic, irrigation and other uses. It recommended all States to invest in volumetric measurement of the use of irrigation water. It also recommended the States and local bodies to progressively move towards 100 per cent metering of water and to complete metering by 2017 with the cost to be borne by the consumers. The commission recommended to give new connections in urban bodies only when the functioning meters are setup.

**d. Public Sector Companies**

The commission recommended that a Financial Sector Public Enterprises Committee be appointed to examine and recommend parameters for appropriate future fiscal support to financial sector public enterprises, recognizing the regulatory needs and the multiplicity of units in each activity.

The commission recommended categorizing public sector companies as high, low and non-priority to decide current policy and future course of action.

The commission recommended to wind up the National Investment Fund and to keep all the receipts from disinvestment to be kept with the Consolidated Fund of India

### 15.3 Compression of the 14$^{th}$ Finance Commission recommendation with the achievements of the State.

The state of Sikkim has one of the highest GDP sharing with Goa and Haryana and therefore they have been taken at equal distance. Being a hilly terrine and under the Article 371 (A), it enjoys a special status as Given by the constitution of India. The major achievements of the state with the recommendations are given below.

**Table 15.1: Comparison of the 14$^{th}$ FC recommendations with the Achievements of Sikkim**

| Recommendations | Achievements |
|---|---|
| **Vertical Devolution**: The commission recommends increasing the tax devolution of the divisible pool to states to 42% for years 2015 to 2020. This is 10% more compared to 32% target set by 13th financial commission. | The State has accepted it. |
| **Horizontal Devolution:** The commission came up with new formula to divide the 42% share of the divisible pool between the states. | The State has accepted it. |
| **Grant Devolution:** The Commission recommended that distribution of grants shall be given to the States using 2011 population | The State does not have any grant from the Centre for covering revenue deficit as the state is a revenue surplus state. |

| | |
|---|---|
| data with weight of 90 percent and area with weight of 10 per cent. The grant to each State will be divided into two - a grant to duly constituted Gram Panchayats and a grant to duly constituted municipalities, on the basis of urban and rural population of that State using the data of Census 2011. | The State has agreed on the recommendation on the use of Census data 2011 in view of the increase in population of the State. |
| The commission recommends that 50 per cent of the basic grant for the year is to be released to the State as the first installment of the year. The remaining basic grant and the full performance grant for the year may be released as the second installment for the year. The State Government have to release the grants to the local bodies within fifteen days of it being credited to their account by the Union Government. | The Government has accepted the above recommendation of the Commission with minor modification that instead of April, July October and January, the transfer of fund in four tranches in the month of May, August, November and February considering the release of resource.<br>The State is adhering to the 15 days' time guide line in most of the cases. |
| In the case of Gram Panchayats, 90 per cent of the grant will be the basic grant and 10 per cent will be the performance grant. The grants for Panchayats should go only to them without any share for other levels of government in State. State Governments has to take care of the needs of the other levels and districts. | In view of the floating population and the devolution of fund, Government has accepted the disbursement of both the grants in the ratio of 70:30 to the Local Bodies |
| State governments have to ensure that local bodies get revenue from all local sources. The State has to review existing rules to | The State has agreed to share of taxes to Local Bodies at 2.5% of the divisible pool of revenues is Rs.6967.10 lakhs for the |

| | |
|---|---|
| facilitate the levy of property tax and reassess properties by local bodies. | award period 2015-20 as given in Table 7.14. The allocation of share of taxes to PRIs and ULBs is made on 12 the basis of provisional rural and urban population figures of Census 2011, which is in the ratio of 80:20 |
| In the case of municipalities, the division between basic and performance grant will be on 80:20 basis. The basic grant for urban local bodies will be divided into tier-wise shares and distributed across each tier, the municipal corporations, municipalities (the tier II urban local bodies) and the Nagar Panchayats (the tier III local bodies) using the formula given by a state finance commission. | Same as above |
| State governments has to ensure that local bodies get revenue from all local sources. The State have to review existing rules to facilitate the levy of property tax and reassess properties by local bodies. The State have to strengthen SFC with timely constitution and administrative support. The State have to allow Panchayats to levy of vacant land tax and land conversion charges | a. Same as above<br>b. The Block Development Officers are re-designated as Gram Vikash Adhikari<br>c. The e- Panchayats module (Panchayats Enterprise Suite Application software) designed by the Ministry of Panchayati Raj, Government of India which includes 8 application software including Plan plus, PRIA soft, National Asset Directory, Action Soft etc. are available in the public domain. |
| Devolution to special States1.94 lakh Crores is to be used as the post devolution revenue deficit grant for the 11 states with gaping Revenue Deficits.Fiscal Deficit is to be | This is not applicable to the State as Sikkim is revenue surplus state. |

| | |
|---|---|
| reduced to 3% of GDP, Revenue Deficit to be 0% by 2017.Medium term fiscal plan(MTFP) is to be the statement of commitment instead of the statement of intent.A target of 62% of GDP is to be set for the combined debt of center and states. This is improvement over the 68% set by the previous commission. States are to be eligible for an additional borrowing limit of 0.25% of GSDP. | |
| The current FRBM Act is to be amended to explain the nature of shocks which require relaxation from the target and to be merged with a Debt ceiling and Fiscal responsibility Act. | The State passed a legislature in line of the FRBM Act 2003 in 2010 named as The Sikkim Fiscal Responsibility and Budget Management Act 2010. |
| The commission recommended the Union to establish GST compensation fund. This compensation is to be used to address 100% of the shortfall in the first year, 75% in the second year and 50% in the third year. This additional fiscal burden on the Union government has to be taken as investment to get yields in the medium and long run. | The State has not been able to create the Fund. |
| The commission recommended that 100 per cent metering be achieved in a time-bound manner for all electricity consumers | The State has achieved the 100 percent metering for electricity |
| The commission recommended accounting systems in the SRTUs to make explicit all forms of subsidy, the basis for determining | The State has a departmental organization in form of SNT. No regulator has been set up by the State |

| | |
|---|---|
| the extent of subsidies, and also the extent of reimbursement by State Governments.<br><br>The commission recommended to setup independent regulators for the passenger road sector to help in tariff setting, regulation of service quality, and the collection and dissemination of sector information. | |
| Public Sector Undertakings: Reduce investment and reorganize the State PSUs | The State has taken several reform measures including closer of several SPSUs. |

*Source: Published Documents of Government of Sikkim*

**15. 4 Impact of discontinuation of Plan Gents (SCA, NCA and SPA) on State's Finance**

The 14$^{th}$ Finance Commission relied on tax devolution to cover the assed revenue expenditure needs of the States. It took a holistic view of the revenue expenditure needs of States without Plan and No-Plan distinction. This had removed the plan non-plan distinction in determining the deficit grants. In addition, the 14$^{th}$ Finance Commission departed from past practices of award specific-purpose grants. The only grants awarded by the commission were disaster relief grants and grants for local bodies, a statutory requirement.

Consequent to the enhancement of shares of the states in divisible pool of Central taxes, central assistance to State Plan has been restructured. The Central Government discontinued the normal central assistance (NCA), special plan assistance (SPA), special central assistance (SCA), and the additional central assistance (ACA). The Central Government also delinked eight centrally sponsored schemes (CSS) from funding and brought about substantial changes in the funding pattern of some other schemes.

This lead Sikkim to face a difficult situation due the restructuring of the Central transfer system. The State made gain from increase in over all tax devolution and rise in inter se shares from 0.239 percent under the TFC to .367 percent, the loss of plan grant was significant. The income distance criteria with the largest Wight of 50 percent in the FFC's *inter se* determination of the shares of taxes to the States gone against the State as it has become the second highest per capital income State in the country. The closure of the block grant options and delink of Central schemes has put the State in a difficult situation.

Resource transfer under FC tax devolution and block grants, show in table below revels that the transfer was less in 2015-16 as compared to the year 2014-15. It may not be logical to compare the 14th FC transfer with that of the 13th FC, as it provided several grants including the performance grants to the States. The gain from the rise in shares in central taxes did not compensate the loss of the Central assistance to the State palm, at least in the first year of the award period of the FFC. The delinking of some of the Central schemes will further shrink the transfers, and for a small state like Sikkim, these can be perceived as big amount.

**Table 15.2 Resource Transfers to Sikkim: Block Grants and FC transfers (In Rs. Crore)**

| Particular | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| Shares of Central taxes | 611.65 | 698.48 | 762.62 | 809.33 | 1870.28 |
| Normal Central assistance | 418.99 | 533.80 | 553.58 | 524.17 | |
| Special Plan Assistance | 100 | 157.10 | 108.00 | 108.00 | |
| Special Plan Assistance (PM's Package) | 200.00 | 80.00 | 420.00 | 300.00 | |
| Special Central Assistance | 200.00 | 220.53 | 329.47 | 200.00 | |
| Finance Commission Grants | | | | | |
| Improvement of Justice Delivery | | | 0.56 | 3.61 | |
| Improvement in Statistical System | 0.80 | 0.80 | | 2.40 | |
| Water sector Management | | | | | |
| Maintenance of Roads | 14.00 | 15.00 | 18.03 | 21.00 | |
| Environment related grants | 5.07 | 10.14 | 7.61 | 10.14 | |
| Elementary education | | 1.00 | | | |
| Incentive for issue of UIDs | | | 0.55 | | |
| District Innovation Grants | 2.00 | | | | |
| State Specific Grants | 19.65 | 101.07 | 22.54 | 176.03 | |
| Grant to Local Bodies | 30.23 | 11.78 | 27.37 | 29.38 | 20.87 |
| Performance Grants | 60.00 | 60.00 | 0.03 | 9.15 | |
| Disaster Relief Grants | 24.33 | 25.15 | 99.20 | 25.89 | 28.00 |
| Total | 1686.72 | 1914.85 | 2349.56 | 2219.10 | 1919.10 |

*Source: Documents of Govt. of Sikkim*

**Table 15.3: Effect of the 14th FC award and impact of Discontinuation of Central Assistances**

**(In Rs. Crore)**

| Particular | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2015-20 |
|---|---|---|---|---|---|---|
| **GSDP** | 20634 | 25652 | 31891 | 39646 | 49288 | 167111 |
| **Own Revenue Receipts** | 1169 | 1536 | 2029 | 2686 | 3580 | 11000 |
| **1. Own Tax Revenue** | 876 | 1195 | 1631 | 2227 | 3039 | 8968 |
| **2. Own Non-Tax Revenue** | 293 | 340 | 398 | 459 | 541 | 2023 |
| **Revenue expenditure of which** | 3032 | 3398 | 3811 | 4280 | 4812 | 19334 |
| **1 Interest payment** | 270 | 318 | 378 | 452 | 545 | 1962 |
| **2 Pension** | 364 | 400 | 440 | 484 | 533 | 2222 |
| **Pre-Devolution Revenue Deficit (-)/Surplus (+)** | -1863 | -1862 | -1782 | -1594 | -1232 | - |
| **Tax Devolution** | 2129 | 2457 | 2839 | 3285 | 3804 | - |
| **Post Devolution Revenue deficit (-)/Surplus (+)** | 266 | 595 | 1057 | 1691 | 2572 | - |

*Source: Supplement to 15th FC by Govt. of Sikkim*

Since the State was amongst one of lowest Tax-GSDP ratio, the 14th FFC used a high tax buoyancy ratio of 1.5 to improve the tax-GSDP ratio. Assuming high tax buoyancy was one of the normative assumptions undertaken by the 14th FC. Thus, a tax buoyancy of 1.5 applied on a projected GSDP growing at 24.32 results in a tax growth rate of 36 percent, an un believable feat to be achieved by a North Eastern state like Sikkim. This assumption lead to a shift in the revenue and expenditure of the State.

The buoyancy of coefficients for the Sates taxes during the period 2004-05 to 2015-16 were low implying that the growth of taxes remained lower than that of the GSDP. While the buoyancy of own tax revenue during this period was low one would tempt to argue that such low tax buoyancy does not fit good fiscal management. However, this circumstance in the the State GSDP grew in the State, make it difficult to improve the tax buoyancy.

**15.5 Conclusion**

The State has been able to accept and adapt to most of the recommendations of the 14th Finance Commission. Being a revenue surplus state, it does not get any grant for revenue management hence it did not take any step towards it. The State has taken several reform measures to strengthen its Rural and Urban Local Bodies including the tax sharing pattern. The State has been able to incorporate a 100 percent metering of electric lines and has been able to reduce its investment in state public sector undertakings.

**Major Findings**

- The State has been able to accept and adopt the tax devolution mechanism suggested by the 14th FC
- The State has created its own FRMB Act and adhere to its report for fiscal management of the State.
- The State has been able to increase its tax sharing for Rural and Urban Bodies in the ration of 80:20 based on the population census of 2011
- The State has agreed to distribute the grants to Local bodies in the ratio of 70:30
- The State has taken several steps to strengthen its Local (Urban and Rural) bodies
- The State has been able to achieve a 100 percent metering of the electric supply users.
- The State has taken substantial steps in reconstructing and reforming its SPSUs

# CHAPTER - 16

# DETERMINATION OF A SUSTAINABLE DEBT ROAD MAP FOR SIKKIM

## 16.1. Introduction

Public debt is a basic instrument for optimally distributing public policies over time. Through public indebtedness, the provision of public goods can be temporally disassociated from the taxation process required to fund it. For the debt instrument to fulfill its role, debt holders must believe that policies are such that contracts will be fulfilled. This requires fiscal policy to be sustainable. A country's public debt is considered sustainable when government budget constraints can be met without disrupting its monetary and fiscal policies.

The concept of maintaining stable monetary and fiscal policy is crucial. Ultimately, government budget constraints can be met by acknowledging circumstances in which default on the debt (non-payment) or monetization will occur in ways that are consistent with mathematical expressions. In this case, the equations no longer represent true budget constraints but are rather pricing equations that answer the question about what is the current value of this debt which may not be paid.

Sustainability of the debt taken by the States is an important issue for the Finance Commission. If the debt stock is too high, it creates a pressure on the interest payments, thereby causing Revenue Deficits in the current year. If used correctly debt can lead to asset creation as well.
Debt Sustainability is an important concept and measure in Public finance. If Debt Sustainability is correctly done, then it will help the State to identify debt vulnerability and make corrective steps in the process.

In chapter 7 we have examined the various indicators of debt sustainability. Following are our main observations.

- The indicator on which the Government falls short of sustainability definitions consistently is the one of Primary Balance. In five years out of 10 years, the Primary Balance of the State is in a deficit. By definition, the Primary Balance = (Revenue Receipts + Non-debt creating Capital Receipts) less (Revenue Expenditure net of Interest Payments + Capital Expenditure). If Primary Balance is negative, it indicates that the Revenue Receipts are not performing well and/ or Revenue Expenditures other than interest payments tend to be rigid.

- The difference of the nominal growth rate of the State's GSDP and the growth rate of the Total Debt Stock show a decline throughout the period of the 13$^{th}$ FC as the Debt /GSDP ratio also clock a decreasing trend between 2010-11 to 2014-15. However, from the year 2015-16 the Debt/GSDP starts to rise. Similarly, the growth of debt out-passes the nominal growth of GSDP in the period, which suggests that the State's economic growth is partially funded by increasing its debt. Resultantly the ratio of Interest Payments to GSDP also starts to surge from 2016-17 onwards.

- The ratio of Interest Payments to both Revenue Expenditure and the Revenue Receipts record a gradual increase in the years 2014-15 to 2016-17 as the State government resorts to more borrowings which resultantly increases the amount of debt servicing required by the State. It also highlights the fact that the Revenue Receipts does not increase in proportion to the increase in debt burden

- The Government of Sikkim performs well on the indicator pertaining to Primary Revenue Balance (PRB). The Primary Revenue Balance of the Government of Sikkim is positive in all eight years from 2010-11 to 2017-18, which is encouraging. It implies that if we net out interest payments, the Revenue Receipts are enough to accommodate the other Revenue Expenditure items. Moreover, the PRB is enough to accommodate interest payments as the PRB/IP ratio which indicates the buoyancy of Revenue Earnings to interest payments remain above 100 throughout the period of study.

- Finally, the maximum number of breaches to sustainability seem to occur in 2016-17. The Fiscal Deficit reaches to a new high of 3.5 % to the GSDP in this year owing to declining grants from the Central Government and prompting the State to resort to more borrowings which ultimately puts the finances of the State in more stress leading to breaches in the sustainability indicators.

In this chapter we attempt to create a debt road map for Sikkim. We have created a “Business as Usual (BAU)” forecast of the debt levels. If major revenue and expenditure continue to grow at the current trend growth rates., then the level of borrowings that could be required from 2020-25 is referred to as the BAU forecast. The BAU debt fore cast is termed as F0 in this chapter.

Next, we have accounted for the potential increment in tax collection due to introduction of the GST. This has been taken as 14 percent in the GST revenue of the State which is constitutionally provided.

For the other tax rates not subsumed within GST we have assumed that the trend growth rate as calculated from 2006-07 to 2015-16 will continue.

We have then analyzed the impact that the introduction of GST could have on the debt levels of the State. This has been named as F1 forecast.

If GST collections deviate positively from the 14 percent assured growth rate to a growth rate say one percent over i.e 15 percent, then the potential debt that the State will have to take will be lower. This follows the conclusion that if debt levels would be sensitive to and would respond positively to increase non-tax revenue and reduced expenditure levels. We carry out sensitivity analysis on the F1 forecast to identify the sensitivity of the debts levels to changes in the GST growth rate over 14 percent, non-tax revenue, revenue expenditure and capital expenditure. These are termed as F1-S1, F1-S2, F1-S3. Finally we gave our comments on whether the forecast F0, F1 and the different sensitivity scenario under F1 are “Sustainable” or not.

## 16.2 Methodology and Forecast

### 16.2.1 For F0

a. In order to create a forecast in fiscal variables from 2020to 2025, we fist need to identify the baseline year on which the trend can be applied. In all the forecast created, we have used 2018-19 as the base line year. The Budget Estimate for Tax Revenue, Non-Tax Revenue, Revenue Expenditure and Capital Expenditure for 2018-19 has been used as baseline figures on which F0 has been created.

b. No forecast was developed for Capital receipts other than debts as this are merge amounts.

c. We then calculated the trend growth rates of Own Tax revenue (1.4 %), Own No Tax Revenue (9%), revenue expenditure (1.3%) , Revenue Receipts (2.6 %) and Capital Expenditure (2.5%) from 2011-12 to 2016-17. Using trend growth rate, we forecast the values for 2018-19 bases on the RE from 2017-18. In order to forecast the values of revenue receipts from the baseline of BE 2018-19 we needed to forecast the values of four components:

i. Own tax revenue

ii. Own Non-tax

iii. Shared Tax from the Centre

iv. Grants Received from the Centre

The values of the latter two variables are actually determined by the Finance Commission and hence to that extent, forecast these values using trend growth rates would be erroneous.

However, in the absence of any knowledge oh how the 15th FC would view vertical and horizontal devolution of taxes as well as Grant in aids, we had to undertake a trend-based forecast of these values as well.

e. The Forecasted values of revenue expenditure and Capital Expenditure were added to derive the forecast value of the Total Expenditure under F0.

**Table 16.1: Revenue Deficits under F0**

| Year | Own Tax Rev | Own non-Tax Rev | Share Tax | Grants | Revenue Receipt | Revenue Expand | Revenue Deficit | RD as % of GSDP |
|---|---|---|---|---|---|---|---|---|
| 2018-19 | 770.31 | 481.92 | 2892.34 | 1836.36 | 5980.94 | 5356.27 | 624.67 | 2.70 |
| 2019-20 | 828.55 | 558.46 | 3195.54 | 1991.01 | 6573.56 | 5479.84 | 1093.72 | 4.26 |
| 2020-21 | 889.56 | 541.56 | 3510.28 | 2014.16 | 6955.56 | 5877.57 | 1077.99 | 3.78 |
| 2021-22 | 950.57 | 605.65 | 3825.02 | 2095.31 | 7476.55 | 6275.31 | 1201.24 | 3.80 |
| 2022-23 | 1011.58 | 660.89 | 4139.76 | 2147.46 | 7959.69 | 6673.05 | 1286.64 | 3.66 |
| 2023-24 | 1072.59 | 643.99 | 4454.50 | 2199.61 | 8370.69 | 7070.79 | 1299.90 | 3.33 |
| 2024-25 | 1133.60 | 708.07 | 4769.24 | 2251.76 | 8862.68 | 7468.53 | 1394.15 | 3.22 |

*Source: Budget Paper, Government of Sikkim*

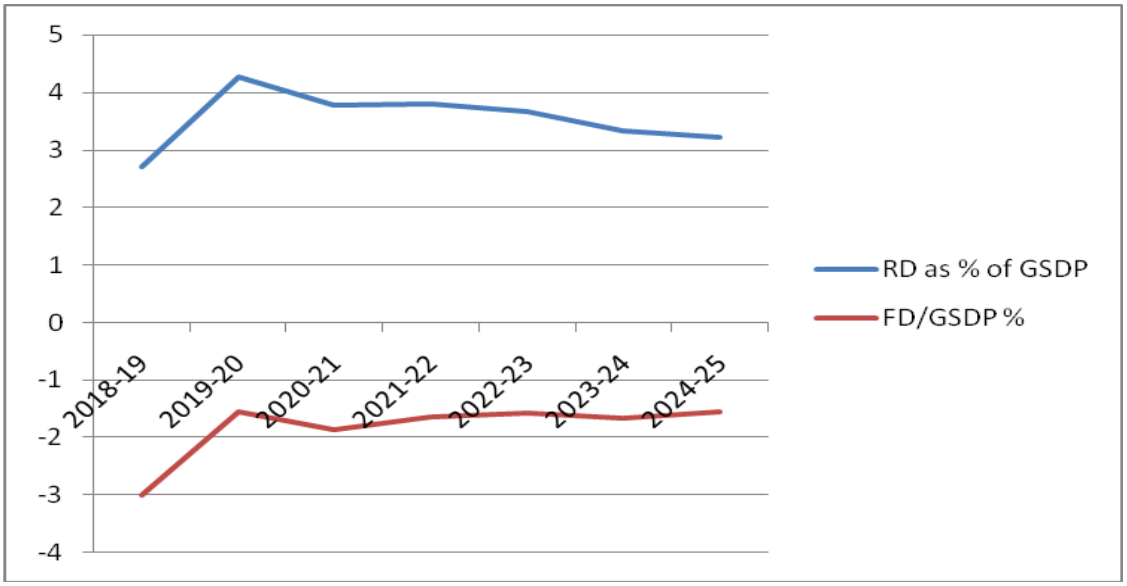
**Table 16.2: Fiscal Deficits under F0**

| Year | Revenue Receipt | Revenue Expand | Capital Expand | Total Exp | Fiscal Deficit | FD/GSDP % |
|---|---|---|---|---|---|---|
| 2018-19 | 5980.94 | 5356.27 | 1319.51 | 6675.77 | -694.84 | -3.00 |
| 2019-20 | 6573.56 | 5479.84 | 1492.43 | 6972.26 | -398.70 | -1.55 |
| 2020-21 | 6955.56 | 5877.57 | 1607.57 | 7485.14 | -529.58 | -1.86 |
| 2021-22 | 7476.55 | 6275.31 | 1722.71 | 7998.02 | -521.47 | -1.65 |
| 2022-23 | 7959.69 | 6673.05 | 1837.85 | 8510.90 | -551.21 | -1.57 |
| 2023-24 | 8370.69 | 7070.79 | 1952.99 | 9023.78 | -653.09 | -1.67 |
| 2024-25 | 8862.68 | 7468.53 | 2068.13 | 9536.66 | -673.98 | -1.56 |

*Source: Budget Paper, Government of Sikkim*

The table above indicates that if the current trend in receipts and expenditure of the State were to continue into future, the fiscal deficit as a percentage of GSDP would continue to decrease where as the Revenue Deficit as a Percentage of the GSDP would continue to worsen. This is depicted in the figure 16.1 below.

**Figure 16.1: Trend line of Revenue deficit and Fiscal Deficit as a percentage of GSDP, F0 scenario**




*Source: Budget Paper, Government of Sikkim*

### 16.2.2 Methodology for F1

Under F0 the trend growth rate if taxes from 2011-12 to 2016-17 (7.8 %) was applied to the baseline tax collection of 2018-19 to develop the tax forecasts. However, GST may well be the game changer. In the first place, GST will introduce the buoyancy in the tax collection that was missing in the data series from 2011-12 to 2016-17. And in the second place a growth of 14 percent has been constitutionally assured to the Sates. F1 scenario would be therefore the change in own tax upwardly by 14 percent. We have developed the F1 forecast according for the impact of the introduction of the GST.

**Table 16.3: Revenue Deficits under F1**

| Year | Own Tax Rev | Own non-Tax Rev | Share Tax | Grants | Revenue Receipt | Revenue Expand | Revenue Deficit | RD as % of GSDP |
|---|---|---|---|---|---|---|---|---|
| 2018-19 | 770.31 | 481.92 | 2892.34 | 1836.36 | 5980.94 | 5356.27 | 624.67 | 2.70 |
| 2019-20 | 944.55 | 558.46 | 3195.54 | 1991.01 | 6689.56 | 5479.84 | 1209.72 | 4.71 |
| 2020-21 | 1014.10 | 541.56 | 3510.28 | 2014.16 | 7080.10 | 5877.57 | 1202.53 | 4.22 |
| 2021-22 | 1083.65 | 605.65 | 3825.02 | 2095.31 | 7609.63 | 6275.31 | 1334.32 | 4.22 |
| 2022-23 | 1153.21 | 660.89 | 4139.76 | 2147.46 | 8101.31 | 6673.05 | 1428.26 | 4.07 |
| 2023-24 | 1222.76 | 643.99 | 4454.50 | 2199.61 | 8520.86 | 7070.79 | 1450.07 | 3.72 |
| 2024-25 | 1292.31 | 708.07 | 4769.24 | 2251.76 | 9021.38 | 7468.53 | 1552.85 | 3.59 |

*Source: Budget Paper, Government of Sikkim*

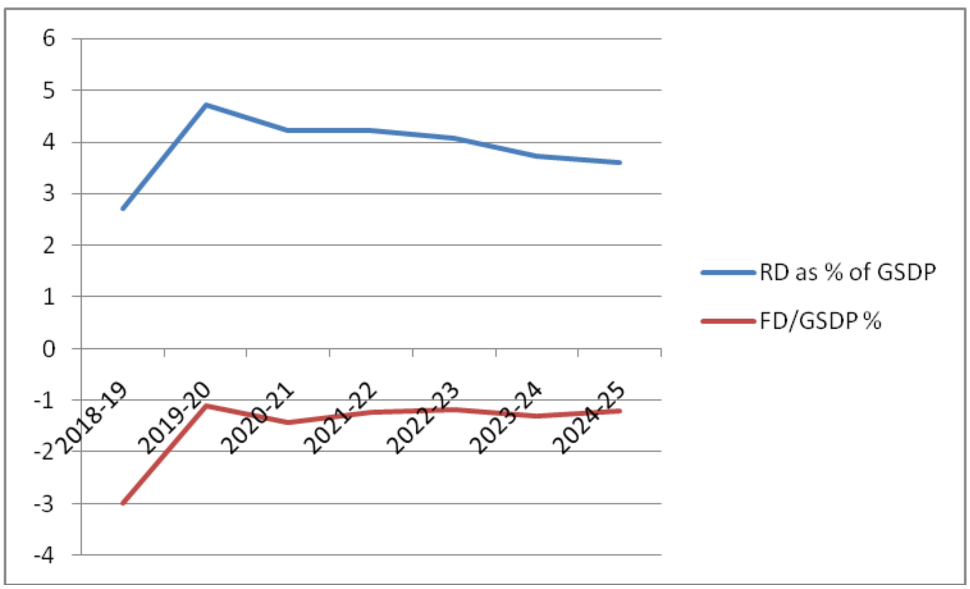
**Table 16.4: Fiscal Deficits under F1**

| Year | Revenue Receipt | Revenue Expand | Capital Expand | Total Exp | Fiscal Deficit | FD/GSDP % |
|---|---|---|---|---|---|---|
| 2018-19 | 5980.94 | 5356.27 | 1319.51 | 6675.77 | -694.84 | -3.00 |
| 2019-20 | 6689.56 | 5479.84 | 1492.43 | 6972.26 | -282.71 | -1.10 |
| 2020-21 | 7080.10 | 5877.57 | 1607.57 | 7485.14 | -405.04 | -1.42 |
| 2021-22 | 7609.63 | 6275.31 | 1722.71 | 7998.02 | -388.39 | -1.23 |
| 2022-23 | 8101.31 | 6673.05 | 1837.85 | 8510.90 | -409.59 | -1.17 |
| 2023-24 | 8520.86 | 7070.79 | 1952.99 | 9023.78 | -502.93 | -1.29 |
| 2024-25 | 9021.38 | 7468.53 | 2068.13 | 9536.66 | -515.28 | -1.19 |

*Source: Budget Paper, Government of Sikkim*

It can be observed that Fiscal deficit as a percentage of GSDP is reduced as revenue deficit worsen over the period worsen. This is indicated in the figure 16.2 below.

**Figure: 16.2: Trend lines of Revenue deficit and Fiscal Deficit as a percentage of GSDP, F1 scenario**




*Source: Budget Paper, Government of Sikkim*

### 16.3 Sensitivity Analysis for F1

Sensitivity analysis was carried out for F1 forecast to identify the reduction in Revenue deficit and fiscal deficit that can potentially arise from the following scenario:

F1-S1: GST rising at 15 per cent (Growth from 14 percent GST)

F1-S2: Non Tax revenue rising at 10 percent (Growth under F1 is 9 percent)

F1-S3: Revenue expenditure rising at 12 percent (Growth rate under F1 is 13 percent)

**Table 16.5: Sensitivity Analysis for Revenue Deficits**

| Year | F0 Baseline | F1-GST | F1 - S1 - GST Grown at 15 % | F1 - S2 - Non-Tax Rev grown to 8 % | F1 - S13- Rev Exp grown at 7 % |
|---|---|---|---|---|---|
| 2020-21 | 3.78 | 4.22 | 4.25 | 4.37 | 4.01 |
| 2021-22 | 3.80 | 4.22 | 4.25 | 4.37 | 4.02 |
| 2022-23 | 3.66 | 4.07 | 4.10 | 4.22 | 3.88 |
| 2023-24 | 3.33 | 3.72 | 3.75 | 3.85 | 3.54 |
| 2024-25 | 3.22 | 3.59 | 3.62 | 3.72 | 3.42 |

*Source: Budget Paper, Government of Sikkim*

The table above give some very interesting results. While as increase of GST grow to 15 percent, the Revenue deficit would tend to decline. The same happens where; with the Non-tax revenue is simulated from 7 percent o 8 percent and revenue expenses grow at 7 percent.

**Table 16.6: Sensitivity Analysis for Fiscal Deficits**

| Year | F0 Baseline | F1-GST | F1 - S1 - GST Grown at 15 % | F1 - S2 - Non-Tax Rev grown to 8 % | F1 - S13- Rev Exp grown at 7 % |
|---|---|---|---|---|---|
| 2020-21 | -1.86 | -1.42 | -1.39 | -1.27 | -1.63 |
| 2021-22 | -1.65 | -1.23 | -1.19 | -1.07 | -1.43 |
| 2022-23 | -1.57 | -1.17 | -1.13 | -1.02 | -1.36 |
| 2023-24 | -1.67 | -1.29 | -1.26 | -1.16 | -1.47 |
| 2024-25 | -1.56 | -1.19 | -1.16 | -1.06 | -1.36 |

*Source: Budget Paper, Government of Sikkim*

The table above shows that the fiscal deficit has reduced at an increase of 15 percent. Non-tax revenue decrease as it becomes 8 percent and revenue expenses too decrease. Expense compression may not be desirable to the State unless off course, the GST implication increases the revenue to a higher level.

We now look at the debt stock that will be held by the Government under each of the scenario.

**Table 16.7: Debt/GSDP ratio under each of the forecast scenarios**

| Year | F0 Baseline | F1-GST | F1 - S1 - GST Grown at 15 % | F1 - S2 - Non-Tax Rev grown to8% | F1 - S13- Rev Exp grown to7 % |
|---|---|---|---|---|---|
| 2020-21 | 25.40 | 24.96 | 24.92 | 24.81 | 25.16 |
| 2021-22 | 24.05 | 23.63 | 23.60 | 23.48 | 23.83 |
| 2022-23 | 22.83 | 22.43 | 22.40 | 22.28 | 22.62 |
| 2023-24 | 21.80 | 21.42 | 21.39 | 21.29 | 21.60 |
| 2024-25 | 20.57 | 20.20 | 20.17 | 20.07 | 20.37 |

*Source: Budget Paper, Government of Sikkim*

The table indicate that even under F0 scenario, the Debt to GSDP would decline. As the GST implication for various scenarios are simulated, we see fall in the Debt to GSDP. This is indeed heartening for the State as we observe that the debt scenario become sustainable for all the scenarios.

### 16.3 Debt Road Map for the State under the BAU model

The debt to GSDP ratio stands at 27.82 percent and the fiscal deficit to GSDP ratio stand at 4.5 percent in the year 2018-19. The FRBM mandates that the State approaches a debt to GSDP ratio of 4.27 percent and the fiscal deficit at 3 percent. If the fiscal deficit of the State were to the extent of 3 percent of GSDP and the rest of it is used for capital expenditure, then what would be the debt road map of the State.

We took a way out of assuming that the growth rate of the GSDP at current price would reflect the real change in the growth of the earning. Thus, is we take the normal growth at the base line of 2018-19 we can project a debt road map which should be able to provide enough maneuverability of the State. Table 16.8 depicts the BAU situation at the current growth rate.

**Table 16.8: Debt position for the period of 2018-2025 at BAU position**

| Year | Total Debt Stock (BAU) | Debt/GSDP |
|---|---|---|
| 2018-2019 | 6440.1 | 27.82 |
| 2018-2020 | 6248.85 | 24.32 |
| 2020-2021 | 6621.35 | 23.22 |
| 2021-2022 | 6993.84 | 22.098 |
| 2022-2023 | 7366.34 | 20.96 |
| 2023-2024 | 7738.84 | 19.84 |
| 2024-2025 | 8111.34 | 18.74 |

*Source: Budget Paper, Government of Sikkim*

It shows that debt/GSDP ratio is higher that the FRMB ratio giving the State sufficient scope to borrow. This not be required going by the finance status of the State.

### 16.3.1 Impact on debt road map if the fiscal deficit grows at 3 percent of GSDP

On the basis that the projected growth rate of GSDP at current price is 3 percent we simulated the Debt road map for the period of 2018-25. Table 16.9 depicts the debt road map at 3 percent of GSDP.

**Table 16.9: Debt position for the period of 2018-2025 if Fiscal deficit grows at 3 percent of GSDP**

| Year | Total Debt Stock | Debt/GSDP |
|---|---|---|
| 2018-2019 | 6633.303 | 28.66 |
| 2018-2020 | 6436.3155 | 25.05 |
| 2020-2021 | 6819.9905 | 23.91 |
| 2021-2022 | 7203.6552 | 22.76 |
| 2022-2023 | 7587.3302 | 21.59 |
| 2023-2024 | 7971.0052 | 20.44 |
| 2024-2025 | 8354.6802 | 19.30 |

*Source: Budget Paper, Government of Sikkim*

The debt to GSDP ratio has increased to 28.66 percent during the base year which is very high higher than its target of 25 percent. Hence the State government should restrict its borrowing. We had earlier observed that its internal borrowing is large which need to be managed. The Capex to GSDP ratio being around 3. 8 percent (refer to Chapter 8), the State should absorb its additional borrowing in capital expenditure to create asset and reduce any building fiscal pressure.

### 16.3 Impact of Debt road map if the fiscal deficit grows at 2 percent of GSDP

In order to understand the reduction of fiscal pressure we assumed that the growth rate is 2 percent of GSDP. We simulated the debt stock for the base year and projected it for the period under cover i.e.; 2018-2015.

**Table 16.10: Debt position for the period of 2018-2025 if Fiscal deficit grows at 3 percent of GSDP**

| Year | Total Debt Stock | Debt/GSDP |
|---|---|---|
| 2018-2019 | 6568.902 | 28.38 |
| 2018-2020 | 6373.827 | 24.81 |
| 2020-2021 | 6753.777 | 23.68 |
| 2021-2022 | 7133.7168 | 22.54 |
| 2022-2023 | 7513.6668 | 21.38 |
| 2023-2024 | 7893.6168 | 20.24 |
| 2024-2025 | 8273.5668 | 19.11 |

*Source: Budget Paper, Government of Sikkim*

In the extend scenario if fiscal deficit grows at 2 percent of GSDP, the debt/GSDP ratio will be 28.30 and on average of 21 percent. This close to the estimate of 23 percent and hence the State can manage to a good headroom for the debt usage. It is here again advised the additional debt should be used by the State for Capital expenditure so that asset builds up is possible.

## 16.4 Conclusion

The analysis shows that the Revenue and fiscal deficit shows decline over the various stages of the analysis. It indicates that under the F0 scenario with the 14 percent GST mandate, the State would be able in decrease the deficit scenario. Further, when the data were simulated for various growth rates where the fiscal and revenue deficits decline. The debt road map also shows that with the changing scenario, the debt to GSDP position improves over the period 2018-19 to 2024-25. This is a good indicator for the State.

**Major Findings**

- The current trend in receipts and expenditure of the State were to continue into future, the fiscal deficit as a percentage of GSDP would continue to decrease where as the Revenue Deficit as a Percentage of the GSDP would continue to worsen.
- With the introduction of GST, it can be observed that Fiscal deficit as a percentage of GSDP is reduced as revenue deficit worsen over the period worsen.
- As the GST implication for various scenarios are simulated, we see fall in the Debt to GSDP. This is indeed heartening for the State as we observe that the debt scenario become sustainable for all the scenarios.
- In the extend scenario if fiscal deficit grows at 2 percent of GSDP, the debt/GSDP ratio will be 28.30 and on average of 21 percent.
- It is advised the additional debt should be used by the State for Capital expenditure so that asset builds up is possible.

CHAPTER - 17

# CONCLUSION

## 17.1 Introduction

This current work for finding the financial status of the State of Sikkim was taken up on the behest of the 15th Finance Commission, Government of India and was assigned to the Department of Commerce, Sikkim University.

The major objective of this study was:

i. Estimation of the revenue capacity of the State.
ii. Analysis of States non-tax revenues
iii. Analysis of expenditure patter and trends separately for revenue and capital accounts.
iv. Analysis of Fiscal and Revenue Deficits
v. Study of the level of Debt
vi. Review of implementation of the FRMB act
vii. Analysis of the State Public Enterprises on fiscal health of the State.
viii. Impact of Power Sector reforms on State's fiscal Health
ix. Analysis of Contingent Liabilities of the State
x. Analysis of Subsidies given by the State government, its targeting and evaluation
xi. Outcome evaluation of State Financers based on 14th FC recommendations
xii. Determination of a sustainable debt road map for 2020-25.

## 17.2 The Summery of Conclusion

The State of Sikkim is located in the North- Eastern part of India and is surrounded by Nepal on West, China on North, Bhutan on East and West Bengal in South. It covers a total area of 7,096 sq. km. Sikkim covers barely 0.22 percent of the total geographical area of India but has a huge potential for development. Lying between 27th to 28th Degree North Latitude and 88th to 89th degree East on the Longitude, this Eastern Himalayan State is a place of extraordinary "Valleys" and profusion of bio diversified flora and fauna.

Sikkim has been a State of the Indian Union since 1975 and in the 1979 assembly election Mr. Nar Bahadur Bhandari, was elected as the first Chief Minister of Sikkim. The State is currently headed by Mr. Pawan Kumar Chamling, who has been the Chief Minister for past two and half decade.

Sikkim like most of the States of Indian Union is primarily an agricultural state with Rice, Wheat, Maize, Cardamom and Ginger as its main crops. The State is moving towards a complete organic status and is first amongst the entire nation to reach this status.

The State has an abundant source of Hydro power potential with 8,000 MW. Besides a thriving tourism industry, high literacy rate of 89 percent and vast untapped natural resources, it is a yielding place for economic growth.

Sikkim has had growth of GSDP of 11.1 percentages. This is largely because of thin spread in population and concentration of economic activity of late in the State. The lowest growth rate was in the year 2014-15. With an average growth of 10 pc the State is amongst a better achiever in the country.

The industrial development in Sikkim is a mixed experience. The State had largely State funded enterprises which used to pull the economic growth of the State. The State started to explore industrial development with advent of NEIP which promoted the setting up of modern production plants in the State. The GOI, Look East policy is helping the State to do its part in the growth of secondary sector. The State has started to invite private investment in Pharmaceutical companies and breweries.

The State has developed a large service sector with tourism being one of the hall mark industry of the State. Besides, ancillary services to support the Tourism industry have flourished in the State. The State has also developed a good network of Banks and financial sector which has helped in fuelling the growth of the economy.

Sikkim has a large population engaged in Agriculture followed by tertiary (services to be more specific) and secondary (industrial production). A total of 62 percent is engaged in the agriculture and other allied activities in the State, where as 23 percent is engaged in services and 13 percent in secondary sector.

Government is the largest employer in the formal sector. Job aspirants in the State continue to look forward to employment opportunities in the government. Educated youth, especially in urban areas, are keen to be employed in the public sector, because of limited employment opportunities in the private jobs in secondary and tertiary sector. But new openings in government are very few. According to the State Socio-Economic Survey 2006, 18.5 per cent of the main workforce was employed by the government (with 73 per cent of them on the regular payroll) and around three per cent in Central Government and Public Sector Undertakings. Salaried employees in the private sector accounted for only 5.4 per cent of the workforce

The total receipts as a percentage of GSDP is showing a declining trend during the period 2010-11 to 2017-18 (RE). The total receipts have improved from 31.52 percent of GSDP in 2011-12 over previous years. As a proportion of GSDP the revenue receipts have declined from 29.03 in 2010-11 to 22.32 percent in 2015-16. This clearly indicates that the revenue receipts of the State failed to keep pace with the GSDP growth. The declining trends in the revenue receipts affect the overall fiscal health of the State.

The State's capital receipts as a percentage of GSDP, which constitute the borrowings of the government, had shown a fluctuating trend, but are keeping pace with the GSDP growth. The proportion of the revenue and capital receipts remained around 80:20. This is a good indication that only one fifth of the total receipts are from capital account or the borrowing of the government, while a major proportion comes from revenue receipts.

The revenue receipts of the State negative growth of 8.46% and this led to a decline in the overall receipts of the State government during the last three years. From the component wise analysis one can conclude that the decline in the capital receipts is a positive trend, but the decline in the revenue receipt is a worrisome exchequer.

The growth rate of various components explains the story more clearly. The total receipts had recorded a negative growth rate of only 8.46 percent for the entire period. The revenue receipts had a negative growth rate of 73 percent the capital receipts had recorded a growth rate of 38 per cent. The decline in the growth rate of revenue receipts have pulled down the growth rate of total receipts below the growth rate of GSDP, which lead to a scenario where the government's income is proportionately with the growth of State income.

The total receipts and revenue receipts gives an expected elasticity of less than one, indicating the slow growth rate of those two variables in relation to GSDP.

The Central devolution of taxes on the other hand had shown an increasing trend. The share of central taxes increased from 54.38 percent during the 13$^{th}$ FC period to 12.45 percent during the 14$^{th}$ FC period. Central grants had increased in 13$^{th}$ FC period but declined from 15.47 percent in 2015-16 and then increase three times in 14$^{th}$ finance commission. But overall average Central Grants decline is 9.14 percent in 14$^{th}$ FC over previous 13$^{th}$ FC.

The share in Central taxes in total revenue receipts shows an increasing trend and this gives more untied funds available to the State government. The decline in the own tax effort of the State government is to a great extend getting balanced by the increased availability of the tax share from the union government.

A substantial component of Own Revenue Receipts of the State of Sikkim is Own Tax Revenue, hence in this section we analyze the own tax revenue of the government of Sikkim for the period 2010-11 to 2017-18(RE). Except the declining trend in the Land revenue, tax on wealth, all parameters are increasing trend. Total mean Tax revenue is increased 154 percent in 14$^{th}$ FC over13$^{th}$ FC. Like most of the State of India, taxes on commodities and services constitute the major component of revenue for the State. Around 80 percent of the own revenue receipts comes from this head. This is followed by 3.5 percent revenue from taxes on property and transactions.

Over the last two Finance Commission periods there was improvement in all the component of the own tax revenue of the State except taxes on Land revenue, stamps and wealth. This clearly suggests that significant effort has been made on all the part of the State government to boost its performance

Budget Effort measures the ratio of actual collections of sales tax/ VAT to budget estimates. If the ratio is above 100, the budget effort is efficient and if it is below 100, the budget effort is ineffective. The budget effort is significant until 2013-14. The last three years shows recorded a slight dip in the budget effort that will be corrected once the GST is in full pace.

The standard rate of VAT in Sikkim has been 12.5 percent for different financial years under consideration. By using the GSDP at current prices as the tax base as time series of annual Consumption Expenditure is not available.

The C-efficiency has been on an average 0.0015 for Sikkim during the period 2010-11 to 2016-17 (we have excluded 2017-18 due to introduction of GST, which is a structural change). The average C- efficiency is about 0.6 for high income countries and 0.57 for emerging market economies and 0.31 for low income countries (GOI 2015). This implies that greater efforts for compliance is called for at the enforcement level, as in the post GST, harmonized tax rate and exemption scenario, scope for policy efforts should be limited.

The central devolution has remained slightly above 20 percent of GSDP during the last 7 years. Total devotion has declined from 16.97 percent during $13^{th}$ FC to $14^{th}$ FC due to a decline both in the share of central taxes as well as the decline in the grants. With the changing pattern of financing of the Centrally Sponsored schemes, the grant disbursement in the near future is uncertain to predict. In the proximate future, the rise in the share of taxes, after the award of $14^{th}$ FC is likely to be accompanied by a decline in share of grants and a reasonable expectation will be 22.07 percent of GSDP, as Central devolution.

Non- tax revenue of the State governments in India include (a) revenue from assets- common property resources for which government the government acts as a custodian and charges fees, renewable natural resources from where the government receives royalties and assets created from earlier investments like Public Sector Undertakings, irrigation, roads and loans given by the State government, from where the government receives dividends and interest. (b) Revenue from the sale of goods and services provided directly by the government which yields revenue in the form of user charges and (c) revenue from sale of licenses and permits for regulated activities such as permits for vehicles, etc.

A major caveat needs to be noted down here is that the non-tax revenue of the State decreased by 50.33 per cent over the previous $13^{th}$ FC in mean value. It is mainly due to reduction in General Service by 83.60 percent.

The non-tax revenue of the government mainly accrues from four categories, Interest Receipts, Dividends and Profits, General Services, Economic Services and Social Services. It is observed that over the past 7 years, General Services have contributed the maximum share towards non-tax revenue in Sikkim.

Own non-tax revenues from social and economic services can be treated as recoveries by the government for the services provided. Under revenue expenditure, the Government makes outlays in the form of current expenditure for provision of these services. Comparing the recoveries with these outlays, the recovery rates can be computed to indicate the extent of subsidization of these services by the government. The recovery rates for economic and social services are generally low for almost all States in India. Sikkim's case is not different from all India pattern.

Expenditure analysis is an import aspect of understanding the State finances. Since, expenditure would create have effect on the Fiscal and Revenue Deficits it is important to understand its trends. Besides, since India is largely a welfare State, its provincial States are expected to follow suit. In this case there would be a large amount spent on welfare and development.

The total expenditure of the State has shown a rising trend. However, the Total Revenue Expenditure to GSDP has in the beginning increased and latter decreased. This is indicative of the fact that expenditure has a slower pace than income of the State. The average growth of total expenditure to GSDP is about 30.02 percent during the period of study. The State has a large share of expenditure in term of revenue expenditure. The revenue expenditure is about 81 percent and the Capital expenditure is about 19 percent. There is a decrease in Revenue expenditure to GSDP. The decrease in the Expenditure to GSDP both Capital and Revenue may have a negative repercussion on the development of the State.

The composition of the expenditure which is logical as we had discussed the total trend pattern. It is observed that almost all the expenses show a decreasing trend. The decrease is social service expenditure and education is noteworthy. However expenses in Heath and Power shows an increasing trend.

On account of Capital expenditure economic services takes the bulk share (52.23 percent) of the State's budget. General services and Social services are the other two heads where capital expenditure shows a higher trend. Interestingly, Tourism which is one of the major sources of income for the State, the Capital expenses on it has decreased. The State being a hilly region, substantially on road expenses which is observable.

The total development revenue expenditure shows a rising trend in the 13FC period where as the trend in total non-development expenditure rises and then sharply falls in the end of the 13th FC and the period of 14th FC. The fall in non-development expenses which is largely administrative charges is a welcome aspect for the State.

The percentage growth in development expenditure over the 13FC to 14.FC is 0.67 and during the period of 2010-11 to 2017-18 is 1.88. This is quite commendable as this means that the State has taken up substantial development work which was indicated earlier too. On the other hand the TNDE has reduced in the two periods of FC's to 0.58 percent but overall increased by 1.3 percent in the period under study. It is important to note that the increase in development expenses is about 41% more than the non-development expenses.

The 13thand the 14th Finance Commission projected the State of Sikkim to run a revenue account surplus post devolution of taxes as Sikkim has traditionally been a revenue surplus State. Hence, the respective FCs did not recommend any grants to cover the post-devolution Revenue Deficit. Moreover, the State has been able to meet the projected revenue surplus targets and in most of the years between 2010-11 and 2017-18 the actual revenue surplus surpasses the projections significantly. However, the total receipts were insufficient to meet the Revenue and Capital expenditure, thereby causing the State to have a fiscal deficit.

The State witnessed a sharp rise in Revenue Surplus (RS) from Rs. 139.78 Cr in 2010-11 to Rs. 442.49 in 2011-12 and this trend in sharp rise continued till 2012-13. In 2013-14 and 2014-15 we can see a slight drop in RS and in 2015-16 the surplus plunged to a record low of Rs. 139.71 Cr to again rise in the subsequent years thereafter. This sharp rise in the RS vales can be broadly attributed to a significant jump in grants from the central government, which increased from Rs. 1105 Cr in 2010-11 to Rs. 1722 Cr in 2011-12, further continuing its rise to Rs. 2426 in 2014-15 while other constituents of the Revenue Account kept rising at a proportionately similar pace. From 2015-16 onwards the central government grants decreased drastically to Rs. 934 Cr in 2015-16, Rs. 1436 Cr in 2016-17 and Rs. 2470 Cr in 2017-18, which explains the sudden plunge in RS in 2015-16 to again rise in the subsequent years.
We can observe that both the 13th and the 14th FC projected that the State would achieve Revenue Account surplus in all the years under their preview and therefore did not allocate any grant to cover the Revenue Account deficit. Interestingly the Statemanaged to out pass

the Revenue Surplus projections of the 13th FC and in case of the 14thFC the actual surplus figures were somewhat similar to the projections.

We observe that the State's fiscal position improved from 2010-11 onwards as the Fiscal deficits declined from Rs. -316.25 Cr in 2010-11 to Rs. -52.94 Cr in 2013-14 in absolute terms and from -4.27 % to -0.43 % (Figure 6.1) as a percentage of the GSDP. In this particular period the State's Revenue Surplus saw a sharp increase resulting from significant central grants therefore enhancing the Revenue Receipts, which forms a significant proportion of the Total Receipts thereby bringing down the overall fiscal deficit. Similarly, as the surplus in the revenue account declined in 2014-15 and 2015-16 the fiscal deficits also started surging. It was only in the year 2016-17 that the State recorded a Fiscal Surplus of Rs.86.31 Cr for the first time largely because of increase in the Revenue Surplus.

We further observe an upward trend in the total Revenue Receipts by the State from 2010-11 to 2014-15 majorly due to a sharp rise in Grants from the Central government which includes both grants under FC and grants other than FC. In this particular period the fiscal indicators drastically improved for the State as the Revenue Surplus kept increasing sharply during the period resulting in significant decline in the Fiscal Deficit. In the period from 2015-16 onwards the Revenue Receipts did not increase proportionately as compared to the increase in both revenue and capital expenditure, therefore the Revenue Receipts were not enough to contain the Fiscal Deficit as it was the case in the earlier period.

On an average Public Debt accounts for nearly 70 per cent. Borrowings from Provident funds and small savings account for 19 per cent of total debt stock. Borrowings from other interest-bearing liabilities (Reserve Funds and Deposits) account for 11 per cent. Thus, the debt from Public Accounts (Provident Funds and Small Savings, Reserve Funds and Deposits) accounts for 30 per cent of the total debt stock of the State of Sikkim. Of the debt from the Public Account, Reserves and Deposits show an upward trend as it increased from around 8 % in 2005-06 to 12 % in 2018-19 while in contrast the proportion of Provident fund debt declined from 23.29 % in 2005-06 to 13.86%. If we were to arrange the proportions of each debt component according to the period of FCs, we would observe that the Public Debt has a predominant share in the total debt stock followed by borrowings from Provident Fund and other Interest-bearing Obligations.

Public debt is made up of internal debt and loans and advances from the Central Government. We observe that the State's overall debt from the Public Debt has remained somewhere around 70 % throughout the period of study i.e. 2005-06 to 2018-19. However, the composition of debt from the Public Debt has changed over time and also under different FCs. In the year2005-06 the share of Internal Debt and other stood at around 64 % while Loans and Advances from Central Government had a share of around of 36 %. In the year 2018-19 the share of Internal Debt rose to 98 % while the share of central loans fell to around 2 %. The interest burden on central loans are generally lower than the interest obligation of market loans which forms the Internal Debt, therefore interest burden from Public Debt also has risen during the period of study which ultimately increases the overall interest burden on the debt stock of the State.

The State's overall debt from the public account has remained somewhere around 30 % throughout the period of study i.e. 2005-06 to 2018-19. However, the composition of debt from the public account has changed over time and also under different FCs. In the year2005-06 the share of provident funds and other small savings stood at around 74 % while Reserve Funds and Deposits had a share of around of 20 % and 5 % respectively. In the year 2018-19 the share of provident funds fell to 52 % while the share of reserve Funds and Deposits rose to 34 % and 13 % respectively. The interest burden on Reserve Funds and Deposits are generally lower than the interest obligation of provident funds, therefore interest burden from public account debt also fell which ultimately lowers the overall interest burden on the debt stock of the State.

It is observe that the level interest payments have risen during the years 2010-11 to 2017-18 in absolute terms as the level of debt kept on piling up in the said period. However, the Interest Payments as a ratio of the revenue Expenditure show a declining trend, as it fell from 9.8 % in 2010-11 to 7.6 % in 2017-18. This can be further highlighted by clubbing the periods according to the different Finance Commissions, wherein it can be observed the Interest Payments as a percentage of the Revenue Expenditure has declined from 8.29 % in the 13$^{th}$ FC to 8 % in the 14$^{th}$ F. This is an encouraging indicator of fiscal responsibility since the State's interest burden has fallen with respect to its Revenue Expenditure.

The total debt stock of the Government of Sikkim to GSDP shows a secular fall from an average of 60 per cent during the 12th FC period to an average of 26 per cent in the 14th FC period. This is has come considerably close to the limits set by the Sikkim FRMB Act 2010.

In accordance to the FRMB, the State of Sikkim has been able to consolidate its financial position to a large extent. Having a special status, the State is heavily dependent on the Central assistance and grants. Its own revenue generation has increased over a period of time. However, its expenses are commensurate. The capital outlay of the State has increased and so has its indebtedness. It is heartening to observe that the State has been well within its limit and has been able to achieve its fiscal and revenue targets as laid down by the $14^{th}$ FC. However, the State needs to consolidate its debt and put more effort on the spending.

There is a pressure on PRIs to enhance resource mobilization. Presently, the local bodies are primarily dependent on external sources. Internal revenue generation is insignificant even though theState is bestowed with natural beauty. Lesser dependence on external sources should be the orientation of thease local bodies. Local resource mobilization must be encouraged and supported. There should be innovative practices to augment revenue generation by local bodies. Sikkim Panchayat Act 1993 and Sikkim Municipalities Act 2007 have provisions to levy tax and fees. However, thease are not implemented. SOPs for imposition and collection of fees is the need of the hour. There is ample scope for the local bodies to collect tax from Parking facilities, car washing centres, local market facilities, home stays etc. Institutionalization of local social entrepreneurship by the PRIs and ULBs may be encourages. Pink car , orphanage, waste disposal etc are potential for increasing the revenues of local bodies. The FC may note the following:

Capacity of PRIs to generate own resources for carrying out the responsibilities assigned to them is weak and grossly inadequate.

Adequate finances be available with the PRIs to match the transferred functions based on the activity mapping for the devolution of funds, functions and functionaries (3Fs).

State's ability to meet the resource requirements of the PRIs based on the recommendations of SFC is not adequate as State is constrained by its committed liabilities which are a priority.

Eligibility conditions for the entitlement of grants and fines for delay in transferring grants to PRIs not be imposed due to Sikkim's vulnerability to occurrence of frequent landslides, difficult terrain, inadequate communication infrastructure, etc.

The State has 17 SPSUs. Of all there are six companies, two board (of which one is a departmental organization and seven departmental organizations.

The State provides finance to the SPSUs through capital support, budgetary support and grants. The total financial support of the SPSUs has gone up from Rs. 84.16 crore to Rs. 144.65 crore during the period of 2010-11 to 2016-17.

The State had increased the investment in SPUS during the beginning of the period and then started to withdraw it thereafter. Though, increased industrialization activities during the period of 2013-14 lead to substantial increase in investment, the State has started to withdraw thereafter from the SPSUs again. This in itself is a welcome trend as this would decrease the pressure on the exchequer.

The total investment of the State stands at Rs. 852 crore in the year 2015-16. The general pattern in the investment is falling as the State had taken steps to close down few enterprises in the period preceding the study.

The State has taken substantial steps to rationalize its investment in the SPSUs. It has closed the enterprises which have earned recurrent loss and or failed to pay dividend to the State for the last three accounting years. The State has also taken care to reduce its investment in the SPSUs thereby reducing its burden on the exchequer. In line of this it is advised that some of the SPSUs be closed where as the others may be strategically reoriented.

The State is highly dependent on hydel power. The State has been harnessing the mountain river, especially Tista to generate power. The National Hydro Power Corporation is in the forefront of partnering with the State for the generation of Hydel power.

The power utility of the State has increased its expenses where as its revenue has fallen. The surplus of the utility has increased in the last three years. However during 2014-15 it has reduced.

The State is not in the forefront of the power generation in the country. It is capable to meet its own demand of power largely supplied by the national level hydro power companies and in exchange provide free electricity to the State. The State manages its distribution network and manages it merge power requirement. Since Industrial development is a very recent origin, that too only pharmaceutical companies. As a result the pressure on the exchequer from the power sector is not there. Hence the State has not taken any significant reforms in the sector

The Bus and Vehicular transport in Sikkim is looked after by Sikkim Nationalised Transport. The transport system was introduced in the year 1944 as Sikkim State Transport and had been re-christened as Sikkim Nationalized transport from the year 1955 and is a part of the Transport Department, Government of Sikkim.

SNT has 75 buses, 51 trucks and 33 tankers. It operates through 40 bus routes covering the entire span of the State alongside the connectivity to Siliguri in West Bengal. Besides, SNT also provides for the City Bus services which is operative through 7 am to 6 pm on a daily basis. SNT employs close to 677 people and is one of the major employers of the State.

It is of great importance that SNT have been able to increase its revenue receipt over the years. This is definitely any interesting issue since SNT is a public utility; revenue management is quite a issue. With an average increase of 5 percent of revenue gain SNT has done a commendable service. It is interesting to note that average increase of 11 percent of revenue on Non-traffic receipts, SNT has done a good job. However, the average increase in traffic revenue is about 1 percent. SNT has however been in Loss for the entire period of study and the loss has averagely increased by 1 percent which is quite well contended.

The reforms of SNT have been mostly to manage its resources. Streamline of manpower, reduction of operational cost and managing the fleet utilization are the major issues. The State uses SNT as a major welfare tool as it is heavily depended on road transport and connectivity. The State has been able to bring in competition by allowing the private buses from the State of West Bengal between Siliguri and Gangtok. This has provided as an initiative to the SNT as this has allowed them to create a bench mark.

The State has performed well in terms of Contingent Liability. The State has an Act which limits the scope of Guarantee to the enterprises. This is one of the major reasons of good performance.Sikkim Ceiling on Government Guarantees Act-2000 is an additional Act on Guarantee. The Act requires that total outstanding Government Guarantee on the 1st day of April of any year should not exceed thrice the State ‘s Tax Revenue Receipt of the second preceding year. The contingent liability is minimal and erratic in respect to total revenue. The State has no loss on account of the contingent guarantee

Subsidy is an inevitable component in the government budget. In the context of Sikkim there is no exception in the regard. There are two components of subsidies. One is explicit and other is implicit. The explicit subsidy in Sikkim are provided to three sectors, such as Agricultural sector for the co-operation in agricultural marketing; food civil supply and consumer affairs; and in medical and public health.

. In case of providing subsidies, Sikkim government has emphasized the food civil supply and consumer affairs, as from 2010-11 to 2018-19 (RE) during these nine years total subsidy provided to this sector is greater than that of two other sectors. However, one important fact can be indentified in the context of subsidy provision that during nine-year period the explicit subsidies provided to all of the sectors mentioned above had changed significantly.

The amount of subsidies, the percentage of subsidies provided for agricultural marketing were the lowest, and highest percentage of subsidy was given to the food civil supply and consumer affairs. In addition, one important reality is that there was no implicit subsidy given by the Sikkim government during the period. Therefore, the percentage of explicit subsidy given for agricultural marketing; food civil supply and consumer affairs; and in medical and public health in total explicit subsidy were same as the percentage of subsidy given to these sectors in total subsidy.

Consequent to the enhancement tin the share of states' individual pool of central taxes, the central assistance to the state plan has been restructured. The central govt discontinued the normal central assistance, specific plan assistance, special plan assistance and the additional central assistance. The central govt also delinked eight centrally sponsored schemes from funding and brought about substantial change in the funding pattern of some other schemes. This led Sikkim to face a difficult situation due to the restricting of the central transfer system.

The State of Sikkim has managed the Subsidies well. Food and Civil supplies have fallen over a period of time. Medical and Public health subsides have mounted. The State had very low implicit subsides and large explicit subsides in term of Agriculture.

The State has been able to accept and adapt to most of the recommendations of the $14^{th}$ Finance Commission. Being a revenue surplus State, it does not get any grant for revenue management hence it did not take any step towards it. The State has taken several reform measures to strengthen its Rural and Urban Local Bodies including the tax sharing pattern. The State has been able to incorporate a 100 percent metering of electric lines and has been able to reduce its investment in State Public Sector Undertakings.

The analysis of sustainability of debt shows that the Revenue and fiscal deficit shows decline over the various stages of the analysis. It indicates that under the F0 scenario with the 14 percent GST mandate, the State would be able in decrease the deficit scenario. Further, when the data were simulated for various growth rates where the fiscal and revenue deficits decline. The debt road map also shows that with the changing scenario, the debt to GSDP position improves over the period 2018-19 to 2024-25. This is a good indicator for the State.

### 17.3 Conclusion

The State of Sikkim which is a hilly region has its challenges and advantages. The State has been a revenue surplus State. It has gone completely organic in agricultural production and is the first in India to achieve the status. The State has a n average HDI and is on the path of development. It has managed its finances well. The amount of reform in terms of PSU and power sector are minimal. The State has a has been able to improve its debt to GSDP position over the period of study. This is a good indication for the overall performance of the State.

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