

Outcome Evaluation of Sikkim State Finances

Report Submitted to the
Sixteenth Finance Commission, Government of India

Prepared by
Prof. Manesh Choubey
Dr. Rangalal Mohapatra



Department of Economics,
Sikkim University,
6th mile, Tadong,
Gangtok, Sikkim – 737102

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Prof. Manesh Choubey PI
Dr. Rangalal Mohapatra Co-PI
Department of Economics

List of Tables

Table no	Title	Page No
Table 2.1	Fact Sheet of Sikkim	9
Table 2.2	Gross State Value Added by Economic Activities at Constant (2011-12) Prices (Sikkim)	10
Table 2.2 (a)	Gross State Value Added by Economic Activities at Current (2025) Prices (Sikkim)	12
Table 2.2(b)	Period of Sikkim State Finance Commissions	13
2.3	Comparison of Key Indicators	14
Table 2.4	Comparison Between Sikkim and North-East States of India (NSDP 2022-23)	17
Table 2.5	Human Development Index (2022)	24
Table 3.1	Total Receipts and Its Major Components (in ₹ Cr)	30
Table 3.2	Total Receipts and Components as Percent of GSDP	32
Table 3.3 (a)	Total Receipts and Major Components: Compound Annual Growth Rate	33
Table 3.3 (b)	Total Receipts and Major Components: Compound Annual Growth Rate	34
Table 3.4	Total Receipts and Major Components: Tax Buoyancy.	35
Table 3.5 (a)	Revenue Receipts and Its Components (in ₹Cr)	39
Table 3.5 (b)	Percentages Contribution of Different Components of Revenue Receipts	40
Table 3.6	Revenue Receipts and Components as Percentage of GSDP	42
Table 3.7	State's Own Tax Revenue (in ₹ Cr)	44
Table 3.8	Share of Various Tax on State's Own Tax Revenue (%)	45
Table 3.9	State's Own Tax Revenue as Percentage of GSDP	46
Table 3.10	State's Own Tax Revenue: Compound Annual Growth Rate	47
Table 3.11	Tax Buoyancy	48
Table 3.12	Budget Effort of Tax Revenue in Sikkim (in ₹ Cr)	49
Table 3.13	C-efficiency of Tax Revenue in Sikkim	51
Table 3.14	Trends in Central Devolutions of Tax and Grants to Sikkim	51
Table 3.15	Central Devolution of Taxes and Grants to Sikkim as % of GSDP	53
Table 3.16	Estimated Total Revenue Along with the Estimated Tax Revenue of the State (₹ Cr)	54
Table 4.1	Gross Non-Tax Revenue: Summary Statistics (in ₹ Cr)	60
Table 4.2	Percentage Share of Various Components of Non-Tax Revenue	63
Table 4.3	Share of Various Components of Non-Tax Revenue over 2010-2025(in %)	63
Table 4.4	Growth Rate of Various Components of Non-Tax Revenue	64
Table 4.5	Dividends from PSUs and Interest from other Investments (in ₹Cr)	65
Table 4.6	Cost Recovery (Percent).	65
Table 4.7	Toll Receipts (in ₹ Cr)	66
Table 4.8	Dividends from PSUs and other Investments (in ₹ Cr)	67
Table 4.9	Total Investment at the end of the Year in Public Sector Undertakings (₹	68

	Cr)	
Table 4.10	Dividend/ Interest Received During the Year from PSUs (₹ Cr)	68
Table 4.11	Budget Effort of Non- Tax Revenue in Sikkim (in ₹ Cr)	69
Table 5.1	Total Expenditure and its Components (₹ Cr)	74
Table 5.2	Growth Rate of Expenditure	74
Table 5.3	Composition of Revenue Expenditure	75
Table 5.4	Composition of Capital Expenditure as a % of Total Capital Expenditure	75
Table 5.5	Committed Expenditure of Government of Sikkim	76
Table 5.6	Committed Expenditure as a Percentage of Revenue Receipts	76
Table 5.7	Growth Rate of Committed Expenditure	77
Table 6.1	Revenue Deficit and Fiscal Deficit from 2011-12 to 2021-22 (₹ Cr.)	80
Table 6.2:	Revenue Deficits (₹ Cr.) and % to GSDP arranged by FCs	82
Table 6.3	Fiscal Deficits (₹ Cr.) and % to GSDP arranged by FCs	82
Table 7.1	Total Debt Stock and Components (₹Cr) from 2005-06 to 2024-25[B.E]	89
Table 7.2	Total Debt Stock and Components by FCs (₹ Cr)	90
Table 7.3	Composition of Public Debt in (%)	91
Table 7.4	Composition of Public Debt by FCs	92
Table 7.5	Share of Components (%) within Debt from Public Accounts	92
Table 7.6	Interest Payment as a Percentage of Revenue Expenditure (2010-11 to 2024-25)	93
Table 7.7	Interest Payments as a Percentage of Revenue Expenditure (Arranged by FC)	94
Table 7.8	Debt Stock and Components as a Percentage to GSDP (2005-06to 2024-25) by FCs	95
Table 7.9	Fiscal Sustainability Indicators	96
Table 7.10	Fiscal Sustainability Indicators for Sikkim (2010-11 to 2024-25 [B.E])	97
Table 7.11	Indicators and Frequency of Observed Breaches	97
Table 7.12	Number of Breaches in the Sustainability indicators from 2010-11 to 2024-25	98
Table 8.1	Tax Buoyancy Across Different Finance Commission 2010-11 to 2024-25 [B.E]	110
Table 8.2	Revenue Receipts of Government of Sikkim (in ₹ Cr)	113
Table 8.3	Capital Outlay of Sikkim	114
Table 8.4	Fiscal Indicators -Rolling Targets	118
Table 9.1	Gram Panchayats, Area and Population	126
Table 9.2	No. of Local Bodies in Sikkim	127
Table 9.3	Expenditure Profile of Sikkim	128
Table 9.4	Grants from the Finance Commission	129
Table 9.5	Fund Transfer from State Government to GPs	130
Table 9.6	Own Revenue of Local Bodies of Sikkim	131
Table 9.7	Revenue of Zilla Panchayats in Sikkim	132
Table 9.8	Expenditure of Zilla Parishad	134
Table 9.9	Revenue of Gram Panchayat	135
Table 9.10	Expenditure of Gram Panchayat	137
Table 9.11	Year-wise Distribution of 4.5% of Net Own Tax Revenue to individual ULBs for the period 2020-25	138

Table 9.12	Year-wise Distribution of 4.5% of Net Own Tax Revenue to individual ULBs for the period 2020-25(₹ in Lakh)	138
Table 10.1	List of SPSUs in Sikkim	143
Table10.2	Categorization of SPU's in Sikkim	144
Table10.3	Sectarian Investment of the State in SPSUs (₹ in Cr)	145
Table10.4	Sectarian Total Income from SPSUs in Sikkim. (in Cr)	146
Table10.5	Government Investment and Reforms of SPSUs in Sikkim	148
Table11.1	Electricity Generation in Sikkim	152
Table11.2	Impact of Power Sector on State's Fiscal Health	155
Table11.3	Electricity Consumption in Sikkim (in MU)	155
Table11.4	Electricity by Source Type	157
Table11.5	Hydel Power Generation	157
Table11.6	Financial Performance of the Power Utility (in ₹ Cr)	158
Table11.7	Technical Details of Power Sector (in ₹ Cr)	159
Table 12.1	Operational Span of S.N. T	166
Table 12.2	Operational Stretch of S.N.T (2017-18 to 2023-24)	167
Table 12.3	Fleet- Position of Functional Vehicle (2005-06 To 2023-24)	167
Table 12.4	Manpower of S.N. T	168
Table 12.5	Financial Performance of S.N.T (in ₹Cr)	169
Table 12.6	Surplus Before Tax (in ₹ Cr)	170
Table 12.7 (a)	Cost Structure of S.N. T	171
Table 12.7(b)	Mean and Standard Deviation of Cost Structure	172
Table 12.8	Revenue per Bus	173
Table 12.9	Operational Performance of S.N. T	174
Table 12.10	Staff Productivity of S.N. T	175
Table 13.1	Total Liabilities and percentage to GSDP (in ₹ Cr)	179
Table 13.2	Guarantee Amount (in ₹ Cr)	180
Table 13.3	Outstanding Contingent Liability to Total Revenue Ratio	180
Table 14.1	Amount of Explicit Subsidies for Different Purposes	184
Table 14.2	Percentage Of Subsidies in Different Components in Total Subsidy	185
Table 14.3	State Wise Beneficiary Details	186
Table 14.4	Explicit Subsidy Administered Through DBT (in ₹ Lakh)	187
Table14.5 (a)	Implicit Subsidy Administered Through DBT (in ₹ Lakh)	188
Table 14.5(b)	Total Subsidy Administered Through DBT (in ₹Lakh)	188
Table 15.1	Comparison of the 15 th FC recommendations with the Achievements of Sikkim	194
Table 16.1	Revenue Deficits under F0	203
Table 16.2	Fiscal Deficits under F0	204
Table 16.3	Revenue Deficits under F1	205
Table 16.4	Fiscal Deficits under F1	206
Table 16.5	Sensitivity Analysis for Revenue Deficits	207
Table 16.6	Sensitivity Analysis for Fiscal Deficits	208
Table 16.7	Debt/GSDP Ratio Under Each of The Forecast Scenarios	208

Table 16.8	Debt Position for The Period of 2024-25 to 2030-31 at BAU Position	209
Table 16.9	Debt Position for the Period of 2024-31 if Fiscal deficit grows at 3 Percent	211
Table16.10	Debt position for the period of 2024-2031 if Fiscal deficit grows at 3 percent of GSDP	211
Table16.11	Debt position for the period of 2024-2031 if Fiscal deficit grows at 2 percent of GSDP	212

LIST OF FIGURES

Figure No.	Title	Page No.
1.1	The Structure of Government Accounts	5
2.1	Map of Sikkim.	8
2.2	Comparison Between Sikkim GSDP & India GDP Growth.	16
2.3	GSDP of Sikkim as Percentage of GDP of India (2022-23 prices)	17
2.4	Agriculture Sector Contribution (%) to GSDP	18
2.5	Industrial Sector Contribution (%) to GSDP	20
2.6	Tourism Sector Contribution (%) to GSDP of Sikkim	21
2.7	Infant Mortality Rate: per 1000 Live Births: Sikkim	23
3.1	Total Receipts and its Major Components (Flow Chart)	29
3.2	Total Receipts and its Major Components (in ₹ Cr)	31
3.3	Total Receipts and Components as Percentage of GSDP	33
3.4	Revenue Receipts and its Components (%)	41
3.5	Revenue Receipts as a Percentage of GSDP	43
4.1(a)	Non-Tax Revenue Over Years	61
4.1 (b)	Own Non-Tax Revenue as % of Total Revenue Receipts.	62
4.1 (c)	Gross Non-Tax Revenue as % of GSDP	62
4.1 (d)	Average Share of Various Components of Non- Tax Revenue	64
4.2	Toll Receipts (₹ Crore)	66
4.3	Dividends from PSU & Other Investment (₹ Cr)	67
5.1	Government Expenditure as a % of GSDP	73
6.1	RS, FD (% of GSDP) from 2010-11 to 2021-22	81
6.2	Revenue Receipts Compared to the Revenue Expenditure and Capital Expenditure of Sikkim from 2010-11 to 2021-22 (₹ Cr.)	83
7.1	Components of Total Debt Stock of Government of Sikkim	87
7.2	Components of Total Debt Stock From 2005-06 to 2024-25(%)	88
7.3	Debt to GSDP % (2005-06 to 2024-2025 [B.E])	95
8.1	Fiscal Outcome of Sikkim	108
8.2	Broad Fiscal Trends in Sikkim	109
8.3	Composition of Revenue Expenditure in Sikkim	111
8.4	Composition of Capital Expenditure in Sikkim	115
8.5	Public Debt as the % of GSDP	115
8.6	Sector Growth Rate (%) in Sikkim	120
9.1	TR of ZP as % of GDP	133
9.2	TE of ZP as Percentage of GSDP	134
9.3	TR of GP to GSDP.	135
9.4	TE as Percentage of GDP of Gram Panchayat	138
10.1	Financing pattern of SPSUs in Sikkim (in ₹ Cr)	145
10.2	Total Income from the SPSUs in Sikkim	147
12.1	Organizational Structure of SNT	166
14.1	Explicit Subsidies	184
14.2	Percentage of different components of explicit subsidy in total subsidy	185
14.3	Total Subsidy Administered Through DBT (in ₹Cr)	189
16.1	Vicious Cycle of Fiscal Un sustainability	199
16.2	Trend line of Revenue Deficit& Fiscal Deficit as a % of GSDP, under F0 Scenario	204
16.3	Trend line of Revenue Deficit & Fiscal Deficit as a % of GSDP, under F1 Scenario	207

ABBREVIATIONS

BE- Budget Estimated
CV- Coefficient of Variation
DBT-
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
GST- Goods and Services Tax
HDI- Human Development Index
KWH- Kilo watt hour
LB- Local Bodies
MW- Megawatt
MTEF- Medium Term Expenditure Framework
MTFP- Medium Term Fiscal Policy
PRI- Panchayati Raj Institution
RD- Revenue Deficit
RE- Revised Estimates
SNT- Sikkim Nationalized Transport
SPSU- State Public Sector Undertakings
SFC- State Finance Commission
TOR- Terms of Reference
TR- Total Revenue
VAT- Value Added Tax
UFC- Union Finance Commission

TABLE OF CONTENTS

Title		Page No
Acknowledgement		II
List of Tables		III-VI
List of Figures		VII
Abbreviations		VIII
Chapter 1	Introduction	1-6
Chapter 2	Socio-Economic Profile of Sikkim	7-26
Chapter 3	Trends in Tax Revenue	27-58
Chapter 4	Trends in Own Non-Tax Revenue	59-71
Chapter 5	Total Expenditure: Trends and Pattern	72-78
Chapter 6	Analysis of Fiscal and Revenue Deficits	79-84
Chapter 7	The Level of Debt	85-101
Chapter 8	Implication of FRBM Act	102-124
Chapter 9	Finances of Local Bodies	125-140
Chapter 10	Impact of State PSU on State Finance	141-150
Chapter 11	Impact of the Power Sector Reforms on the Fiscal Health of the State	151-163
Chapter 12	Performance of the Sikkim Nationalized Transport	164-177
Chapter 13	Analysis of Contingent Liability	178-181
Chapter 14	Analysis of State Subsidies of Sikkim	182-191
Chapter 15	Outcome Evaluations of State Finance	192-198
Chapter 16	Determination of a Sustainable Debt Road Map of Sikkim	199-215
Chapter 17	Finding & Conclusion	216-222
Chapter 18	Recommendations	223-225
	References	226-233

CHAPTER- 1
INTRODUCTION

1.1 Introduction

Sikkim is surrounded by vast stretches of Tibetan Plateaus in the north, the Chumbi Valley of Tibet and the Kingdom of Bhutan in the east, the Kingdom of Nepal in the west and the Darjeeling district of West Bengal in the south. The state is richly endowed with rare and exotic flora and fauna, which includes 5,000 species of flowering plants, 515 rare orchids, 60 primula species and 36 rhododendron species. This makes it one of the leading states in the Northeast region in terms of production and supply of cut flowers to mainland consumer markets. Of the 6,000 medicinal plants in India, over 424 plants (including the famous *Artemisia vulgaris* that is used as an antiseptic) are grown in Sikkim. As per Census population projections for 2022-23, Sikkim has a population of 0.7 million and represents 0.05 percent of India's total population. The State's projected population growth at 0.9 is equal to the national average, as of 2022-23. As per 2021 projections, the State's population density at 86 people per square kilometer is one of the lowest in the country. Its dependency ratio (51.3 percent), as of 2021, is lower than the national average. Nearly half of the State's population (49.5 percent) resides in urban areas. The working population in the State is predominantly concentrated in Agriculture (45.8 percent); Services (39.2 percent); and, Construction (9.2 percent), respectively (Census India, 2011).

Sikkim's real GSDP has grown at an average rate of 6.4 percent during the period from 2012-13 to 2021-22, which is higher than the national average growth of 5.6 percent. At current prices, Sikkim's Gross State Domestic Product (GSDP) is estimated at Rs. 0.52 trillion (US\$ 6.30 billion) in 2024-25. Sikkim's GSDP is estimated to increase at a CAGR of 10.60% between 2018-19 and 2024-25. The State's share in the country's nominal GDP is 0.2 percent, as of 2021-22. Its nominal per capita income is 3.2 times higher than the national per capita income, as of 2021-22. With a share of 62.6 percent, the industry sector is the largest contributor to the state's GSVA, followed by services (28.3 percent) and agriculture sector (9.1 percent) in that order, as of 2021-22 (MoSPI, 2024). In 2022-23, the secondary sector contributed 62.60% to the state's GSVA at current prices. It was followed by the tertiary sector at 28.58% and the primary sector at 8.83%. At a CAGR of 12.66%, the primary sector witnessed the fastest growth among the three sectors between 2011-12 and 2022-23.

In case of Socioeconomic Indicators, Sikkim's literacy rate, at 81.4 percent, is higher than the national average of 73 percent as of 2011. The Gross Enrolment Ratio at the Higher Secondary level (39.9 percent in 2015-16) is lower than the national average, but at the Higher Education level it is higher than the national average. In terms of health indicators, the infant mortality

rate in the State at 5 deaths per 1000 live births is one of the lowest in the country and total fertility rate at 1.1 children per woman is also very low compared to the national average, as of 2019-21. The share of fully immunized children (80.6 percent) is higher than the national average, as of 2019-21 (All India Survey on Higher Education (AISHE) 2021-22).

With reference to the state of public finance (revenue and expenditure), Sikkim's debt-to-GSDP ratio at 31.2 percent is at par with that of a median state and its contingent liabilities, at 10.4 percent, are much higher than that of a median state, as of 2022-23. The fiscal and primary deficit levels at 4.4 percent and 2.7 percent respectively, are higher than that of a median state, as of 2022-23. The State has a revenue surplus of 2 percent of GSDP in 2022-23 which is higher than that of a median state's deficit of 0.4 percent. As of 2022-23, the State collects more revenue as a percentage of GSDP (21.3 percent) compared to a median state. Its expenditure-to-GSDP ratio (25.7 percent) is higher than that of a median state. The State's Debt Sustainability Analysis shows that under the baseline scenario (where debt level, primary deficit, real GDP growth, real effective interest rate remains as they are), debt-to-GSDP ratio is projected to decrease over the next five years. If the state absorbs its outstanding contingent liabilities, then its debt to GSDP ratio is projected to increase by 6 percentage points in next 5 years. The State's share in taxes from Centre, as per the FC recommendations, has remained consistent at 0.4 percent under 14th and 15th FCs. Its share in the total grants-in-aid has remained low but increased from 0.1 percent under the 14th FC to 0.3 percent under the 15th FC (Reserve Bank of India, State Finances Report, 2022-23).

1.2 Rationale of the Study

- ❖ The study will help in understanding the overall socioeconomic and demographic situation of the state.
- ❖ Evaluation of the revenue receipts and expenditures of the state and their sources will enable the state to have effective fiscal management of the state.
- ❖ The study will help in understanding the performance of the public enterprises and the problems and prospects of the PSEs.
- ❖ The study will help in assessing the liabilities and assets and the long run fiscal stability of the state.
- ❖ The study will enable to understand the role of the central finances in the state fiscal system
- ❖ The study will be useful for the sustainable debt management of the state.

1.3 Objectives of the Study

The study's primary goal is to conduct a thorough analysis of Sikkim's financial situation beginning with the fiscal year 2010–11. The evaluation of states' fiscal responsibility, sustainability, and general efficacy in managing the financial health are given particular attention. Many aspects of the state's financial situation will be covered in this thorough assessment. This comprehensive evaluation will address various dimensions of the state's financial position. The following is an outline of the study's precise goals:

- ❖ To evaluate Sikkim's capacity to generate revenue.
- ❖ Analyzing non-tax revenue sources of Sikkim.
- ❖ To examine the expenditure trends and pattern of capital and accounts separately.
- ❖ Investigating fiscal and revenue deficits.
- ❖ Evaluating the state's debt levels.
- ❖ Reviewing the implementation of the Fiscal Responsibility and Budget Management (FRBM) Act.
- ❖ To analyze the impact of State Public Enterprises on the overall fiscal health of the state.
- ❖ Assessing the effects of power sector reforms on the state's fiscal position.
- ❖ To analyse the state's contingent liabilities.
- ❖ To evaluate the subsidies provided by the state government, including their targeting and effectiveness.
- ❖ Conducting an outcome evaluation of the state's finances in light of the 15th Finance Commission recommendations.
- ❖ Developing a sustainable debt management roadmap for the period 2025-2030.

This study aims to provide a thorough and multi-faceted analysis of Sikkim's state finances, focusing on key areas that influence its fiscal health and long-term sustainability.

1.4 Methodology

The study of Sikkim's financial systems uses an exploratory method to identify patterns and trend Sikkim's financial statistics. The study makes use of published data from the Government of Sikkim. Numerous tools are used in the analysis, such as growth rates, ratio analysis, percentage computations, and basic arithmetic methods. Additionally, buoyancy indicators, BAU model, forecast tool and elasticity coefficients

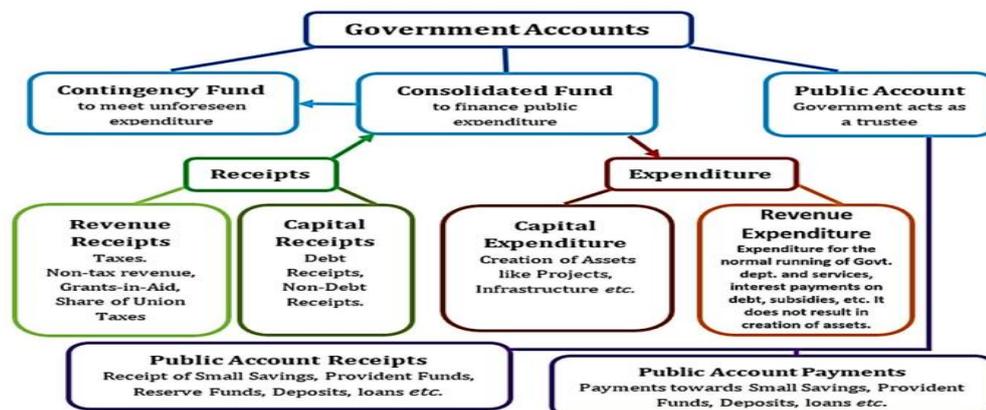
will be estimated to assess the responsiveness of revenue and expenditure to economic changes.

To prepare the formal establishment of the 16th Finance Commission, an Advance Cell was set up within the Ministry of Finance on 21st November 2022, so that preliminary tasks are managed. The Commission will determine the distribution of tax revenues between the Union and States, establish principles for state grants-in-aid, propose measures to enhance funding for local bodies like Panchayats and Municipalities and review disaster management financing under the Disaster Management Act, 2005((Finance Commission, Government of India, 2023)

1.5 Data Source:

The study makes the use of data available in the public domain from the Government of Sikkim. In addition to state-specific data, information has been gathered from various sources, including the Census Report (2011), the Comptroller and Auditor General (CAG) report, the Department of Statistics Monitoring and Evaluation (DSME) of the Government of Sikkim, information of the Finance Department of Sikkim, and other appropriate and relevant publications, Ministry of Statistics and Program Implementation (MoSPI), Department of Health, Department of Transportation and Department of school Education. The study period is in accordance with the mandate provided by the 16th Finance Commission. As Sikkim has not formally documented data on its public enterprises, information has been directly obtained from the individual public enterprises themselves.

Figure 1.1: The Structure of Government Accounts



Source: The Comptroller and Auditor General of India, 2023.

1.6 Chapter Scheme

- ❖ Chapter 1 presents with introduction on the state of the economy of Sikkim
- ❖ Chapter 2 provides an overview of the socioeconomic and demographic profile and macroeconomic indicators of public finance of Sikkim.
- ❖ Chapters 3 to 16 provide a detailed analysis of each of the 12 specific objectives outlined earlier in the study.
- ❖ Chapter 16 focuses on forecasting a sustainable debt roadmap for the period 2025-2031, and
- ❖ Chapter 17 presents the conclusions drawn from the study, summarizing key findings, and
- ❖ Chapter 18 presents recommendations.

CHAPTER - 2
SOCIO-ECONOMIC PROFILE OF SIKKIM

2.1 Introduction

Sikkim is one of the Northeastern states of India, located in the Eastern Himalayas. It is widely known for its natural beauty with landscapes ranging from snow-capped mountains to the lush green valleys and pristine lakes (Gopal et.al, 2012). It is surrounded by Nepal on West, China on North, Bhutan on East and West Bengal in South. The population composed of ethnic groups such as the Lepcha, Bhutias, and the Nepali contributing to the vibrant culture of the state. The State is exactly located below Mount Kanchanjunga (8,534 meter (m)), the third highest peak in the world. The elevation ranges between 300 m and over 8,500 m above the sea level. It covers a total area of 7,096 sq. Km (Jha & Mishra, 2014). Sikkim covers barely 0.22 percent of the total geographical area of India, but has a huge potential for development. **Figure 2.1** shows the location map of Sikkim along with six districts.

Fig 2.1: Map of Sikkim



Source: Sikkim location map, 2023.

2.2 History of Sikkim

The earliest known inhabitants of Sikkim were the Lepchas, who practiced animism and lived in harmony with nature. They were later joined by the Bhutias, who migrated from Tibet in 13th century, they followed Buddhism and which became the dominant religion. In 1642, Phuntsog Namgyal, a member of the noble family of Tibetan was the first Chogyal (king) of Sikkim, marking the formal establishment of the Sikkimese kingdom (Risley, 1894). In the

early 19th century, the British East India company intervened in the region, to protect its trade interest in Tibet through Lachen Vally. The 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 followed by Tashi Namgyal. However, after the demise of Tashi Namgayal in 1963, his son Palden Thondrup Namgyal ascended the throne of Sikkim (Sinha, 1984).

After India's independence in 1947, Sikkim retained its status as a protectorate (Arora, 2007). However political unrest and rumbling in rank and file of the state led 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. Sequence of political events led Sikkim on becoming an associate state on 4th of September 1947. In 1975, 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 22nd Sate of Indian Union on 16th May 1975. The Institution of Chogyal was subsequently abolished (Thami, 2018). Since then, Sikkim has been a State of the Indian Union. In the 1979 State Assembly election Mr. Nar Bahadur Bhandari, was elected as the first Chief Minister of Sikkim. After him State was headed by Mr. Pawan Kumar Chamling, who has been the head of the state as the Chief Minister for past 25 years and currently it is headed by Mr. Prem Singh Tamang. Today, Sikkim is known for its diverse culture including a harmonious blend of Hinduism and Buddhism. **Table 2.1** reflects the fact sheet of Sikkim which 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

Administrative Structure	
Geographical Area (Sq. Km)	7096
No. of Districts	6
No. of CD blocks	33
No. of Villages (including inhabited villages)	451
No. of Towns	9
Demographic Profile	
Population (2011)	6,07,688
Decadal Growth of Population % (1991-2001)	33.6
Decadal Growth of Population % (2001- 2011)	12.36
Urban population as a % to Total population (2011)	11.07
Sex Ratio (% of 1000 Males)	
1991	835
2011	875

Density of Population Per Sq Km (2011)	86
Literacy Rate % (2011)	82.20
Male	86.38
Female	77.84
Birth Rate %	17.1
Death Rate %	5.2
Languages Spoken	Nepali, Bhutia, Lepcha, Limboo, Newari, Sherpa, Rai, Gurung
Religions	Hinduism, Buddhism and Christianity
Educational Facilities	
Govt colleges	10
Pvt. Colleges	4
Universities	
Govt	2
Pvt	5
No. of Sr. Sec. Govt Schools	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 (pvt unaided)	210
Local Self Government	
Zilla Parishad	6
Gram Panchayat	198
Municipal Corp and Council	2
Nagar Panchayat	5
Wards(2019)	1040
Health Facilities	
Hospitals	7
P.H.Cs	24
Dist Tuberculosis centre	5
Community Health centre	2
Primary Health Sub-Centre	24

Source: Compiled from Various Department, Govt. of Sikkim (2024).

Table 2.2 Gross State Value Added by Economic Activities at Constant (2011-12 Prices (Sikkim))

Item	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Agriculture, forestry and fishing	90137	93361	96740	99226	103078	112249	130498	145383	150503	137478	139742	140454	141688
Crops	78207	81638	83575	84688	85469	95671	111000	124242	130857	122647	122388	121108	121108
Livestock	7627	7400	8932	9547	12802	11672	13026	13600	13545	10779	13239	14702	14702
Forestry and logging	4017	4007	3884	4606	4384	4431	5937	6936	5488	3506	3517	3652	3652
Fishing and aquaculture	287	316	349	385	424	475	535	606	612	546	599	992	992
Mining and quarrying	800	850	1080	1097	1277	1287	1273	1111	939	623	863	1234	1234
Primary	90937	94210	97820	100323	104355	113535	131771	146494	151441	138100	140605	141688	141688

Manufacturing	430623	431783	466812	523485	598054	675111	782910	820963	784857	742458	799531	830705	86
Electricity, gas, water supply & other utility services	186623	171439	164249	180893	185394	185932	212159	241594	256568	352582	418421	463691	54
Construction	67095	63127	66590	66452	72499	65242	69658	72050	81606	72230	86755	104723	11
Secondary	684341	666349	697651	770831	855947	926284	1064727	1134607	1123032	1167271	1304707	1399119	152
Trade, repair, hotels and restaurants	31446	50935	60934	60093	61863	66330	76207	87844	98891	106031	118421	152543	17
Trade & repair services	26677	46229	56182	55286	56958	61346	70126	81092	92445	103333	114111	145029	16
Hotels & restaurants	4769	4706	4752	4807	4905	4983	6081	6752	6446	2698	4310	7514	
Transport, storage, communication & services related to broadcasting	28365	33784	37525	40088	43119	48608	49843	51709	56240	52981	55754	60479	6
Railways	0	0	0	0	0	0	0	0	0	0	0	0	
Road transport	21351	26695	28349	29772	31274	36605	37631	39699	43999	41030	43007	46055	4
Water transport	0	0	0	0	0	0	0	0	0	0	0	0	
Air transport	0	0	0	0	0	0	0	0	0	0	0	0	
Services incidental to transport	0	0	0	0	0	0	0	0	0	0	0	0	
Storage	0	0	0	0	0	0	0	0	0	0	0	0	
Communication & services related to broadcasting	7014	7089	9176	10315	11845	12003	12212	12010	12241	11951	12747	14424	1
Financial services	16521	17341	18238	19558	37251	24242	24024	25784	32288	34741	28354	33587	3
Real estate, ownership of dwelling & professional services	58394	59636	61883	62725	63001	65050	66880	69207	73748	72010	71852	75023	7
Public administration	74027	79860	83802	89270	90141	90425	91841	119832	146469	136056	137286	144627	15
Other services	105179	106068	107405	116568	118231	124050	127338	132073	174897	164539	175850	189198	20
Tertiary	313932	347624	369787	388300	413606	418705	436133	486449	582533	566358	587517	655459	71
TOTAL GSVA at basic prices	1089210	1108183	1165257	1259455	1373908	1458525	1632631	1767550	1857006	1871729	2032829	2196266	238
Taxes on Products	40600	49305	60796	61603	74326	90208	140920	101404	98652	94954	103127	111418	12
Subsidies on products	13300	15368	14649	13960	11284	9006	6215	6457	6454	10983	11929	12888	1
Gross State Domestic Product	1116510	1142121	1211405	1307097	1436950	1539727	1767336	1862497	1949204	1955700	2124027	2294796	249
Population ('00)	6140	6210	6270	6330	6400	6470	6540	6600	6670	6730	6800	6860	
Per Capita GSDP (Rs.)	181842	183916	193207	206492	224523	237979	270235	282197	292234	290594	312357	334518	35

Source: Mospi, GoI, 2023

Table 2.2 (a) Gross State Value Added by Economic Activities at Current (2025) Prices (Sikkim)

Item	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Agriculture, forestry and fishing	90137	108278	122419	139803	155710	190436	239176	278476	304969	302273	325528	349253	378770
Crops	78207	94942	104440	116961	125560	156908	199256	234174	257992	261938	278194	293401	317400
Livestock	7627	8747	12986	16844	23503	26837	30665	32931	37067	33268	39706	46602	50928
Forestry and logging	4017	4137	4471	5407	6041	6047	8528	10527	8894	6048	6510	7266	7966
Fishing and aquaculture	287	452	523	591	606	645	726	844	1016	1020	1118	1984	2476
Mining and quarrying	800	896	1238	1295	1610	1680	1723	1709	1518	1083	1501	2146	2321
Primary	90937	109173	123658	141098	157320	192117	240899	280186	306487	303356	327028	351399	381092
Manufacturing	430623	462562	526856	586606	703851	867560	1133260	1207663	1230060	1264459	1337302	1413240	1538740
Electricity, gas, water supply & other utility services	186623	183906	184113	215303	245045	256132	312205	369165	417201	598041	747210	877919	1083420
Construction	67095	67755	75613	77585	96740	90014	101141	110248	132453	124695	160613	206593	239945
Secondary	684341	714223	786582	879493	1045636	1213706	1546606	1687076	1779713	1987195	2245124	2497751	2862105
Trade, repair, hotels and restaurants	31446	54858	69953	70191	82487	92630	122602	153929	182151	156532	219086	300551	364850
Trade & repair services	26677	49790	64502	64580	76057	85562	113613	143362	171452	151811	211168	285780	346919
Hotels & restaurants	4769	5069	5450	5612	6430	7067	8990	10567	10699	4721	7918	14771	17932
Transport, storage, communication & services related to broadcasting	28365	36020	42349	45142	49113	56485	58257	63020	69751	57735	78742	89293	98892
Railways	0	0	0	0	0	0	0	0	0	0	0	0	0
Road transport	21351	28414	31829	33084	35083	42133	43596	47945	52995	39492	57577	64297	71048
Water transport	0	0	0	0	0	0	0	0	0	0	0	0	0
Air transport	0	0	0	0	0	0	0	0	0	0	0	0	0
Services incidental to transport	0	0	0	0	0	0	0	0	0	0	0	0	0
Storage	0	0	0	0	0	0	0	0	0	0	0	0	0
Communication & services related to broadcasting	7014	7606	10520	12058	14030	14352	14661	15075	16756	18243	21165	24996	27844
Financial services	16521	17692	19924	20456	40193	26090	27801	32277	42274	45754	40017	54156	62615
Real estate, ownership of dwelling & professional services	58394	63935	68702	73926	76234	90263	94327	103424	106360	105999	120570	137895	157279
Public administration	74027	85145	94138	108612	115351	119565	126593	175049	225662	221024	239492	269635	316053
Other services	105179	115696	126386	145598	157941	168763	182051	200491	282986	282420	311821	351305	403403

Tertiary	313932	373345	421451	463925	521319	553796	611630	728190	909183	869465	1009727	1202835	1403093
TOTAL GSVA at basic prices	1089210	1196742	1331690	1484516	1724275	1959619	2399135	2695452	2995383	3160016	3581880	4051986	4646289
Taxes on Products	40600	53900	71800	72611	93280	121200	207080	154638	159127	160310	209205	243271	278951
Subsidies on products	13300	16800	17300	16455	14161	12100	9133	9847	10410	18543	26121	27511	31546
Gross State Domestic Product	1116510	1233842	1386190	1540672	1803394	2068719	2597082	2840243	3144100	3301783	3764963	4267745	4893694
Population ('00)	6140	6210	6270	6330	6400	6470	6540	6600	6670	6730	6800	6860	6920
Per Capita GSDP (Rs.)	181842	198686	221083	243392	281780	319740	397107	430340	471379	490607	553671	622120	707181

MOSPI, GoI, 2025

2.3 State Finance Commission

Following Article 243 (I), of the Indian Constitution mandates that the Governor must establish a Finance Commission within one year of the Constitution (Seventy-Third Amendment) Act, 1992, and subsequently every five years. It assesses the financial health of Panchayats (Article 243 (Y)) and provides recommendations on the distribution and allocation of tax revenues between the State and Panchayats, the taxes and fees that Panchayats can levy or receive, grants-in-aid from the State's Consolidated Fund, measures to improve Panchayats' financial stability, and any other financial matters referred by the Governor, local self-governments are crucial components of the state's administrative framework (State Finance Commission, GOS 2024).

Since 1998, Sikkim's State Finance Commission has been reviewing and recommending the fiscal measures for Panchayats and Municipalities on a regular bases. The First State Finance Commission was established on 22nd July 1998. It submitted its report in August 1999, reviewing the finances of Panchayats for 1995-2000 and recommending actions for 2000-05. Subsequent Finance Commissions were formed in 2003, 2009, 2013, 2016 and 2022. The Sixth State Finance Commission was constituted on 20th June 2022 under the powers conferred by Articles 243 (I) and 243 (Y) of the Indian Constitution. The Commission updated members in 2023. (State Finance Commission, GOS, 2022).

Table 2.2(b) Period of Sikkim State Finance Commission

State Finance Commission	Constituted	Report Submitted	Period Reviewed	Recommendations for
First	22nd July, 1998	16th August, 1999	1995-96 to 1999-2000	2000-01 to 2004-05
Second	5th July, 2003	30th Sept, 2004	2000-01 to 2004-05	2005-06 to 2009-10

Third	4th March,2009	27th Feb,2010	2005-06 to 2009-10	2010-11 to 2014-15
Fourth	May, 2013	May 2013	2010-11 to 2014-15	2015-16 to 2019-20
Fifth	17th July, 2016	Jul 2017	2015-16 to 2019-20	2020-21 to 2024-25.
Sixth	20th June,2022	-	Ongoing	2025-26 to 2030-31

(State Finance Commission, GOS).

Table 2.3 Comparison of Key Indicators

Note: ^a Census 2011 | ^b DISE, 2016–17 (Analytical Tables) | ^c DISE, 2016–17 (Flash Statistics) | ^d NFHS-4,2015-16 | ^e NFHS-

Particulars	Sikkim	India
Education		
Literacy Rate (%) ^a	81.4	73.0
Pupil-Teacher Ratio (in Primary) ^b	4.0	25.0
Gross Enrolment Ratio (for Higher Education) ^c	64.2	55.4
Water & Sanitation		
Availability of Safe Drinking Water (household %) ^d	97.6	89.9
Availability of Toilets (household %) ^d	99.7	61.1
Health		
Sex Ratio (females per 1000 males) ^a	890.0	943.0
Underweight Children (%) ^f	13	26
Anaemia among Children (%) (age 6-59 Months) ^e	56	67
Women with Below Normal BMI (%) (age 15-49) ^e	19	19
Anaemia Among Women (%) ^e	42	57
Infant Mortality Rate (deaths per 1000 live births) ^e	11	35
Institutional Deliveries (%) ^e	94.7	89
Expenditure on Health Sector (revenue + capital) as % of total expenditure (FY2019)	6.2	5.2 (All States)
Per Capita Health Expenditure (FY2019 in Rs)	6165.0	1218 (All States)

5,2019-21 Source: Finance Commission in Covid Times Report for 2021-2026

Table 2.3 shows the comparison of key indicators between Sikkim and all of India. Sikkim, a small state in Northeastern India, has a higher literacy rate (81.4 percent) compared to the rate of India (Census, 2011). Sikkim also has a much lower pupil-teacher ratio, suggesting a smaller class size with better teacher availability and more regular attendance of the students. The state also shows a higher enrolment ratio for higher education (DISE,2016-17). Sikkim significantly outperforms India in water and sanitation front. The state has 7.7% higher access to safe drinking water than the national average and boasts near-total household toilet coverage, which is 38.6% higher than India's. These statistics reflect that Sikkim is advanced in infrastructure and is successful in offering improved access to clean water and sanitation for its residents (NFHS-4, 2015-16). Sikkim outperforms India in numerous key health indicators, particularly in child nutrition, maternal health, and healthcare outcomes.

Sikkim outperforms in areas that directly influences health, while India has more ideal sex ratio of 943. Sikkim has a lower percentage of underweight children (13% lower than India)

and a 15% lower rate of anemia among children, indicating better nutrition and healthcare (NFHS-5,2019-21).

Sikkim has 19% fewer women with below-normal BMI compared to data of India, , and 11% less anaemic women than India. In terms of infant mortality, Sikkim's infant mortality rate is 11 deaths lower per 1,000 live ((NFHS-5, 2019-21) births signaling improved maternal and child health services. Additionally, Sikkim has 5.7% more hospital facilities and shipping that contributes to safer births and lower mortality rates (NFHS-5, 2019-21). Although, gender disparities still persist in the sex ratio, Sikkim has superiority over health that reflect its effective healthcare policies, enhanced access to maternal and childcare and better nutrition. Sikkim demonstrates a greater commitment to healthcare facility than India by allocating 1% more of its overall budget to the medical field. The state spends Rs 4,947 more per person on health care than the national average, which indicates Sikkim's substantially greater per capita health expenditure (SRS,2018). Sikkim's determination to boosting overall standards and making medical care and services more accessible to its residents is demonstrated by its increased spending on healthcare (Finance Commission; Covid Time Reports, 2021-26)

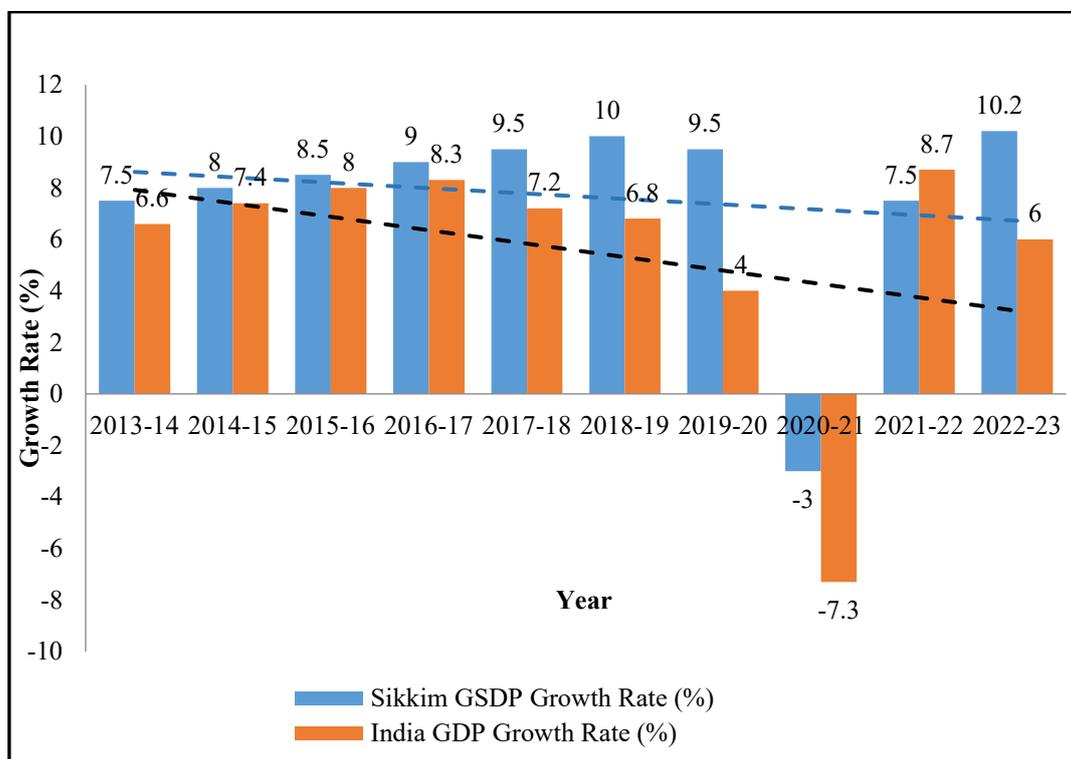
2.5 Economic Profile of the State

Sikkim's economy is primarily driven by agriculture, tourism, and small-scale industries. The state's economy is relatively small compared to other Indian states but has shown consistent growth in recent years. The state's GDP is approximately ₹ 52,555 crore as of 2024, with a per-capita (₹588,000) income, which is significantly higher than the national average due to its focus on high-value sectors like tourism and organic farming (Economic Survey of Sikkim, 2023). Sikkim, similar to many Indian states, is predominantly an agrarian economy with major crops including rice, wheat, maize, cardamom, and ginger. Notably, Sikkim is pioneering India's organic farming movement and is the first state to achieve a full organic status (Bhagat, 2020). The state possesses substantial forest resources, and its key challenge is to promote industrialization while preserving its ecological balance. In addition to agriculture, the state's economy benefits from allied activities, such as animal husbandry, agro-based food processing, and handicrafts, which continue to provide a reliable source of income for its residents (Iqbal, 2012).

Sikkim boasts significant hydroelectric power potential, estimated at 8,000 Mega Watt (mw) and has a robust tourism sector. With a high literacy rate of 84% and extensive untapped natural resources, the state is well-positioned for economic advancement (Banerjee, 2022). The state benefits from a well-established network of banks and financial institutions, along with a

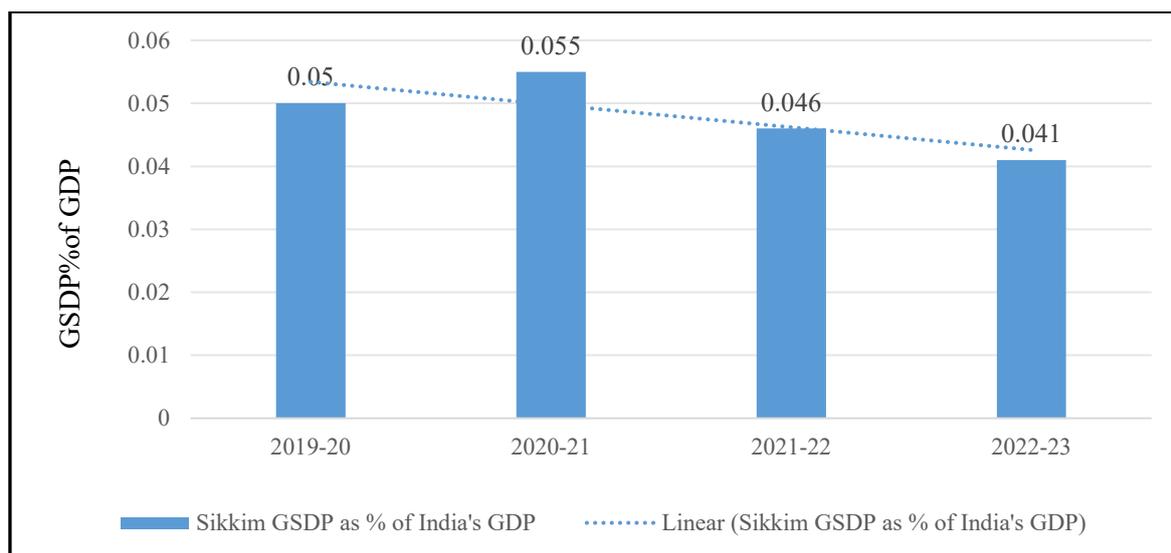
comprehensive Industry and Commerce Department. Additionally, dedicated departments for tourism and civil aviation support its tourism industry with well-defined policies. Despite its challenging terrain, Sikkim's efficient road network facilitates potential rapid economic growth. The state also has rich mineral resources, including zinc, copper, lead, dolomite, coal, quartzite, graphite, and talc (Choudhary, 2005). The commercial exploration of these minerals presents promising revenue opportunities for the future. Sikkim's GSDP growth rate has fluctuated over the years, with notable highs before the pandemic. The growth rate dipped significantly in 2020-21 due to the COVID-19 pandemic but showed recovery in subsequent years. India's GDP growth rate has been more variable, influenced by broader economic conditions including global economic trends and domestic policy changes (Fig.2.2).

Figure 2.2: Comparison Between Sikkim GSDP & India GDP Growth.



Source: Sikkim Economic Survey and World Bank (2023).

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



Source: Economic Survey of Sikkim, 2023 and World Bank, 2023.

Table 2.4: Comparison Between Sikkim and North-East States of India (NSDP 2022-23)

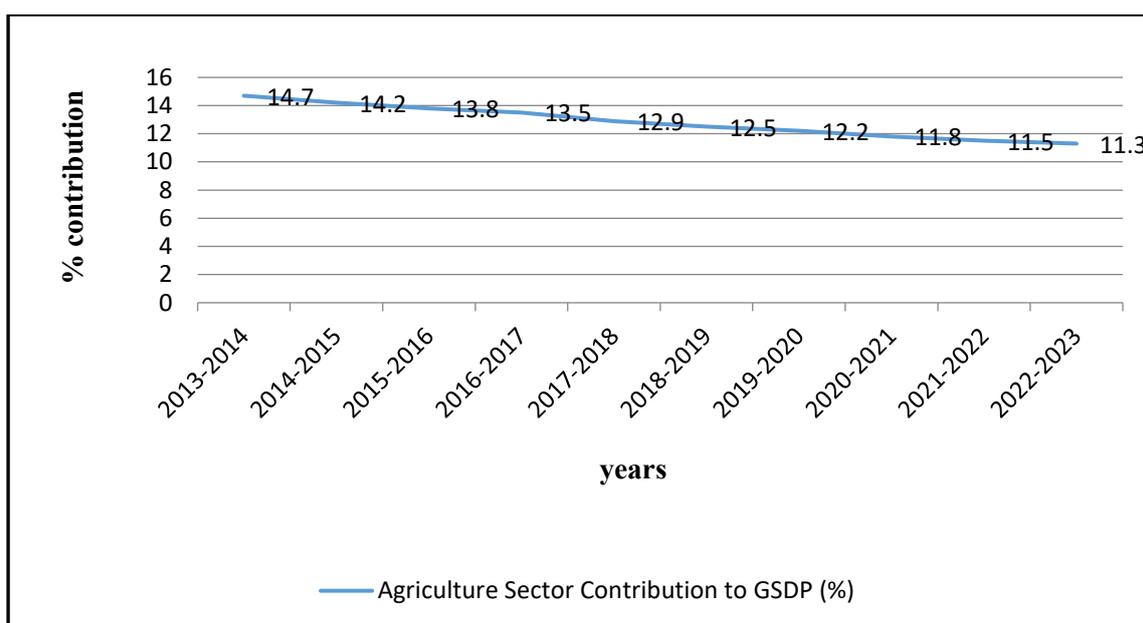
States	NSDP Per Capita (2022-2023)
Arunachal Pradesh	219,881
Assam	119,308
Meghalaya	123,896
Manipur	111,853
Nagaland	145,537
Tripura	157,364
Sikkim	520,466
Mizoram	215,144

Source: Economic Survey of India, 2023.

2.6 Agriculture and Allied Activities

Agriculture is a crucial sector of any economy, providing livelihood and economic stability to a significant portion of the population. Despite its importance, agricultural growth is constrained due to various biotic and abiotic factors (Chettri & Pradhan, 2020). Over 80% of the rural population relies on agriculture and related sectors for their economic, food, and nutritional needs. The agricultural systems in Sikkim have developed over time through farmers' experimentation, and there has been a modest improvement in farmers' lifestyles with the introduction of modern technologies (Roy et al. 2014).

Fig 2.4: Agriculture Sector Contribution (%) to GSDP



Source: Indiastat (various years) and IBEF (2023)

The state's inherent advantages strongly support organic farming. With policies and programs aligned with its natural resources, Sikkim aims to become a leading example of organic farming (Sharma, 2019). This transition has prompted substantial efforts from the Agriculture and Horticulture departments, which have implemented numerous initiatives to promote and support organic farming practices (Tiwari and Adhakari, 2019). The latest available data (**Fig 2.4**) reveals that agriculture continues to be a vital sector in Sikkim's economy, though its contribution to the Gross State Domestic Product (GSDP) as state's focus on sustainable and organic farming has bolstered its agricultural sector. The agricultural sector was significant, reflecting a period of steady output with an emphasis on organic farming initiatives and state continued focuses on organic farming and support for local farmers maintained the sector's importance. However, there was slight decrease due to fluctuations in agricultural productivity, and the sector demonstrated strong resilience despite facing challenges such as fluctuating market prices and adverse weather conditions (Rathore & Choudhury, 2021). The State continued emphasis on organic agriculture, with the sector maintaining its role in the state's economy and the impact of climate and economic factors affected the sector's performance slightly. Furthermore, the COVID-19 pandemic had a temporary impact, but the sector remained an essential part of the state's economy. Hence, the post-pandemic recovery efforts and sustained focus on organic farming supported the sector. This sector continued to face challenges such as changing climatic conditions and market dynamics, but remained crucial to the state's economy

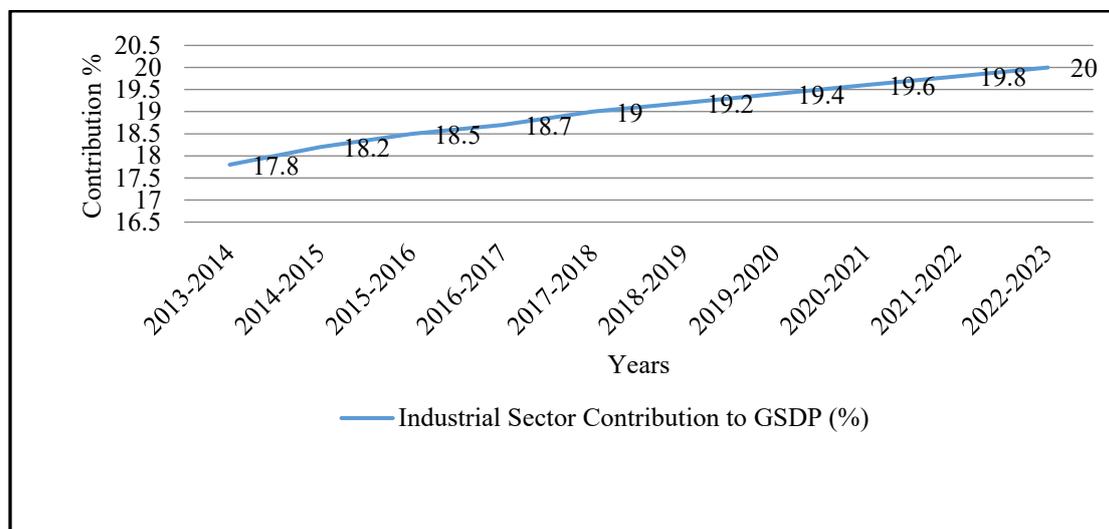
2.7 Industrial Sector

Industry is essential to Sikkim's economy, and the industrial sector has expanded rapidly in recent years, positioning the state as a significant industrial hub. Historically an agricultural state, Sikkim has experienced a substantial shift in recent years, with its industrial output surging, largely due to a dynamic sociopolitical climate (Sinha,2005).

In addition, the company has provided soft loans/seed capital support and taken part in the capital of its selected ventures as a shareholder. Additionally, SIDICO is serving as the nodal organization for the execution of the Chief Minister's Self-Employment Scheme as well as a comprehensive Educational Loan Scheme for the people of Sikkim (Thakur, 2020). This organization is also responsible for disbursing funds to the various departments involved in export infrastructure development as part of SIDICO's Allied Activities Funding Scheme (ASIDE) (Deshmukh,2022). Sikkim's orange-growing region is the home to the Government Fruit Preservation Factory, which was established in 1956 with a one-time investment of Rs 1.00 Lakh and located in a valley near Singtam. It was the first step towards Sikkim's industrialization. Sikkim Khadi & Village Industries Board (KVIB) was formed in 1978 to promote and expand Khadi and village industries. Directorate of Handloom & Handicrafts was founded in 1957 to promote and preserve Sikkim's traditional arts and crafts (Subba, 2008). The Directorate combines instruction and manufacturing at 20 facilities in Sikkim, starting with one in Gangtok. A Hand loom and Handicrafts Development Corporation Ltd. was founded to promote excellent products and create jobs and opportunities for artisans (Sharma and Borthakur, 2010). These products have export potential. A major reason for creating Department of Commerce & Industries was to attract national and international business into the small state of Sikkim by offering various incentives and subsidies to encourage them to invest in the state and play an active role in its economic growth (Purkayastha, 1997). As a result of this, India's economy will be able to compete with other states and tackle the growing problem of joblessness. It covers a wide range of industrial activity. **Figure 2.5** shows the general trend of industrial sector's contribution to state GSDP, early stage of industrial growth, with infrastructure improvements and policy support initiating industrial activities and infrastructure development including roads and energy, enhancing industrial capabilities. Furthermore, there was growth in sectors like cement production and food processing, supported by favorable policies and boost in investments in industrial projects and facilities, further strengthening the industrial base (Joshi & Singh, 2002).

Likewise, the expansion into new industrial sectors and increased focus on enhancing existing industries continued to rise in manufacturing activities, including the small and medium enterprises (SMEs).

Fig 2.5: Industrial Sector Contribution (%) to GSDP



Source: IBEF (2024).

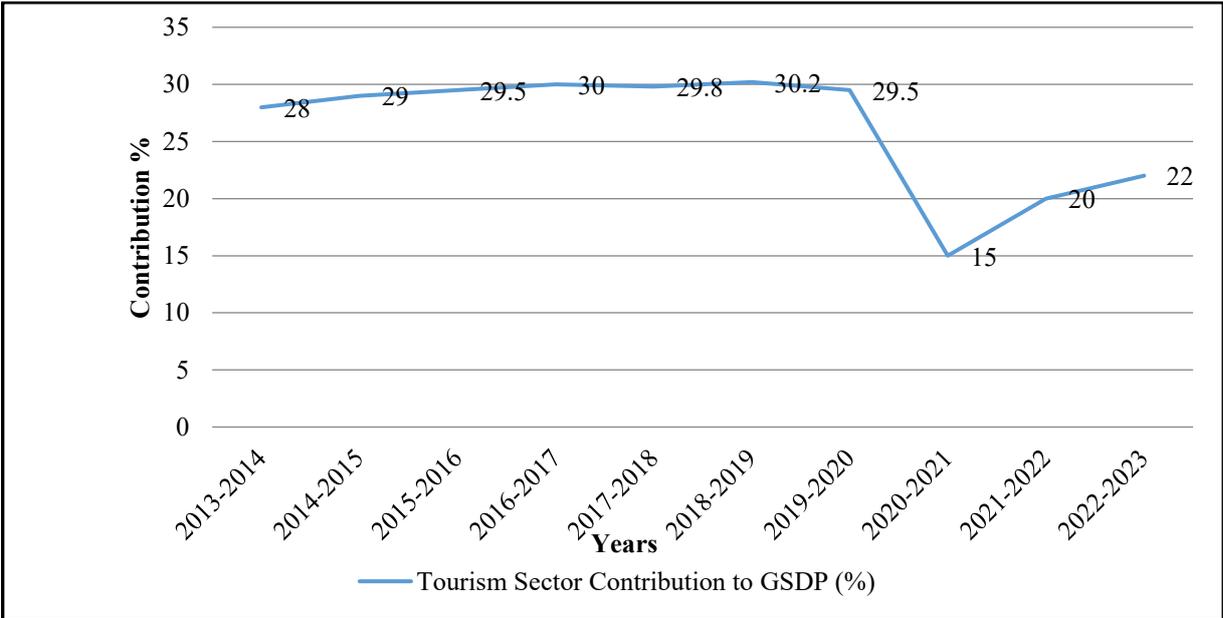
The implementation of New Industrial policies and incentives aimed at attracting investments and fostering growth with the resilience to the industrial sector during the COVID-19 Pandemic, with a focus on recovery and rebuilding (Luitel, 2022). The ongoing investments and projects driving industrial sector performance, along with improved economic conditions led to the establishment of the industrial base with diversified activities and robust infrastructure supporting sustained growth.

2.8 Tourism sector

Tourism in Sikkim gained popularity during the last decade with an increasing number of tourists visiting this hilly region for its natural beauty. Till the early 1990s, the number of tourists' visit to the state was very less. Even those who visited hardly went beyond Gangtok, the state capital (Yadav & Chettri, 2022). During the last two decades, the sector has seen a major boost in the state with close to a million tourists visiting Sikkim every year. Tourism is one of the fastest growing sectors that has a significant impact on the growing economy and tourism in Sikkim has emerged as the new profession of the Sikkimese people with its vast natural potential (Verma, 2020). Promotion of village tourism, home stay, cultural tourism, trekking tourism, ecotourism, wellness tourism, flora-tourism and adventure tourism has given a fillip to the tourism trade in the state. The state's focus on preserving its environment while promoting tourism has attracted visitors interested in sustainable travel (Sikkim Tourism Department, 2023). Activities

such as trekking, mountaineering, and river rafting have become major attractions (Tourism and Culture Department, Government of Sikkim, 2022). The state's rich cultural heritage, including festivals and traditional practices, enhances its appeal (Dhawan, 2000). Tourism generates significant revenue through various channels, including accommodation, food services, transportation, and cultural experiences. This influx of revenue supports local economies and contributes to infrastructure development (Tourism and Culture Department, Government of Sikkim, 2022).

Fig 2.6: Tourism Sector Contribution (%) to GSDP of Sikkim



Source: IBEF, 2024.

The tourism sector supports a wide range of jobs- hospitality and tour guides to transportation and local handicrafts. It is estimated to employ approximately 20% of the state's workforce directly or indirectly involved in tourism-related activities (Sikkim Tourism Department, 2023). The sector faces several challenges such as infrastructure limitations, seasonal fluctuations in visitor numbers, and environmental impacts from tourism activities (Economic Survey of Sikkim, 2023).

The **Fig 2.6** represents the percentage contribution of the tourism sector to Sikkim's Gross State Domestic Product (GSDP) over the past decade. With the growing popularity there is increased interest in Sikkim as a tourist destination, driven by its unique landscapes, Eco-tourism initiatives and the improvements in infrastructure, such as roads and accommodation, boosting tourist arrivals (Economic Survey of Sikkim, 2023). To by the State government enhanced marketing and promotional efforts by focusing on tourism development. There were the peak

seasons in ten tourism industries during 2016-17 (**Fig 2.6**) due to the high influx of tourists due to peak travel seasons and successful tourism campaigns. However, during 2017-18 there was the saturation point because of market saturation and regional competition, but still the sector remained a significant contributor. Again, due the introduction of new tourist destinations and festivals, the number of visitors increased contributing to the economy. There was significant drop in 2020-21 in tourism due to travel restrictions and health concerns related to COVID-19. Furthermore, gradual recovery as travel restrictions eased and tourism activities resumed with safety measures with that there is continued recovery with increasing tourist arrivals and sustained interest in Eco-tourism and adventure tourism (Yadav & Chettri, 2022).

2.9 Other Demographic Indicators

2.9.1 Employment and Jobs

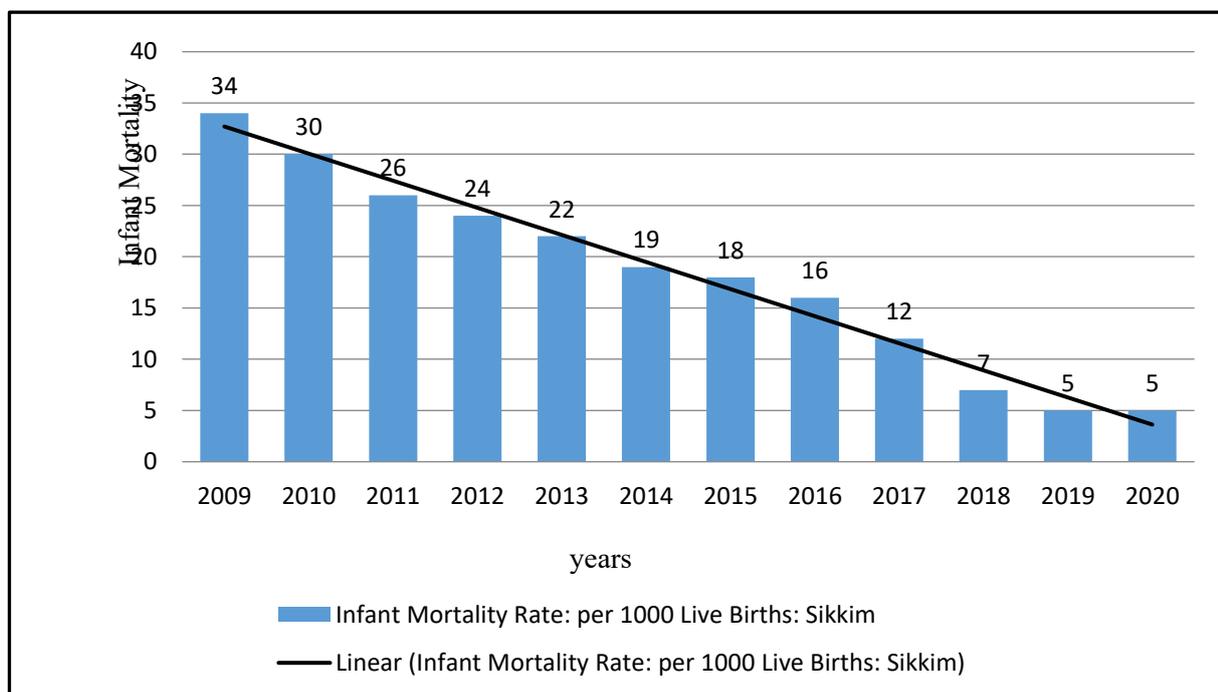
In Sikkim, employment opportunities are shaped by the state's distinctive characteristics and development priorities. Agriculture, the traditional backbone of Sikkim's economy, employs a large portion of the population, with a strong focus on organic farming practices that support sustainable livelihoods (Patel, 2001). Tourism also plays a crucial role, driven by the state's natural beauty and cultural heritage, which creates jobs in hospitality, travel, and local crafts. The government sector provides numerous positions, which are essential for maintaining public services and stability. Recent initiatives aimed at boosting infrastructure, skill development, and small businesses are expected to further diversify job opportunities and drive economic growth (Sharma, 2022). This blend of traditional sectors and modern initiatives reflects Sikkim's efforts to balance heritage with progress in its employment landscape. In Sikkim, employment opportunities are shaped by the state's distinctive characteristics and development priorities. Agriculture, the traditional backbone of Sikkim's economy, employs a large portion of the population, with a strong focus on organic farming practices that support sustainable livelihoods (Chauhan & Agrawal, 1998). Tourism also plays a crucial role, driven by the state's natural beauty and cultural heritage, which creates jobs in hospitality, travel, and local crafts. The government sector provides numerous positions, which are essential for maintaining public services and stability. Recent initiatives aimed at boosting infrastructure, skill development, and small businesses are expected to further diversify job opportunities and drive economic growth (Pandey & Gupta, 2019). This blend of traditional sectors and modern initiatives reflects Sikkim's efforts to balance heritage with progress in its employment landscape. The Sikkim government has launched several initiatives to improve

employment. For instance, the "Sikkim Skill Development Mission" aims to enhance the skills of the local workforce, which is crucial for sectors like tourism and SMEs. Additionally, the state government is investing in infrastructure development, which is expected to create more job opportunities and *One Family One Job* (2018) scheme in order to ensure that in every household there is at least one earning member to support their livelihood (Sharma, 2022).

2.9.2 Life expectancy and Infant Mortality in Sikkim

Life expectancy is a statistical measure that estimates the average number of years a person is expected to live, based on the age-specific mortality rates in a given population. It provides an indication of the overall health and longevity of a population.

Fig 2.7: Infant Mortality Rate: per 1000 Live Births: Sikkim



Source: Economic Survey Report (2023-24).

Life expectancy can be calculated at birth (life expectancy at birth) or at other ages (UNDP, 2024). As of 2024, the life expectancy in Sikkim is approximately 75.6 years. This figure reflects improvements in healthcare, living standards, and overall quality of life in the state (National Health Mission, 2024) and with the death rate is approximately 5.8 per 1,000 people and birth rate is approximately 16.1 per 1,000 people. In Sikkim, the maternal mortality rate is approximately 45 per 100,000 live births (Health and Family Welfare Statistics, 2023) and the suicide rate in Sikkim is approximately 11.3 per 100,000 people. The infant mortality

rate is the number of deaths of infants under one year of age per 1,000 live births in a given year (WHO, 2023)

2.9.3 Human Development Index of Sikkim

The UNDP's (1990) report presents HDI as a comprehensive measure of human progress, updating its methodology to reflect changes in global development and address critiques. They use HDI to advocate for policies that improve overall well-being. Sikkim has consistently performed well in Human Development Index (HDI). From 0.695 in 2015 it has gone up-to 0.715 in 2019 where all India value is 0.645. As State HDI is a result of a comprehensive approach to development, integrating health, education, economic growth, environmental sustainability, and effective governance. HDI is calculated using the three dimensions which includes health, education, and standard of living. Each dimension is normalized on a scale from 0 to 1. The HDI is the geometric mean of these normalized scores, calculated as: $HDI = \sqrt[3]{(H \times E \times L)}$, Where, H is the health index, E is the education index, L is the standard of living index. These values were derived using a modified version of the UNDP calculation method. Instead of using per-capita Gross National Income (GNI) in Purchasing Power Parity (PPP) US dollars, per-capita Gross State Domestic Product (GSDP) in the national currency was used to measure the “decent standard of living” component of the Human Development Index (HDI).

Table 2.5: Human Development Index (2022).

Rank	State/Union Territory	HDI (2022)
1	Goa	0.76
2	Kerala	0.758
3	Chandigarh	0.751
4	Puducherry	0.741
5	Delhi	0.734
6	Jammu and Kashmir	0.72
7	Lakshadweep	0.719
8	Himachal Pradesh	0.715
9	Sikkim	0.712
10	Mizoram	0.709
11	Andaman and Nicobar Islands	0.706
12	Punjab	0.698
13	Haryana	0.696
14	Maharashtra	0.695
15	Tamil Nadu	0.692

16	Arunachal Pradesh	0.683
17	Manipur	0.681
18	Uttarakhand	0.681
19	Nagaland	0.679
20	Daman and Diu	0.674
21	Karnataka	0.673
22	Telangana	0.66
23	Rajasthan	0.652
24	Meghalaya	0.65
25	Gujarat	0.646
26	Andhra Pradesh	0.642
27	West Bengal	0.635
28	Chhattisgarh	0.625
29	Dadra and Nagar Haveli	0.624
30	Tripura	0.624
31	Assam	0.615
32	Madhya Pradesh	0.611
33	Odisha	0.61
34	Uttar Pradesh	0.609
35	Jharkhand	0.6
36	Bihar	0.577

Source: UNDP, 2024.

2.10 Major Findings

- ❖ Sikkim has shown consistent economic growth, with a focus on high-value sectors like organic farming and tourism.
- ❖ The industrial sector has expanded rapidly, supported by initiatives like the Sikkim Industrial Growth & Investment Corporation Ltd. (SIDICO).
- ❖ The state has made progress in human development, with improvements in health, education, and living standards.

2.11 Conclusion

Sikkim, a Himalayan state in India, is renowned as a biodiversity hot spot. Despite being the second smallest state in India, its high literacy rate and sparse population have contributed to its distinctive development trajectory. While primarily agrarian and rural, Sikkim's economy is increasingly influenced by tourism, positioning the service sector as a major driver of growth. Sikkim has transitioned from an agrarian economy to a significant industrial hub, due to

attractive industrial policies and incentives. The state has achieved notable progress in education, employment distribution, and infant mortality reduction.

2.12 Recommendations

- ❖ Focus on quality education at all levels, including vocational training and skill development programs to prepare the workforce for the future.
- ❖ Promote transparency, accountability, and efficiency in government administration to ensure effective service delivery and public trust.
- ❖ Promote Sikkim as a model for organic agriculture globally and attract investments in organic food processing and marketing.
- ❖ Develop hydro-power projects responsibly to generate clean energy and boost economic growth.



CHAPTER - 3
TRENDS IN TAX REVENUE

3.1 Introduction

India has a federal structure, where taxes are divided among the central, states, and local bodies. Article 365 of the Constitution restricts, tax charges to those who are authorized by law, ensuring that tax is collected legally. Pre-1991 reform, since 1950 India aimed at improving revenue collection and economic efficiency. During 1991 Indian Fiscal, the Raja Chelliah Committee played a crucial role in helping India 1991 reform emphasizing liberation which made simplified the tax system (Singh,2019).

Sikkim, a Himalayan state, faces several geo-ecological challenges, that constrain its development. The Finance Commissions plays a critical role in maintaining the fiscal relationship between the central government, state governments, and local bodies (Dutta et.al, 2020). As outlined in the previous chapter, Sikkim's economy is primarily agrarian, heavily dependent more on agriculture, has less industrial activity and an underdeveloped infrastructure compared to rest of India. Sikkim is a special category state whose finances are heavily dependent on transfers from the Central Government. Therefore, the state administration has to work hard to increase its own revenue. Sikkim has also made an effort to reduce non-plan revenue expenses, by using the debt exchange facility to minimize the interest burden. Despite these initiatives, there has been little improvement in the state's financial status due to which Central payments continue to be the primary source of funding for Sikkim (Finance Department, GOS, 2023).

3.2 Total Receipts and Major Components

Total Receipts for a state government are divided into three primary categories: Total Receipts, Revenue Receipts, Capital Receipts. The capital receipts also include Non-debt Capital Receipts (CGA,2022-23)

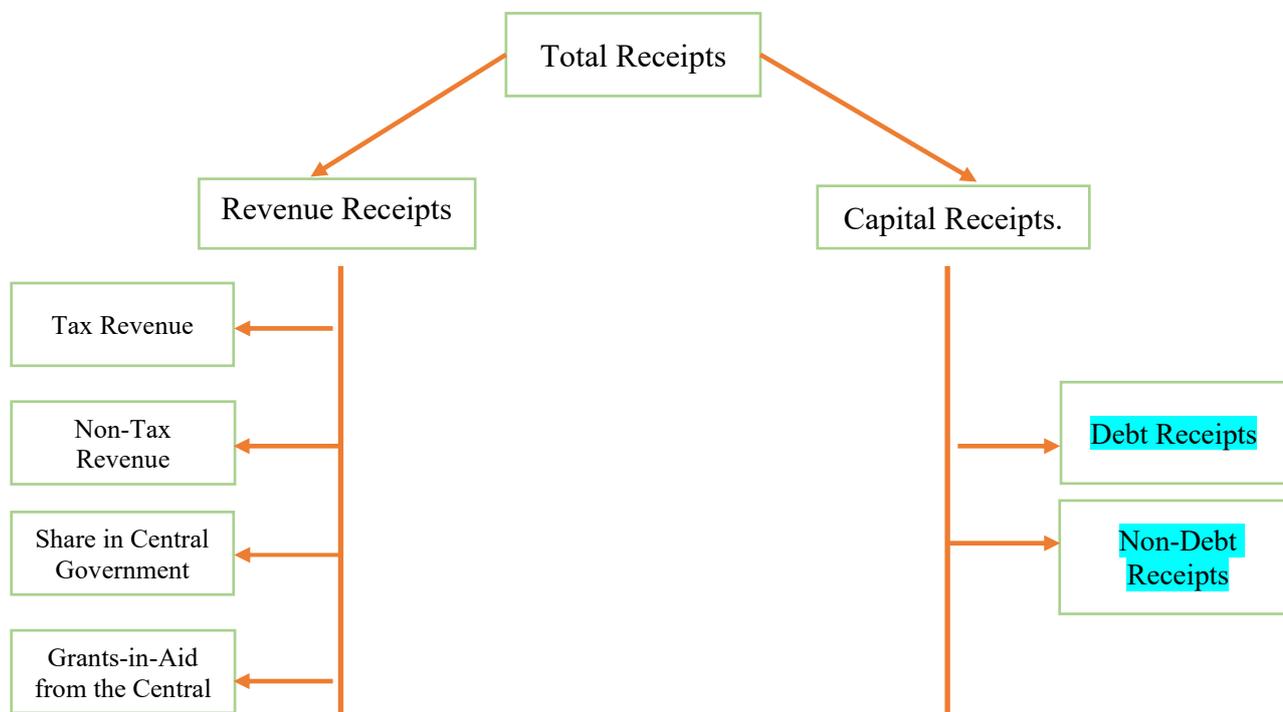
Total Receipts for a state government include several types of Revenue Receipts. These consist of Tax Revenue and Non tax Revenue. Tax Revenue resources are both direct and indirect taxes namely corporation tax, income tax, customs, central exercise and central tax (Revenue Audit Manual, CAG,2015); Non-Tax Revenue, which comes from fees, fines, and investment returns (Sharma,2024)

Share in Central Government Taxes, are portions of taxes that are collected by the central government and distributed to the state. Grants-in-Aid from the Central Government, provides financial support for specific projects or general needs (Mann,2018)

Capital Receipts are non-recurring sources of income that typically involve borrowing

or transactions creating liabilities. Capital receipts include debt receipts and non-debt and non-debt receipts. Debt Receipts are funds that are raised through borrowing such as market loans, financial institutions loans, net transactions under Ways and Means Advances, and central government loans and advances. Funds gained without borrowing are known as non-debt receipts. These include the proceeds from the sale of government assets, or disinvestment, and repayment of government loans and advances. (CAG's SFARs.,2023)

Fig 3.1: Total Receipts and its Major Components (Flow Chart)



In this section the time series analysis from 2010-2011 to 2024-2025(BE), with specific focus on three sub-periods: the 13th Finance Commission period (2010-11 to 2014-15), the 14th Finance Commission period (2015-16 to 2019-20) and the 15th Finance Commission (2020-21 to 2024-25 [BE]). **Table 3.1** illustrates the trends in total receipts and their components during these times.

From **Table 3.1**, it is observed that the trends in total receipts and their major components as a percentage of Sikkim’s Gross State Domestic Product (GSDP) across different Finance Commission periods from 2010-11 to 2024-25 (BE). GSDP is the monetary value measurement of all the final goods and services that are produced within the boundaries of a state, over a specified period of time (NITI Aayag, website accessed on 2024)

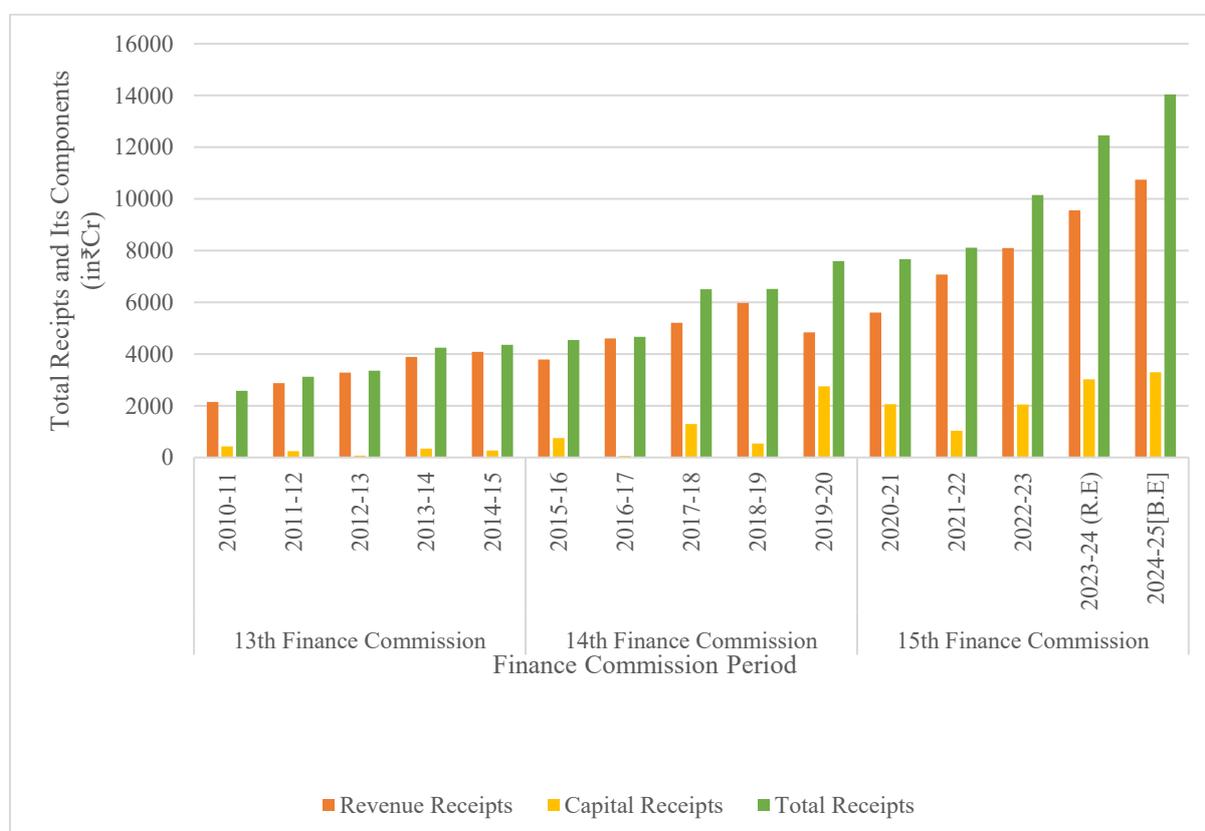
Table 3.1: Total Receipts and its Major Components (in ₹ Cr).

Period of FC	Year	Revenue Receipts	Capital Receipts	Total Receipts	Total	Revenue	Capital
					Receipts % of GSDP	Receipts % of GSDP	Receipts % of GSDP
<i>13th Finance Commission</i>	2010-11	2151.70	430.07	2581.67	34.83	29.03	5.80
	2011-12	2872.10	245.06	3117.16	27.92	25.72	2.19
	2012-13	3288.36	74.20	3362.56	29.44	28.79	0.65
	2013-14	3893.54	347.84	4241.38	35.01	32.14	2.87
	2014-15	4087.64	270.65	4358.29	33.34	31.27	2.07
	Average	3258.67	273.56	3532.21	32.11	29.39	2.72
	Std. Dev	785.17	118.80	756.62	3.24	2.50	1.90
	Max	4087.64	430.07	4358.29	35.01	32.14	5.8
	Min	2151.7	74.2	2581.67	25.72	25.72	0.65
<i>14th Finance Commission</i>	2015-16	3784.29	754.29	4538.58	31.58	26.34	5.25
	2016-17	4610.31	58.69	4669.00	30.32	29.94	0.38
	2017-18	5212.79	1290.41	6503.20	36.80	29.50	7.30
	2018-19	5980.93	543.07	6524.00	35.03	32.11	2.92
	2019-20	4841.27	2756.17	7597.89	38.98	24.84	14.14
	Average	4885.92	1080.53	5966.53	34.54	28.54	6.00
	Std. Dev	805.82	1035.77	1321.25	3.593	2.922	5.234
	Max	5980.93	2756.17	7597.89	38.98	32.11	14.14
	Min	3784.29	58.69	4538.58	30.32	24.84	0.38
<i>15th Finance Commission</i>	2020-21	5607.82	2061.22	7669.04	39.21	28.67	10.54
	2021-22	7080.16	1032.20	8113.36	39.14	34.16	4.98
	2022-23	8103.80	2052.27	10156.07	44.26	35.32	8.94
	2023-24(R.E)	9552.84	3023.51	12466.35	50.46	38.36	12.10
	2024-25[B.E]	10749.13	3297.66	14046.79	58.38	44.68	13.71
	Average	8218.75	2293.37	10490.32	46.29	36.24	10.05
	Std. Dev	2019.23	900.59	3751.11	8.199	5.878	3.346
	Max	10749.13	3297.66	14056.79	58.38	44.68	13.71
	Min	5607.82	1032.20	7669.04	39.14	28.67	4.98
Compound Average 2010-2011 to 2024-2025(BE)		5454.48	1262.72	6669.64	37.64	31.38	6.26
Std. Dev		2468.44	1093.69	3437.09	8.1840	5.1775	4.6596

Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25). Note: The value of GSDP taken from EWRP for the year 2010-11. (in 2011-12 Back series at constant prices), From 2011-24 the GSDP with Budget paper, GOS with forecast value GSDP for 2024-25

Table 3.1 shows the percentage of total receipts relative to GSDP. The ratio has shown a general upward trend over the years. From 34.83% of GSDP in 2010-11 (under 13th FC), to 54.96% in 2024-25 (15th FC). Sikkim's fiscal inflows have increased significantly relative to its economic output. This increase in total receipts is due to higher revenue collections as well as capital inflows, particularly from borrowing. Both Capital receipts and revenue receipt show an upward rising trend. However, the capital receipts have greater fluctuation compared to revenue receipts. The capital receipts went from 5.80% of GSDP in 2010-11 to 13.71% in 2024-25. In the same way the revenue receipts increased from 29.03% of GSDP in 2010-11 to 44.68% in 2024-25. During 13th FC the average ratio of total receipts to was 32.11% which rose to 46.29% of GSDP during 15th FC period. The same results are shown in **Figure 3.2**

Figure 3.2: Total Receipts and Its Major Components (in ₹ Cr)



Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25).

Table 3.2 and **Figure 3.3** show the analysis across different periods highlighting the trends in various categories of state government receipts. Total receipts averaged 32.11% of

GSDP during the 13th Finance Commission period with capital receipts coming in at 2.72% and revenue receipts at 29.39%. During the 14th Finance total receipts raise to an average of 34.54% of GSDP with capital receipts rising significantly to 6.00% and revenue raising to 28.54%. Both revenue and capital receipts increased throughout this period.

The 15th Finance Commission displayed a substantial increase, with total receipts at average 46.29% of GSDP, with revenue receipts at 36.24%, and capital receipts at 10.05%. During this period both revenue and capital receipts have increased significantly which led to significant rise in total receipts. For the overall period the Revenue receipts accounted for 31.38% and capital receipts for 6.26% of GSDP, with total receipts at the average of 37.64% of GSDP This displays that higher revenue and more borrowing have generated a strong increase in total receipts and improved fiscal capacity.

Table 3.2: Total Receipts and Components as Percentage of GSDP

Head of Income	Overall Period <i>From 2010 – 11 to 2024 – 25(BE)</i>	13th Finance Commission <i>From 2010 – 11 to 2014 – 15</i>	14th Finance Commission <i>From 2015 – 16 to 2017 – 18</i>	15th Finance Commission <i>From 2018 – 19 to 2024 – 25(BE)</i>
Total Receipts	37.64	32.11	34.54	46.29
Capital Receipts	6.26	2.72	6.00	10.05
Revenue Receipts	31.38	29.39	28.54	36.24

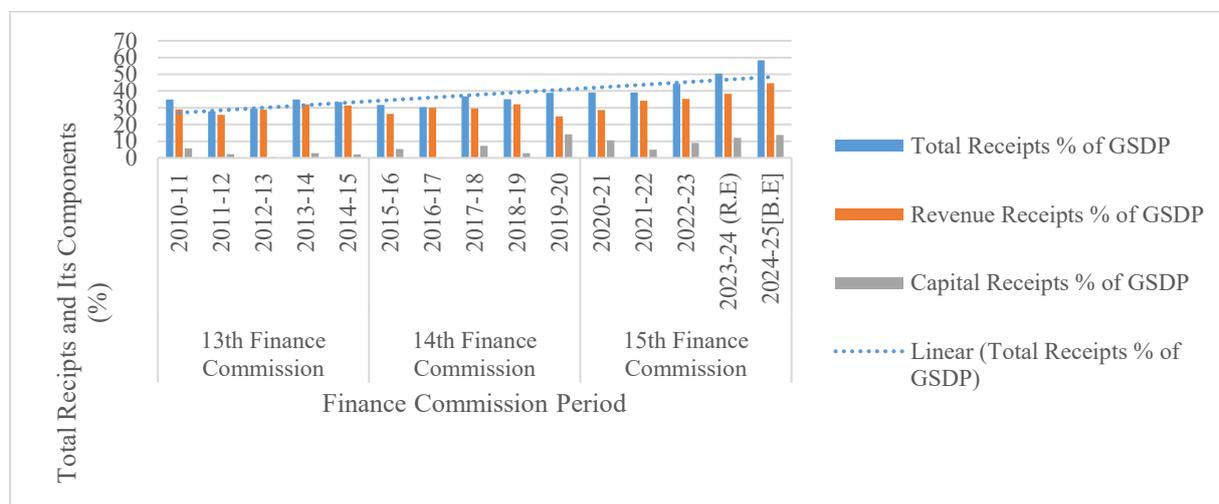
Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

One of the most important measures of the state's fiscal sustainability and strategy is the ratio of revenue capital receipts: The average ratio of revenue to capital revenues from 2010–11 to 2024–25 [B.E.] was roughly 5.01, indicating that revenue receipts were, on average, five times larger than capital receipts. The ratio, which was significantly higher at 11.95 during the 13th Finance Commission shows that revenue revenues were significantly larger than capital receipts and that borrowing was used to finance the state's expenses to a comparatively lesser extent. In order to meet fiscal needs, the ratio decreased to 4.52 during the 14th Finance Commission era, indicating a growing reliance on capital receipts. In the 15th Finance Commission period, the ratio further decreased to 4.28, continuing the trend of a rising share of capital receipts, which suggests a growing dependency on borrowings for financing

The analysis of annual growth rate in two forms Annual Average Growth Rate (AAGR)

and Compound Annual Growth Rate (CAGR) are shown below. Annual Average Growth Rate is arithmetic mean of total annual growth rates which does not include compounding. Whereas the Compound Annual Growth rate shows the annual rate of growth at which a variable or investment grows each year over the entire duration. AAGR gives quick snap out or stable Trend (Rusith, 2025; Marsh, 2023)

Figure: 3.3: Total Receipts and Components as Percentage of GSDP.



Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25)

Table 3.3 (a): Total Receipts and Major Components: Annual Average Growth Rate

Head of Income	Overall Period <i>From 2010 – 11 to 2024 – 25(BE)</i>	13 th Finance Commission <i>From 2010 – 11 to 2014 – 15</i>	14 th Finance Commission <i>From 2015 – 16 to 2019-20</i>	15 th Finance Commission <i>From 2020-21 to 2024 – 25(BE)</i>
Total Receipts	0.12	0.12	0.09	0.14
Capital Receipts	0.13	0.12	0.11	0.16
Revenue Receipts	2.03	0.82	4.66	0.13
GSDP	0.07	0.11	0.05	0.04

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

Table 3.3 (a) shows Annual Average Growth Rate for entire period (2010-11 to 2024-25) as well as for each finance commission period. The total receipts for the whole period show annual average growth rate of 12% expanding steadily at 12% during 13th FC and then decline

to 9% during 14th FC which again rebounds to 14% during 15th FC. The capital receipts show an increasing trend of AAGR starting from 2% during 13th FC raising to 16% 15th FC respectively. On the other hand, revenue receipts demonstrate noteworthy oscillation with an exceptional high of AAGR of 2.03 (203%) for entire period. This was driven by significant trend of 446% during 14th FC in contrast to this AAGR during 13th FC was 82% and much low during 15th FC. Meanwhile GSDP experiences a steady declining trend in AAGR beginning at 11% in 13th FC falling to 14% during 15th FC. This is showing a variety in fiscal inflow policy on revenue receipts and consistent decline in economic growth indicated by GSDP growth rate

Table 3.3 (b) explains the Compound Annual Growth Rate (CAGR)¹ for total receipts, capital receipts, revenue receipts, and GSDP for different Finance Commissions.

Table 3.3 (b): Total Receipts and Major Components: Compound Annual Growth Rate

Head of Income	Overall Period <i>From 2010 – 11 to 2024 – 25(BE)</i>	13th Finance Commission <i>From 2010 – 11 to 2014 – 15</i>	14th Finance Commission <i>From 2015 – 16 to 2019-20</i>	15th Finance Commission <i>From 2020-21 to 2024 – 25(BE)</i>
Total Receipts	0.11	0.11	0.11	0.14
Capital Receipts	0.14	-0.09	0.30	0.10
Revenue Receipts	0.11	0.14	0.05	0.13
GSDP	0.08	0.12	0.06	0.04

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

Overall, the receipts show a flexible pattern across the 13th FC, 14th, and the latest projections for the 15th FC period. For the overall period 2010-11 to 2024-25 [BE] the CAGR of total receipt is 11%. This continuous growth in total receipts has enhanced Sikkim's fiscal capacity. For overall period CAGR of Capital Receipts is 14% indicating a substantial growth in capital receipts. With 11% of CAGR for revenue receipts which is mostly driven by tax income, grants, and other non-tax sources. This indicates a comparatively significant growth in capital receipts during the period.

In the 13th FC, capital receipts displayed instability with a negative CAGR of -0.09% suggesting reduction in borrowing. However, borrowing increased to fulfil fiscal needs, it

¹ *Compound Annual Growth Rate (CAGR) represents the average annual growth rate of an investment over a period longer than one year. It is one of the most reliable methods for calculating and assessing the returns of individual assets, investment portfolios, or any value that changes over time (Wayman et.al,2024; Investopedia)*

sharply increased to 30% in the 14th FC. However, this slowed to 10% in 15th FC, signifying more cautious borrowing. Due to improved tax compliance, revenue receipts increased with a robust 14% CAGR in the 13th FC, and the dropped to 5% in the 14th FC, and a recovery to 13% in the 15th FC. GSDP growth slowed from 12% in the 13th FC to 4% in the 15th FC showing a poorer economic progress. In contrast to CAGR, which displays steady growth patterns like 11% for Total Receipts and Revenue Receipts overall, AAGR highlights fluctuations, such as the extreme variability of Revenue Receipts (203% overall, driven by 466% during the 14th FC). Additionally, there are differences in capital receipts: CAGR exhibits strong long-term growth (14% despite fluctuations), while AAGR shows a steady decline. Both approaches are useful: AAGR for short-term insights, CAGR for long-term sustainability.

To assess the progress in the receipts, the final indicator used is the coefficient of income elasticity, which measures the percentage change in tax receipts that results from one percentage change in income. **Table 3.4** represents the coefficient of income elasticity for various components of receipts to GSDP for each period of the Finance Commission. The responsiveness of changes in revenues to fluctuations in GSDP (Gross State Domestic Product) is measured by elasticity.

Table 3.4: Total Receipts and Major Components: Tax Buoyancy

Head of Income	Overall Period <i>From 2010 – 11 to 2024 – 25(BE)</i>	13th Finance Commission <i>From 2010 – 11 to 2014 – 15</i>	14th Finance Commission <i>From 2015 – 16 to 2017 – 18</i>	15th Finance Commission <i>From 2018 – 19 to 2024 – 25(BE)</i>
Total Receipts	1.977444	0.901481	1.890862	3.612207
Capital Receipts	2.968960	-0.485567	7.444851	2.605523
Revenue Receipts	1.779153	1.178618	0.783499	3.982226

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

The *Tax Buoyancy of Total Receipts* from 2010-11 to 2024-25 [BE]) is 1.98. This suggests that total receipts respond to changes in GDSP in a way that is both highly elastic and moderately sensitive. Additionally, this indicates that total receipts grew by twice the GSDP growth. It was 0.90 during the 13th FC, indicating that total receipts rose more slowly than

GSDP and that fiscal receipts responded less well to the state of the economy during that time. It was 1.891 during the 14th FC. This shows a balanced growth of total receipts that is slightly more responsive to GSDP than the 13th FC. During this time Fiscal system of Sikkim become more efficient and benefited the economic growth. It improved once again to 3.612 in 15th FC reflecting a robust growth in total receipts relative to GSDP. The state's capacity to produce revenue in response to economic expansion has improved, as seen by the rising tax buoyancy across these years. The 15th FC has demonstrated a very robust and highly elastic fiscal response.

The *Tax Buoyancy² of Revenue Receipts* for the overall period (2010-11 to 2024-25 [BE]) is 1.78. This suggests that revenue generation has been somewhat responsive to economic expansion but not significantly so, as revenue collections have moved more swiftly than the GSDP during the time. This implies that revenue receipts highly responsive to change in GSDP which grows at faster rate as the economy changes, which also mean that Sikkim's tax system is highly responsive to the changes in GSDP. For the 13th FC (2010–11 to 2014–15), it was 1.179, indicating that revenue revenues expanded at a moderate rate but somewhat faster than the GSDP.

The significant decline of tax buoyancy of revenue receipts to 0.78 during the 14th FC (2015–16 to 2019-20) suggests that revenue receipts grew less proportionately to GSDP. This decline may be the result of either slower revenue growth or growing expenses that are greater than revenue. This is due to combination of factors like 2019-20 saw an 18.23% of decline in growth rate of revenue receipts which contrasts sharply with growth rates in other years during 14th FC. Even Grants-in-Aid, dropped to ₹881.90 crore in 2018-19 from ₹1,574.99 crore in 2018-19. The implementation of Goods and Services Tax (GST) in 2017 could have caused temporary disruptions in tax collection which made mobilization of revenue difficult (CAG, GOS, 2022), additionally demonetization contributed to this, A strong recovery in the tax buoyancy predicted period, for the most recent 15th FC (2020-21 to 2024–25 [BE]), where the tax buoyancy is 3.98 as the revenue receipts has been increasing over the years mainly due to post GST (GST had initially disrupted the tax collection system, but later on it made the system efficient as SGST increased over the years).

The *Tax Buoyancy of Capital Receipts for overall period* (2010-11to 2024-25 [BE]) is

² Tax buoyancy refers to the relationship between the growth in government tax revenue and the changes in Gross Domestic Product (GDP). It measures how tax revenue responds to changes in economic activity (Varijam & Ravi, 2024)

2.969. With capital receipts expanding almost three times faster than GSDP during the whole period, this extraordinarily high elasticity suggests that capital receipts are exceptionally sensitive to fluctuations in GSDP. This also indicates on borrowing or capital raising have significantly impacted on economic condition in Sikkim. It was -0.486 during the 13th FC, indicating a decrease in capital receipts relative to GSDP during this time. (elasticity that is negative). It increased quickly to 7.445 (very elastic) during the 14th FC, indicating a significant growth in capital revenues in relation to GSDP. This can be the result of substantial borrowing or significant capital inflows during this period, the capital receipts during this period were an average of ₹1080.53 Cr. It decreased sharply to 2.606 during the 15th FC, although it is positive, indicating that capital receipts have steadied but are still responsive to variations in GSDP. Total receipts are typically sensitive to change in GSDP, though this responsiveness fluctuates over time due to changes in economic fiscal policy. Although quite volatile, capital receipts are fairly responsive. Revenue receipts exhibit a range of response, with some times seeing rapid expansion and others encountering difficulties.

3.3 Revenue Receipts and Its Components:

The **Section 3.3** deals with a disaggregated analysis of the revenue receipts of the government of Sikkim. These Receipts include the State's Own Tax Revenue, Non-Tax Revenue, its Share of Central Taxes, and Grants-In-Aid from The Central Government.

It is clear from the **Table 3.5 (a) and Table 3.5 (b)** that the trend in State's Own Tax Revenue increased from ₹279.54 crore in (2010-11) to ₹527.55 crore in (2014-15) during 13th FC and then again increased from ₹566.82 crore in (2015-16) to ₹970.40 crore in (2019-20) in 14th FC. In 15th FC it is forecasted to increase from ₹966.70 crore in (2020-21) to ₹2163.54 crore in (2024-25 [BE]). In the 13th Finance Commission period, it contributed an average of 12.7% to the total revenue receipts. This share enhanced to an average of 15.5% during the 14th Finance Commission period and further to 27.66% on an average in the 15th Finance Commission period. Own tax revenue improved dramatically during 15th FC with an average of ₹2405.38 Cr, signifying a strong growth in state-generated income.

From 2010-11 to 2024-25 [B.E] the overall average amount is ₹1190.96 crore, and it represents 18.58% of total revenue receipts. Own tax income has continuously made up a sizeable portion of total revenue. The Non-Tax Revenue was initially ₹242.15 crore in (2010-11) primarily during the 13th FC which then rose to ₹323.78 crore in (2014-15) during the same FC period. It also slightly increased to ₹412.99 crore (2015-16) during the 14th FC and

then rose to ₹693.40 crore (2019-20) during the same F.C period. During 15th FC, it is estimated to increase from ₹662.29 crore in (2020-21) to ₹926.97 crore in (2024-25 [BE]). In the 13th Finance Commission period, it contributed an average of 9.04% to the total revenue receipts. This share enhanced to an average of 11.8% during the 14th Finance Commission period and then to some extent dropped to an average of 10.49% in the 15th Finance Commission period.

For the 15th FC period, non-tax revenue rose, averaging ₹847.30 crore, indicating that it has grown over the periods but remains a smaller percentage of total revenue receipts. Its relative share is relatively stable, showing gradual growth. Its relative share is relatively stable, showing gradual growth. Overall Average (2010-11 to 2024-25[BE]) is ₹572.02 crore and its percentage of Total Revenue Receipts is 10.5% signifying. Own tax revenue has consistently been a significant component of the total revenue receipts.

It can be seen that the Share of Central Taxes increases from ₹524.99 crore in 2010-11 to ₹809.32 crore in 2014-15 in 13th FC. The share of central taxes saw an increase during the 14th FC period, reflecting a greater dependency on central transfers. This proportion further increased notably in the 15th FC period, this is due higher vertical devolution and a larger inter se share for Sikkim. To understand it further during 13th and 14th FC Sikkim of central taxes were below the estimated levels, even though the central share in Sikkim had increased during 14th FC. It was during 15th FC period; it saw a dramatic increase in actual devolution in central taxes. In particular, the actual devolution of ₹3,287.55 crore in 2021-22 was ₹732 crore higher than the projected amount of ₹2,555 crore. Again, the actual devolution of ₹3,864.75 crore exceeded the projected by ₹1,021.75 crore in 2022-23, this increasing trend persisted (CAG's SFAR, 2023)

In the 13th Finance Commission period, it contributed an average of 20.9% to the total revenue receipts. Throughout the 14th Finance Commission time, this proportion increased to an average of 47.8%. Nevertheless, during the 15th Finance Commission time, it has somewhat decreased to the average of 45.01%. The state still receives a sizable amount of its money from central levies. As observed by their average total percentage of 35.8% Central taxes continue to play a sole in the state's revenue structure,

The federal support during 13th FC increased significantly from ₹1105.02 crore in 2010-11 to ₹2427.00 crore in 2014-15. However, the amount fell short during 14th FC indicated by a notable deterioration in grants from ₹934.20 crore in 2015-16 to 881.9 crore in 2019-20. This reflects a reduction in federal grants relative to the previous period. A major decrease in grants-in-aid during 14th FC were witness, which fell to ₹881.90 crore in 2019-20 from

₹1,574.99 crore in previous year, was the main source of the revenue deficit of ₹1,343.81 crore in 2019-20 (Finance Accounts,2019-20). It is predicted that these grants will rebound, it is estimated to rise from ₹1676.56 crore in 2020-21 to ₹2819.44 crore in 2024-25[BE} this increase in on account of Post Devolution Revenue Deficit Grant given during the year 2022-23 (which was ₹448.00 Cr) The state's overall revenue fell as a result of the reduction in central financial support and central tax transfers, which caused the deficit. The steep drop in central aid was a major factor in the income gap, even if the state's own revenue improved little.

Table 3. 5 (a): Revenue Receipts and its Components (in ₹Cr)

Period	Year	Own Tax Revenue	Non -Tax Revenue	Share in Central Taxes	Grants from Centre	Total Revenue Receipts
<i>13th Finance Commission</i>	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	412.28	294.71	681.41	1870.27	3258.67
	Std. Dev	120.56	51.72	114.65	514.22	785.16
	Max	527.55	361.59	809.32	2427	4087.64
	Min	279.54	242.15	524.99	1105.02	2151.7
<i>14th Finance Commission</i>	2015-16	566.82	412.99	1870.28	934.20	3784.29
	2016-17	652.56	451.64	2069.19	1436.91	4610.30
	2017-18	688.33	654.38	2634.66	1235.42	5212.79
	2018-19	897.98	657.78	2789.61	1574.99	5920.37
	2019-20	970.40	693.40	2295.56	881.90	4841.27
	Average	755.22	574.04	2331.86	1212.68	4873.80
	Std. Dev	171.16	130.98	382.29	303.73	785.45
	Max	970.4	693.4	2789.61	1574.99	5920.37
	Min	566.82	412.99	1870.28	881.9	3784.29
<i>15th Finance Commission</i>	2020-21	966.70	662.29	2302.27	1676.56	5607.82
	2021-22	1254.86	680.63	3287.54	1858.13	7081.16
	2022-23	1497.26	976.11	3864.75	1765.67	8103.78
	2023-24(R.E)	1743.26	990.50	4285.45	2533.63	9552.84
	2024-25(B.E)	2163.54	926.97	4839.17	2819.44	10749.12
	Average	1525.12	847.30	3715.83	2130.69	8218.94
	Std. Dev	458.48	162.37	973.41	512.47	2019.09
	Max	2163.54	990.49	4839.17	2819.44	10749.12
	Min	966.7	662.29	2302.27	1676.56	5607.82

Average 2010-2011 to 2024-2025 (BE)	897.54	572.02	2243.04	1737.88	5450.47
Std. Dev	551.89	260.25	1401.68	580.36	2467.58

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25)

Grants-in-Aid from the Centre fell from 57.4% of total income collections in the 13th Finance Commission term to just 24.9% in the 14th FC era. Though it is still far lower than it was in the 13th FC era, the proportion of awards increased somewhat to 26.13% in the 15th FC time. Although grants are a significant source of state revenue, their relative contribution has declined over time in comparison to previous periods, as evidenced by the average proportion of grants overall years, which is 35.9%.

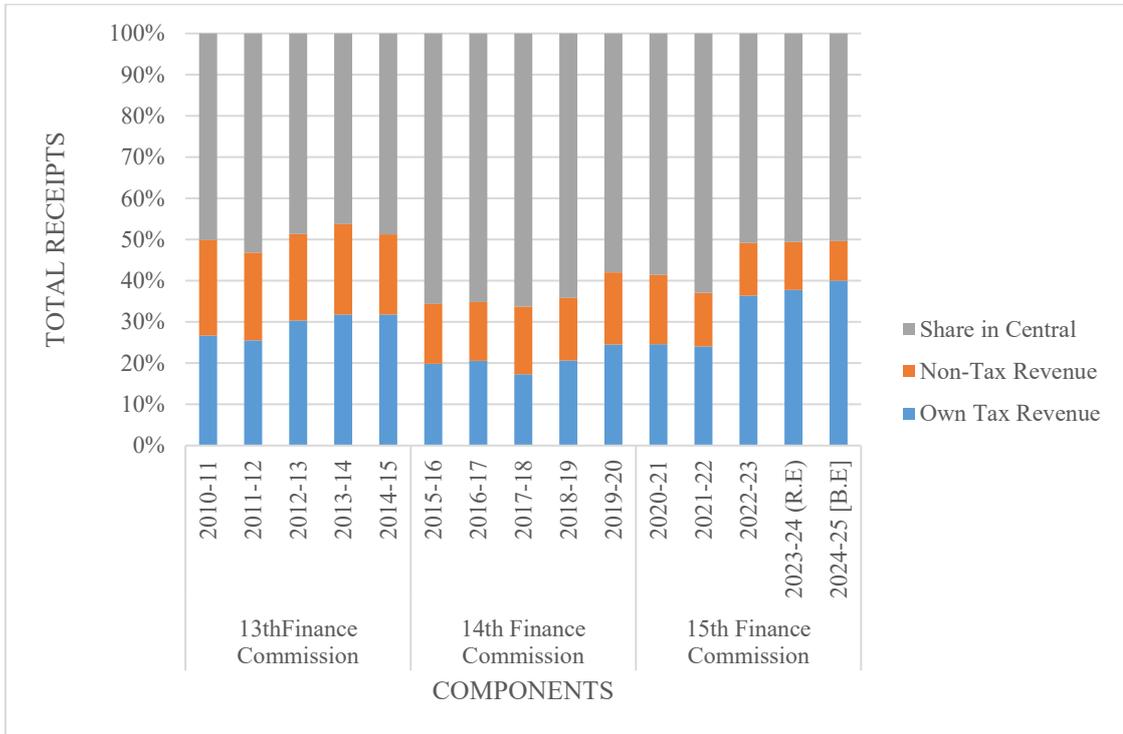
Table 3.5 (b): Percentages Contribution of Different Components of Revenue Receipts

Period	Year	Own Tax Revenue	Non-Tax Revenue	Share in Central	Grants from Centre
13th Finance Commission	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
	Average	12.65	9.04	20.91	57.39
	Std. Dev	1.327	1.258	1.922	3.430
14th Finance Commission	2015-16	14.98	10.91	49.42	24.69
	2016-17	14.15	9.80	44.88	31.17
	2017-18	13.20	12.55	50.54	23.70
	2018-19	15.17	11.11	47.12	26.60
	2019-20	20.04	14.32	47.42	18.22
	Average	15.50	11.78	47.84	24.88
	Std Dev	2.65	1.74	2.19	4.69
15th Finance Commission	2020-21	17.24	11.81	41.05	29.90
	2021-22	17.72	9.61	46.43	26.24
	2022-23	34.11	12.04	47.70	21.79
	2023-24(R.E)	33.46	10.37	44.86	26.52
	2024-25 (B.E)	35.77	8.62	45.02	26.23
	Average	27.66	10.49	45.01	26.13
	Std. Dev	9.33	1.45	2.50	2.88

Overall Average (2010-2011 to 2020-25[BE])	18.58	10.49	35.8	35.98
Std. Dev	8.55	1.68	12.07	15.19

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

Figure 3.4: Revenue Receipts and its Components (%).



Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

All period has experienced a considerable increase in own tax revenue, with the 15th FC period showing the most gain. Its portion of overall revenue has increased significantly. Non-tax revenue, on the other hand, has increased gradually but still makes up a modest percentage of total receipts. Even if we consider the Share in Central Taxes, it has increased during 14th FC and is estimated to remain high during 15th FC. However, the grants from Centre rebound during 15th FC as it decreased by a certain percentage of total receipts during the 14th FC period. The **Figure 3.4** is visual representation of **Table 3.5 (b)**.

From **Table 3.6**, it is clear that revenue receipts as a percentage of GSDP across different Finance Commission periods has increased. The total revenue receipts as a proportion of GSDP rose by 6.54% between the 13th Finance Commission period (2010-11 to 2014-15) and the 15th Finance Commission period (2020-21 to 2024-25 [B.E]). It went from 31.70% in (13th FC) to 36.24% in (15th FC).

Table 3.6: Revenue Receipts and Components as Percentage of GSDP

Items in the Revenue Receipts	Overall Period From 2010-11 to 2020-25 [B.E]	13th Finance Commission. From 2010-11 to 2014-2015	14th Finance Commission From 2015-16 to 2019-20	15th Finance Commission. From 2020-21 to 2024-25[B.E]
Own Tax Revenue	4.93	3.71	4.38	6.70
Non-Tax Revenue	3.26	2.71	3.32	3.75
Share in Central Taxes	12.07	6.23	13.62	16.35
Grants from Centre	11.11	16.73	7.16	9.42
Total Revenue Receipts	31.37	29.39	28.48	36.24

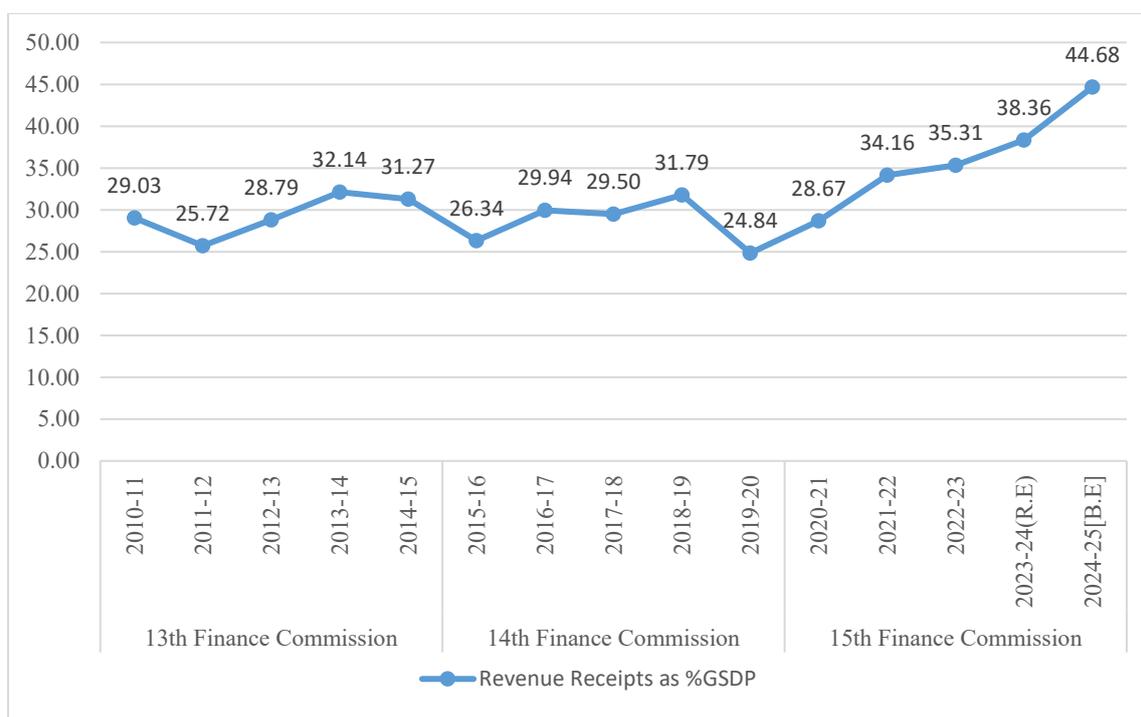
Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

The implementation of GST (2017) impacted own Tax Revenue in such a way, that it increased dramatically from 3.71% during the 13th Finance Commission's period to 6.70% during the 15th Finance Commission phrase. During FY 2022-23, Sales tax (16.62 percent), state excise (19.93 percent), and goods and services tax (53.71%) were the main sources of tax revenue (CAG's SFAR,2023). The rise reflects improved tax collecting efforts of Sikkim Government, that includes addressing GST discrepancies and reconciling Input Tax Credit between SGST and IGST in 2022-23. This minimized revenue leakage. Additionally, the government aims to recover ₹417.14 crore in arrears, particularly in the Power Department, with a focus on long-standing sums as of March 2023. Improvement in revenue realization are witnessed, particularly during 2022-23, where non-tax revenue from forestry, wildlife, and power climbed dramatically. Government of Sikkim also took measures to address small-scale evasion in CGST and SGST, and ₹0.005 crore in taxes were detected in 2022-23(CAG's SFAR,2023).

. Non-tax revenue also increased gradually, from 2.71% in the 13th FC to 3.75% in the 15th FC. This rise was not as sharp as tax revenue rises. Indicating strong but somewhat decreased central tax allocations, the share in central taxes peaked at 13.62% during the 14th Finance Commission term and subsequently rose to 16.35% during the 15th era. The reliance on central grant fell from a peak of 11.12% during the 13th Finance Commission to 9.42% during the 15th FC., these highlight a notable improvement in revenue management and financial stability, with the state demonstrating more independence and better fiscal capability

within the examined time frame.

Figure 3.5: Revenue Receipt as a Percentage of GSDP



Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

3.4 Own Tax Revenue:

A significant portion of Sikkim's Own Revenue Receipts comes from its Own Tax Revenue. The State Own Tax Revenue reflects the taxing capacity of a state's economy (Veni,2020) Therefore, this section will examine the government's tax revenue in Sikkim. Sikkim's own tax revenue for each category for each Finance Commission year is shown in **Table 3.7**. Over time, particularly during the 15th Finance Commission period, there were notable rises in the State Goods and Services Tax (SGST) and income taxes other than corporate tax. Significant increases were also observed in other sectors, such as land revenue, stamp and registration fees, and state excise. Sikkim's own tax revenue increased substantially from an average of ₹412.28 Cr in the 13th Finance Commission period to ₹2069.38 Cr during the most current period. In the 13th FC, corporate tax was ₹247.16 Cr, in contrast to the 15th FC, it was ₹1525.12 Cr. Individual tax categories displayed arrange of developments, indicating a changing fiscal environment, even as aggregate tax revenue rose.

From 2010 to 2025 [B.E.], the total amount of own tax revenue increased from ₹897.54 Cr. The standard deviation, which measures revenue variability, points to variations in tax

revenues over time and across categories.

Table 3.7: State's Own Tax Revenue (in ₹ Cr).

Items Under Own Tax Revenue	Overall From 2010-11 to 2020-25 [B.E]		13th Finance Commission From 2010-11 to 2014-2015		14th Finance Commission From 2015-16 to 2019-20		15th Finance Commission From 2020-21 to 2024-24[B.E]	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Corporation Tax	778.76	460.80	247.16	28.10	777.92	175.16	1311.21	102.58
State Goods and Services Tax	345.59	416.62	0	0	206.4	216.73	830.38	305.35
Taxes on Income other than Corporation Tax	292.14	609.78	0.062	0.066	0	0	876.38	813.27
Other Taxes on Income and Expenditure	11.54	5.37	6.44	1.86	10.91	4.097	17.28	2.62
Land Revenue	9.78	8.49	5.43	1.50	5.836	2.80	18.07	10.64
Stamps & Registration Fees	14.22	8.14	6.50	1.13	12.58	2.43	23.59	6.10
Registration Fees	10.09	5.04	5.16	1.10	9.522	1.56	15.58	4.11
Tax on Wealth	0.24	0.36	0.65	0.22	0.12	0.28	-0.05	0.011
Taxes on Immovable Property other than Agricultural Land	0	0	0	0	0	0	0	0
State Excise	192.79	100.58	106.0	23.60	167.8	26.82	304.58	91.17
Customs	171.40	61.51	113.83	15.43	214.80	72.83	185.40	30.65
Union Excise Duties	133.93	88.86	75.20	85.51	216.85	85.37	109.72	80.76
Service Tax	82.08	108.57	94.25	30.82	150.62	161.54	1.36	2.55
Tax on Sales, Trade etc.	239.31	64.58	212.48 8	76.10	265.2	77.97	240.24	31.39
Taxes on Vehicles	31.93	17.19	16.30	3.40	30.16	7.36	49.34	16.76
Taxes on Goods and Passengers	0	0	0	0	0	0	0	0
Taxes & Duties on Electricity	0	0	0	0	0	0	0	0
Taxes on Consumption & Sale of Electricity	0	0	0	0	0	0	0	0
Other Taxes and Duties on Commodities and Services	53.54	0.55	58.91	19.81	56.32	15.87	45.39	13.03
Entertainment Tax	0.55	0.58	1.032	0.38	0.62	0.62	0.004	0.01
Betting Tax	0	0	0	0	0	0	0	0
Luxury Tax	0	0	0	0	0	0	0	0
Total Own Tax Revenue	897.54	551.88	412.28	120.56	755.21	171.16	1525.12	458.48

Table 3.8: Share of Various Taxes on State's Own Tax Revenue (%)

Items under the Own Tax Revenue	Overall From 2010-11 to 2020-25 [B.E]	13th Finance Commission From 2010-11 to 2014-2015	14th Finance Commission From 2015-16 to 2019-20	15th Finance Commission From 2020-21 to 2024-24[B.E]
Corporation Tax	23.54	63.06	103.13	70.64
Taxes on Income other than Corporation Tax	19.55	0.02	0	58.63
Other Taxes on Income and Expenditure	1.39	1.57	1.41	1.19
Taxes on Income & Expenditure	0	0	0	0
Land Revenue	1.13	1.46	0.77	0.83
Stamps and Registration	1.70	1.71	1.68	1.57
Taxes on Wealth	0.06	0.16	0.019	0.04
Taxes on Property, Capital and other transactions	0	0	0	0
Customs	25.68	28.81	31.19	17.02
Union Excise Duties	22.37	19.21	31.30	16.58
State Excise	22.96	26.28	22.52	22.96
Taxes on Sales, Trade etc.	36.13	50.70	38.19	16.50
Taxes on Vehicles	3.99	4.0	3.20	3.75
Service Tax	0.77	4.08	3.98	2.31
Other Taxes and Duties on Commodities and Services	8.38	14.13	8.03	2.98
Taxes on Commodities & Services	0	0	0	0

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25)

Table 3.8 shows that from 2010-11 to 2024-25[B.E], Sikkim's tax revenue trends from 2010-11 to 2024-25 reveal significant shifts, particularly under the 13th, 14th, and 15th Finance Commissions. The state mostly depended on sales taxes (36.13%), excise taxes (22.96%), and corporation taxes (23.54%) during the 13th Finance Commission term. While income taxes fell precipitously and excise taxes were constant, corporation taxes peaked to 103.13 % by the 14th Finance Commission, which made them the greatest contributor. Corporate taxes were 70.64% during the 15th Finance Commission term, but there was significant instability. Income taxes also increased to 58.63%, signifying a diversification of revenue sources. The implementation of GST made changes in such a way that, excise duties and sales taxes remained stable but declined, while customs and union excise duties decreased further, as a result it reduced service

tax and shifted tax collection to the central government. This is mainly because the implementation of GST redirected the collection of many taxes, including excise charges and sales taxes, to a centralized system known as CGST. This caused the unification of various taxes into a single tax, made tax system simpler and more efficient revenue collection at the central government level. While customs and some union excise levies persisted, much of the previous tax burden was replaced by the GST system. With income taxes becoming increasingly significant including corporate taxes, and a change in the tax system brought about by GST, the state has generally moved toward a more diverse tax base.

Table 3.9: State's Own Tax revenue as Percentage of GSDP

Items under the Own Tax Revenue	Overall (%) From 2010-11 to 2020-25 [B.E]	13th Finance Commission (%) From 2010-11 to 2014-2015	14th Finance Commission (%) From 2015-16 to 2019-20	15th Finance Commission (%) From 2020-21 to 2024-24[B.E]
Corporation Tax	4.585	2.279	4.504	6.971
Taxes on Income other than Corporation Tax	1.274	0.000	0.000	3.822
Other Taxes on Income and Expenditure	0.066	0.058	0.062	0.077
Taxes on Income & Expenditure	0.000	0.00	0.000	0.000
Land Revenue	0.055	0.047	0.033	0.078
Stamps and Registration	0.079	0.056	0.073	0.010
Taxes on Wealth	0.002	0.005	0.000	0.00
Taxes on Property, Capital and other transactions	0.284	0.00	0.000	0.000
Customs	1.162	0.980	1.316	1.123
Union Excise Duties	1.031	0.651	1.324	1.095
State Excise	1.094	0.907	0.980	1.343
Taxes on Sales, Trade etc.	1.531	1.910	1.615	1.068
Taxes on Vehicles	0.179	0.501	0.174	0.216
Service Tax	0.609	0.801	0.988	0.006
Other Taxes and Duties on Commodities and Services	0.356	0.528	0.340	0.199
Taxes on Commodities & Services	3.56	3.51	6.96	4.66
Total Tax Revenue	16.85	9.94	17.54	23.70

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

The state's own tax revenue as a percentage of GDP is shown in **Table 3.9**. It is seen that from 2010-11 Sikkim's tax revenue as a proportion of GSDP shows substantial changes, particularly during the 15th FC period it had an impressive boost. The significant increase was apparent in the corporation tax, which improved from 4.585% in the 13th FC period to 6.971% in the 15th FC. In a same way, taxes on income other than cooperation tax, which were

previously insignificant, dramatically improved throughout the 15th FC period, rising to 3.82%.

The overall tax revenue increases from 9.94% in the 13th Finance Commission period to 23.70% in the 15th F.C. this upward trend is contributed by Good and Service Tax (GST) introduced in 2017-18 (Annapoorna, 2024). This period also saw increase in several areas: state excise revenue plummeted from 0.91% (13th FC) to 1.123% (in 15th FC), service tax fell from 0.80% (in 13th FC) to 0.006% (in 15thFC), and revenue from stamps and registration dropped as well. Despite these declines, the overall growth in tax revenue highlights effective revenue-boosting efforts by the state government during the 15th Finance Commission period. Especially during 2022-23, the Government of Sikkim addressed the GST discrepancies and merge the Input Tax Credit System between SGST and IGST. The government also continues to take measures in order to address small scale tax evasions in CGST and SGST. During 2022-23 ₹0.005 Cr tax evasion were detected (CAG’s SFAR,2023).

Table 3.10: State’s Own Tax Revenue: Compound Annual Growth Rate

Items under the Own Tax Revenue	Overall (%) From 2010-11 to 2020-25 [B.E]	13th Finance Commission (%) From 2010-11 to 2014-2015	14th Finance Commission (%) From 2015-16 to 2019-20	15th Finance Commission (%) From 2020-21 to 2024-24[B.E]
Corporation Tax	0.17	0.06	0.11	0.19
Taxes on Income other than Corporation Tax	8.64	-0.38	0.00	20.10
Other Taxes on Income and Expenditure	0.11	0.12	0.14	0.07
Taxes on Income & Expenditure	0.00	0.00	0.00	0.000
Land Revenue	0.09	-0.03	0.19	0.15
Stamps and Registration	0.11	0.04	0.09	0.16
Taxes on Wealth	-1.69	0.13	-1.86	0.12
Taxes on Property, Capital and other transactions	0.00	0.000	0.00	0.00
Customs	0.89	0.07	0.11	0.11
Union Excise Duties	0.11	0.02	-0.08	0.11
State Excise	0.13	0.13	0.07	0.18
Taxes on Sales, Trade etc.	0.04	0.15	-0.10	0.05
Taxes on Vehicles	0.14	0.13	-0.09	0.20
Service Tax	-0.68	0.18	-0.08	-0.69
Other Taxes and Duties on Commodities and Services	0.03	0.14	-0.08	0.16
Taxes on Commodities & Services	0.19	0.11	-0.09	0.06
Total Tax Revenue	0.15	0.10	0.06	0.16

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

The analysis of Sikkim's Own Tax Revenue growth rates in **Table 3.10** reveals that from 2010-11 to 2024-25 a notable shift during the 15th FC period. **Table 3.10** shows the growth rates of Sikkim's Own Tax Revenue as a percentage of GSDP across the 13th, 14th, and 15th Finance Commission periods. The overall growth rate that is from 2010-11 to 2024-25 is 0.15%, indicates a modest growth. During the 13th F.C (2010-11 to 2014-15), tax revenue grew by 0.10%, with along with a small increase in corporation tax (0.06%) and service tax (0.18%) and income taxes other than corporation tax declined to (-0.38%). During the 14th Finance Commission (2015–16 to 2019–20), income taxes stagnated while union excise and service tax decreased, resulting in slower growth of 0.06%.

The 15th Finance Commission (2020-21 to 2024-25[B.E]) saw recovery, with a growth rate of 0.16%, as result of 20.10% increase in taxes on income other than corporation tax, as well as growth in corporation tax (0.19%) and state excise (0.18%), although service tax declined further (-0.69%) due to GST.

Table 3.11: Tax Buoyancy

Items under the Own Tax Revenue	Overall From 2010-11 to 2020-25 [B.E]	13th Finance Commission From 2010-11 to 2014-2015	14th Finance Commission From 2015- 16 to 2019-20	15th Finance Commission From 2020-21 to 2024-24[B.E]
Corporation Tax	3.9942	1.2716	2.0096	3.2534
Taxes on Income other than Corporation Tax	-0.4452	0.000	0.000	-4.3436
Other Taxes on Income and Expenditure	6.9947	2.8138	2.5662	1.7350
Taxes on Income & Expenditure	0.000	0.00	0.00	0.000
Land Revenue	1.1669	-0.0540	3.8702	4.3054
Stamps and Registration	1.7386	3.5822	1.5782	4.9092
Taxes on Wealth	-0.5195	2.7288	-4.1877	3.2577
Taxes on Property, Capital and other transactions	0.000	0.000	0.000	0.000
Customs	1.1537	1.4352	-1.2652	3.2534
Union Excise Duties	1.6936	0.3594	-0.9785	3.2534
State Excise	2.3912	2.8975	1.2848	4.9516
Taxes on Sales, Trade etc.	0.3346	3.2911	-1.1031	1.2720
Taxes on Vehicles	2.6027	2.7656	-2.3488	6.6041
Service Tax	-0.4453	4.3129	-2.8052	undefined ³
Other Taxes and Duties on Commodities and	0.2547	1.2233	-1.0373	4.6667

³ Due to the values that are not provided.

Services				
Taxes on Commodities & Services	0.2546	2.4217	-1.1555	4.6675
Total Tax Revenue	3.4304	2.2305	0.95404	4.9611

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

Tax buoyancy⁴ measures how tax revenue responds to changes in its base, like GDP, consumption, or imports. It's important to use real terms, adjusting for inflation, to avoid a bias towards 1 that would occur if nominal values were used (Haughton,1998). **Table 3.11** represents the tax buoyancy for various categories of tax across different Finance Commission periods. The overall buoyancy of corporate tax from 2010–11 to 2020–25 [B.E.] is 3.99, suggesting a high degree of responsiveness to change in income or GSDP. Inconsistencies or a lack of data are shown. The buoyancy of income taxes other than corporation tax is unclear. The buoyancy of land revenue varies; during the 15th FC, it peaked at 4.31.

Positive buoyancy indicates that other categories, such as state excise, registration, and stamps, are sensitive to fluctuations in income. On the other hand, recent negative buoyancy in customs and union excise duties suggests a decrease in responsiveness. The overall buoyancy of 3.43 for total tax revenue indicates that it is generally responsive to income increase.

Before estimating the potential for commodity tax, we need to consider two clear indicators that provide a fundamental understanding of the state's own tax efforts. These are Budget Effort and C-efficiency.

3.4.1 Budget Efforts

Table 3.12 Budget Effort of Tax Revenue in Sikkim (in ₹ Cr)

Year	Actual (A)	Budget (B)	Budget Effort (A/B*100)
2010-2011	804.53	711.62	113.06
2011-2012	905.57	899.80	100.64
2012-2013	1133.96	1076.49	105.34
2013-2014	1287.54	1257.23	102.41
2014-2015	1336.87	1453.54	91.97
2015-2016	2437.10	2485.07	98.07
2016-2017	2721.75	2741.01	99.30
2017-2018	3322.99	3147.29	105.58
2018-2019	3687.59	3662.65	100.68
2019-2020	3265.96	4189.74	77.95
2020-2021	3268.97	4284.53	76.30
2021-2022	4541.97	3777.87	120.23
2022-2023	5362.01	4505.01	119.02
2023-2024 (RE)	6028.71	5690.18	105.95

⁴TB = % Change in Revenue ÷ % Change in GSDP

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

Budget Effort evaluates the ratio of actual tax collections to the budgeted estimates. A ratio above 100 signifies that the budget effort is effective, whereas a ratio below 100 indicates inefficiency (Dutta et. al, 2018). **Table 3.12** show the budget effort of tax revenue in Sikkim and Table 3.12 b shows the budget effort of non - tax revenue in Sikkim. For the year 2023-2024 we have used the revised estimation as (actual).

From **Table 3.12** we see that, in 2010-2011, the effort was 113.06, indicating efficient collection, while in 2014-2015, a lower ratio of ₹91.97 Cr highlighted decreased efficiency due to actual revenue falling short of the budget. Recently the years 2021-22 and year 2022-23 showed an improved performance achieving high ratios of 120.23 and 119.02, respectively. This indicates strong revenue collection. However, the covid year 2019-20 and 2020-21 showed inefficiency with ratios of ₹77.95Cr and ₹76.30Cr respectively. The updated estimate of revenue for 2023–2024 (RE) is ₹6028.71 Cr, whereas the budget of ₹5690.18 Cr of revenue is given to this year. This results in an anticipated Budget Effort of ₹105.95Cr, suggesting that efficient revenue might be gathered for the year. With occasional performance variations, the table shows a trend of usually efficient or nearly efficient tax revenue efforts.

3.4.2 C-Efficiency

C-efficiency⁵ measures the overall gap between actual tax collections and what could be expected under standard rates and exemptions, incorporating both enforcement and policy gaps. In other words, C-efficiency is defined as the optimal cost of producing a given level of output that varies with the services and the gap between the actual and optimal cost (Ferris and Lovell,1990). A dual tier-based system was implemented in India which replaced the older turn over tax system. These dual tier VAT are Cen Vat and State VAT which are based on various recommendation of reports report⁶ in Indian. State VAT is imposed on all Indian States, and they have authority to impose the state accordingly, except that they have to follow a common guideline with two main tax rates. 4%VAT rate which is applicable to certain essential good and 12.5% standard VAT which is leave it on majority of goods and services example consumer good and manufactured goods that are not covered by 4% of VAT (with few exceptions) (Purohit et.at, 2010). Here, the standard Value-Add- Tax (VAT) rate in Sikkim has been 12.5%, and the Gross State Domestic Product (GSDP) is used as the tax base under consideration.

⁵ Note: $C - efficiency = \frac{Actual\ Collection}{Standard\ Rate \times Tax\ Base}$

⁶ The Report of the Indirect Taxation Enquiry Committee (1978), chaired by L K Jha; The Report of the Tax Reforms Committee (1991-92), chaired by R. J. Chelliah. The presentation of (GST) by Vijay Kelkar in his Reports of the Task Forces on Direct and Indirect Taxes (2002), and in Implementation of the Fiscal Responsibility and Budget Management Act, 2003 (2004) and Reform of Domestic Trade Taxes in India (1994) by NIPFP under the leadership of A. Bagchi

The C-efficiency varied greatly, reaching a high of 7.18 in 2011–12 and then steadily declining over time, with a noticeable drop to 0.26 in 2023–2024 [R.E]. Due to the normal VAT rate and rising GSDP, this chart shows a widening discrepancy between actual and projected tax collections.

Table 3.13: C-efficiency of Tax Revenue in Sikkim

Year	Actual Collection	GSDP at current price	C-efficiency
2010-2011	1137.75	7411.57	1.918882
2011-2012	1044.57	1818.42	7.180486
2012-2013	806.963	1986.86	5.076876
2013-2014	794.489	2210.83	4.492031
2014-2015	698.083	2433.92	3.585171
2015-2016	412.994	2817.8	1.832078
2016-2017	451.637	3197.4	1.765631
2017-2018	654.376	3971.07	2.059823
2018-2019	657.781	4303.4	1.910642
2019-2020	693.402	4713.79	1.838760
2020-2021	662.29	4906.07	1.687426
2021-2022	680.627	5523.15	1.540396
2022-2023	976.11	6232.68	1.957645
2023-2024[R.E]	990.498	47331	0.2615882

Source: Government of Sikkim, Budget in Brief, Various Years; FCD, GOS (2010-2011 to 2024-25).

3.5 Devolution of Central Taxes and Grant

Table 3.14 and Table 3.15 shows the trends in central devolutions of taxes and grants to Sikkim. Devolution is defined as transfer of major power and authority from a central government to regional or local governments, giving them considerable autonomy and responsibility over their own operations (Kincaid, 2006).

Table 3.14: Trends in Central Devolution of Taxes and Grants to Sikkim (%)

Period	Year	Share in Central Taxes as % of GSDP	Central Grants as % of GSDP	Total Central Devolution as % of GSDP
13th Finance Commission	2010-11	7.08	14.90	21.99
	2011-12	5.48	15.43	20.91
	2012-13	6.14	16.22	22.33
	2013-14	6.30	18.53	24.82
	2014-15	6.19	18.57	24.76
14th Finance Commission	2015-16	13.02	6.50	19.51
	2016-17	13.44	9.33	22.77
	2017-18	14.91	6.99	21.90
	2018-19	14.98	8.46	23.43
	2019-20	11.78	4.52	16.30
15th Finance Commission	2020-21	11.77	8.57	20.35
	2021-22	15.86	8.96	24.85
	2022-23	16.84	7.97	24.54

	2023-24 (R.E)	17.21	10.17	27.38
	2024-25[B.E]	20.11	11.71	31.83
Overall Average From 2010-11 to 2020-25 [B.E]		12.07	11.11	23.18

Source: Government of Sikkim, Budget in Brief, Various Years; FCD, GOS (2010-2011 to 2024-25).

During the 13th F.C, the share of central taxes as a proportion of GSDP occurred highest in 2010-2011 as 7.08%, followed by a slight decrease in subsequent years, stabilizing at around 6.19% in 2014-2015. This period reflects that the central taxes made a small financial contribution to Sikkim's economy. In 14th FC, however, there was a significant increase in the share of central taxes, which reaches to a peak of 14.98% of GSDP in 2018-2019. But in 2019-20, it fell to 11.78%, indicating fluctuations that were probably brought on by adjustments to tax laws. Overall, the share of central taxes remained higher than in the 13th FC period.

During 15th FC the share of central taxes continued its upward trajectory, reaching 15.86% in 2021-2022, and projected to peak at 20.11% in 2024-2025 [B.E] This indicates a strong recovery and consistent improvement in central tax allocations to Sikkim. Central grants, ranges from 14.91% in 2010-11 to 18.57% 2014-15 of GSDP during the 13th FC, were a significant part of overall devolution when measured as a percentage of GSDP. Throughout the 13th FC period, the share of grants climbed gradually, reaching a peak in 2014–2015. During this period, grants were the main source of central funding. Grants for the 14th FC, however, fell precipitously, reaching 6.50% of GSDP in 2015–2016 and 4.52% in 2019–2020. Changes in the fiscal policies of the federal government are to blame for this decline. Since central grants are likely to rise from 7.79% of GSDP in 2020–21 to 11.72% of GSDP by 2024–2025 [B.E.], some recoveries are anticipated throughout the 15th FC.

In the 13th FC, total central devolution, which included both central taxes and grants ranged from 16.17% to 24.76% of GSDP, with 2013-14 and 2014-15 respectively reaching the highest levels of devolution. The state's financial situation is significantly supported throughout this time by a robust contribution from grants and taxes. During 2014-15, grants for Central sponsored scheme and Central plan scheme rise which directly impacted the increase in the Central Grants. The components of Central tax like corporate tax and customs increased during 13th FC period. It should also be note that before 2014-15. A significant portion of central government funds were directed to State Implementation Agencies (SIAs) for Implementation of various schemes. But 2014-15 onwards these funds were included in State Finance Account (CAG's SFAR,2015). However, due to reductions in both taxes and grants, the overall central

devolution during the 14th FC dropped dramatically, from 19.52% of GSDP in 2015–2016 to 16.30% in 2019-2020 due to the shift in financing of pattern of Centrally Sponsored Scheme (SSC). The overall devolution was significantly impacted by the reduction in central grants. After which central tax shares grew and a slight recovery in grants were the primary drivers of the 15th FC’s robust recovery in total central devolution. The total central devolution is expected increased from 20.34% in 2020– 2021 to 31.83% in 2024-2025 [B.E.]. This period marks a significant improvement in the overall central support to Sikkim, reflecting a positive adjustment in fiscal transfers. Especially during 2022-23 where Sikkim receive a Post-Devolution Revenue Deficit Grant, which amounted to ₹440.00 crore for the year 2022-23. The transfers to local bodies also increased during this year. The Central government also released ₹47.20 crore for State Disaster Response Fund (SDRF) and ₹10 crore for State Disaster Mitigation Fund (SDMF), as recommended by the 15th FC (CAG’s SFAR,2023).

Table 3.15: Central Devolution of Taxes and Grants to Sikkim as % of GSDP

Items in the Revenue Receipts	Overall Period From 2010-11 to 2020-25 [B.E]	13th Finance Commission From 2010-11 to 2014-2015	14th Finance Commission From 2015-16 to 2019-20	15th Finance Commission From 2020-21 to 2024-24[B.E]
Share in Central Taxes as a Proportion of GSDP	12.07176	6.23269	13.62331	16.35927
Central Grants as proportion of GSDP	11.10527	16.72986	7.16091	9.42503
Total Central Devolution	23.17702	22.96255	20.78421	25.78430

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

According to the overall average for central devolution from 2010 to 2025 [B.E.], central taxes contributed 12.07% of GSDP, central grants contributed 11.11%, and total central devolution contributed 23.18% of GSDP on average. This demonstrates that taxes and grants make up a balanced portion of overall central support, with variations mostly brought on by adjustments to the central government's distribution policies.

3.6 Analysis of Total revenue and Central assistance forecast for the State

The **Table 3.16** shows the forecasted value of the total revenue and its components such as the State's own tax revenue, the State's nontax revenue, Share in central taxes, and Grants from central. From the table, it is clear that the total revenue of Sikkim is projected to increase from ₹10749.13 crore in 2024-25 to ₹12956.02 crore in 2030-31, a growth of approximately

15% over a 6years period are suggested by the above figures. The State's own tax revenue is also expected to grow reflecting an increase of 30% approx. over the forecasted period reaching ₹2953.25 Cr by 2030-31. This increase in tax revenue could be due to the implementation of GST which enhances tax collection and ongoing reforms in Sikkim such as Sikkim Industrial and Investment Policy,2024; State Tourism Policy 2018; National Pension System (NPS), 2023 & Sikkim's State Policy on Organic Farming, India (2004) and the FRBM Targets. The State's non-tax revenue is also expected to increase from ₹926.97 crore in 2024-2025 to ₹1523.17Cr in 2030-31 showing expansion in nontax revenue sources.

Table 3.16: Estimated Total Revenue Along with the Estimated Tax Revenue of the State (₹ Cr).

	2024-25 [B.E]	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Total Revenue	10749.13	10175.96	10731.66	11287.75	11843.84	12399.94	12956.02
1. State's Own Tax Revenue	2163.54	2231.95	2375.89	2520.23	2664.57	2808.91	2953.25
2. State's Own Non-Tax Revenue	926.97	1194.68	1260.38	1326.08	1391.77	1457.47	1523.17
3. Share in Central	4839.17	4649.47	4950.27	5251.07	5551.87	5852.67	6153.47
4. Grants From Centre	2819.45	2099.86	2145.12	2190.372	2235.626	2280.888	2326.13

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25) & Own Calculation

The Grant from the Centre is expected to decline initially from ₹2819.45Cr in 2024-25 to ₹2,0998.6 Cr in 2025-26 before recovering modestly to ₹2,326.13 crore by 2030-31, indicating reduced dependence on central assistance. The Share of the center tax is also predicted to rise but at a relatively slower rate than state-generated revenue, reflecting the growth and recovery at the Central levels.

3.7 Reform Initiatives:

The financial structure of Sikkim has witnessed a significant change since the implementation of Good and Service Tax (GST) in 2017. GST has replaced multiple taxes and is applicable to every stage of supply chain. This system eliminated the complex tax system and administrative burdens, making it easier to tackle the tax payment system (Vasanthagobal,2011). Before GST was implemented, Sikkim followed a progressive approach to get the revenue targets which often lacked major policy reforms that should boost the revenue mobilization. As a result, this made Sikkim one of India's richest states, that has a lower revenue tax -GSDP ratio when compared to national averages. However, GST that came

with online payment system altered the whole payment system.

The Amnesty Scheme introduced in 2015-2016 also had been partially successful in settling down the pending tax arrears (Finance and Revenue Department, Sikkim,2023-24). In 2022-23, the state prioritized resolving GST discrepancies and reconciling input tax credits between SGST and IGST, strengthening its tax compliance framework. Significant structural shifts, such as the revised financing pattern of centrally sponsored schemes post-2014-15, have compelled Sikkim to rely more on its internal revenue to finance development programs, marking a critical transformation in its fiscal structure (CAG's SFAR, 2015).

Despite initially disrupting cash-based transactions, the demonetization of India in 2016 had a significant impact on Sikkim's economy by formalizing certain aspects of the economy and encouraging the adoption of digital payment systems, which in turn reduced black money and promoted digital transactions (Pradhan, 2018) Notwithstanding the COVID-19 pandemic's difficulties, which interfered with revenue collection and fiscal restraint but Sikkim manage to stabilize its finances and bring the fiscal policy back below the FRBM Act stipulated limited by 2021 to 22. Scheme for Special Assistant to States for Capital Expenditure introduced by the Government of India also helped Sikkim in a positive way. In 2023-24 Sikkim was provided ₹551.36 Cr under scheme which expected increase further to ₹526 Cr in 2024-25(FRED's MTFP,2024-25)

In 2023-24 Sikkim was provided ₹551.36 Cr under scheme which expected increase further to ₹526 Cr in 2024-25By reallocating funds through the State Disaster Response Fund (SDRF) and State Disaster Mitigation Fund the 15th Finance Commission also played a crucial role in highlighting disaster management as a primary area of focus. In addition to this, Post-Devolution Revenue Deficit Grant for 2022-23, was essential for Sikkim, especially as its own revenue generation might have been insufficient to cover the gap during the fiscal year(CAG's SFAR,2023).

Taking into account the local socioeconomic context and the natural resources that are available, Sikkim's Industrial and Investment Policy 2024 seeks to establish an atmosphere that supports industrial growth. The development of infrastructure, tourism, real estate, and city transportation are the main topics of this policy since they are anticipated to boost economic growth and, as a result, increase tax revenue (Sikkim Industries, GOS,2024) The state's tourism policy Growth of Tourism since 2018, the state has been very successful in using federal funds to build and develop infrastructure for tourists, including roadside amenities. By emphasizing eco-tourism and sustainable practices, the goal is to increase visitor numbers and generate more money from tourism-related taxes and services (New Tourism Fundation2020)

3.8 Major Findings

- ❖ Central government transfers are a vital source of finance for Sikkim.
- ❖ Due to increases in both revenue and capital receipts, Sikkim's total receipts as a percentage of GSDP has improved from 34.83% in 2010–11 to 54.96% in 2024–25 [B.E]
- ❖ During 15th FC Sikkim's fiscal receipts rose dramatically from 32.11% of GSDP in the 13th FC to 46.29%, due to capital revenues. The revenue receipts also increased from 29.39% in the 13th FC to 36.24% in the 15th FC. Capital income caused Sikkim's fiscal receipts to soar from 32.11% of GSDP in the 13th FC to 46.29% in the 15th FC. From 29.39% in the 13th FC to 36.24% in the 15th FC, revenue receipts grew.
- ❖ The concerns about long-term fiscal sustainability are raised by a declining ratio of revenue to capital receipts signals growing reliance on debt.
- ❖ From 2010–11 and 2024–25 [B.E.], the total revenue's Compound Annual Growth Rate increased by 11%. The total revenue experienced a negative CAGR of -0.09% in the 13th FC before showing a sharp rise to 30% in the 14th FC. But in the 15th FC, it slowed down to 10% once more, suggesting cyclical fluctuations.
- ❖ The capital receipts on the other hand, demonstrated instability, with robust growth in the 13th FC (14%), a slowdown in the 14th FC (5%), and a recovery in the 15th FC (13%). The revenue increased on 11% CAGR overall period, from 12% in the 13th FC to 4% in the 15th FC, GSDP growth declined.
- ❖ The capital receipt of Sikkim has been sensitive to changes in the economy. The state has become more reliant on capital receipts (borrowings), especially during the 14th FC. The revenue receipts on the other hand showed modest improvement but encountered difficulties 15th FC saw a significant recovery in revenue receipts, which suggests better budgetary management.
- ❖ Sikkim's fiscal structure during 15th FC reflecting better revenue collection with a significant increase in own tax revenue. Similarly, over the same period of FC, non-tax revenue that makes a smaller portion of total revenue receipts, even had increased. The share in central taxes somewhat declined.
- ❖ The Centre grants are expected recovered during 15th FC after it saw dropped in the centre during 14^h FC.
- ❖ The Centre along with State played a key role in forming the structure of Sikkim' total revenue receipts. The revenue structure in Sikkim has experienced a greater increase. With

noteworthy contributions from corporation tax, land revenue, stamps, registration, and state excise, Sikkim's tax buoyancy from 2010-11 to 2024-25 shows strong responsiveness to changes in income generated by the state, especially from Own Tax Revenue, while maintaining reliance on Central Taxes.

- ❖ From 2010 to 2025, Sikkim's own tax revenue increased moderately. It increased slowly during the 13th and 14th Finance Commission periods, but it recovered during 15th FC, thanks to significant increases in income taxes, corporation tax, and state excise, even though service tax decreased as a result of the GST.
- ❖ Sikkim's tax buoyancy, from 2010–11 to 2024–25 shows strong responsiveness to fluctuation in income. With noteworthy contributions from corporation tax, land revenue, stamps, registration, and state excise,
- ❖ Gains in the years 2021-22–2022-23 (with ratios of 120.23 and 119.02 respectively) suggest that Sikkim's tax revenue has been efficient as indicated by the ratios. The result of Sikkim's Budget Effort for non-tax revenue has been shown inconsistent outcomes, with a revised projection of 91.81 for 2023-2024.
- ❖ The rising rates of GSDP and VAT in Sikkim, that it impacted the C-efficiency in such a way that it dropped drastically from 7.18 in 2011–12 to 0.26 in 2023–24, indicating a growing gap between actual and potential revenue.
- ❖ The central tax devolution of Sikkim increased between the period of 2010 and 2025, and was at its peak 7 in 2010-11 at 7.98%, and 14.98% in 2018–19, after which it is predicted to reach 20.11% by 2024–25 [B.E]. With an average of 23.18% of GSDP, total devolution in Sikkim equally rose in all FC periods indicating a balanced distribution of grants and taxes.
- ❖ Over the next 5 years, Sikkim is predicted to increase its financial independence with the reduction of dependency on central grants. This indicates that State tax systems are expected to strengthen along with the enchantment of non-tax revenue sources also with changes in the central fiscal policies that could impact the share of central taxes.

3.9 Conclusion

From the period 2010–11 to 2024–25, Sikkim's fiscal landscape shows an increase in total revenue receipts relative to GSDP, driven largely by capital receipts from borrowings. While revenue receipts grew especially during the 15th Finance Commission (FC) period, which reflected an improved management. In Sikkim the increase in debt arises the concern about

the sustainability issues even though the revenue receipts have been increasing. Sikkim's Own tax revenue has saw steady gains throughout the period of analysis, these are enhanced by income and corporate taxes, although reliance on central contributions remains constant. Despite the declining trend on in C-efficiency, which points out the gap between budgeted and actual revenue Sikkim has made progress in expanding its revenue structure. Sikkim is also expected to be self-reliant over the next 6 years. However, the reliance on capital receipts amongst slower GSDP growth emphasizes the need for continued fiscal discipline.

3.10 Recommendations

- ❖ The government may increase base taxation to improve revenue mobilization.
- ❖ Government should take initiative to diversify revenue streams, this can improve the revenue deficit
- ❖ Policy should be made in such a way to increase capital expenditure through funding infrastructure initiatives that generate economic growth.
- ❖ To strengthen Fiscal Transparency, Government can publish a detailed report on revenue generation and expenditure outcome.
- ❖ Govt should make a policy that accelerates GSDP growth by more investment in sectors like tourism, infrastructure which gives more returns

CHAPTER - 4
TRENDS IN OWN NON-TAX REVENUE

4.1 Introduction

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 interests; (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 (Sinha, 2023).

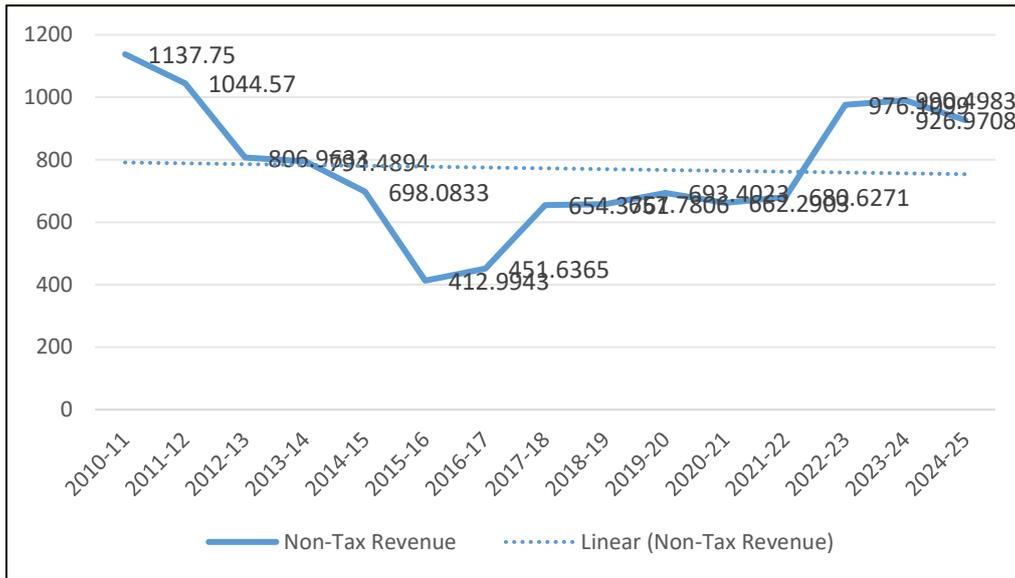
Table 4.1 represents the basic statistics for 13th, 14th, and 15th Finance Commission of Sikkim. The result reflects that the mean non-tax revenue of the 14th Finance Commission is lesser than the other two Finance Commission in term of absolute as well as in nominal term it is generally because of decline in the revenue from the Social service. The results also reveal that, in overall periods the economic service generate more revenue followed by the general service and others.

Table 4.1: Gross Non-Tax Revenue: Summary Statistics (in ₹ Cr)

13th finance commission (2010-15)				
Items under the Non - Tax Revenue	Mean	SD	Min	Max
Interest Receipts, Dividends and Profits	48.5	18.8	29.4	67.6
General Services	695.1	215.5	459.6	965.0
Social Services	15.2	9.1	7.9	25.1
Economic Services	140.9	19.3	117.1	162.4
Total	896.4	185.7	698.1	1137.8
14th Finance Commission(2015-20)				
Items under the Non - Tax Revenue	Mean	SD	Min	Max
Interest Receipts, Dividends and Profits	112.0	28.7	80.4	147.0
General Services	137.7	32.6	104.5	182.5
Social Services	13.6	3.2	9.5	16.8
Economic Services	310.7	75.2	213.8	389.6
Total	574.0	131.0	413.0	693.4
15th Finance Commission(2020-25 RE)				
Items under the Non - Tax Revenue	Mean	SD	Min	Max
Interest Receipts, Dividends and Profits	78.9	29.7	51.4	129.7
General Services	170.0	47.0	87.1	200.0
Social Services	31.9	6.9	26.3	42.7
Economic Services	566.5	141.8	413.5	707.9
Total	847.3	162.4	662.3	990.5
Overall Period (RE) 2010-2025				
Items under the Non - Tax Revenue	Mean	SD	Min	Max
Interest Receipts, Dividends and Profits	79.8	36.2	29.4	147.0
General Services	334.3	290.1	87.1	965.0
Social Services	20.2	10.6	7.9	42.7
Economic Services	339.4	200.6	117.1	707.9
Total	772.6	209.4	413.0	1137.8

Source: CAG(SFAR), 2023

Fig 4.1.(a) Non-Tax Revenue Over the Years

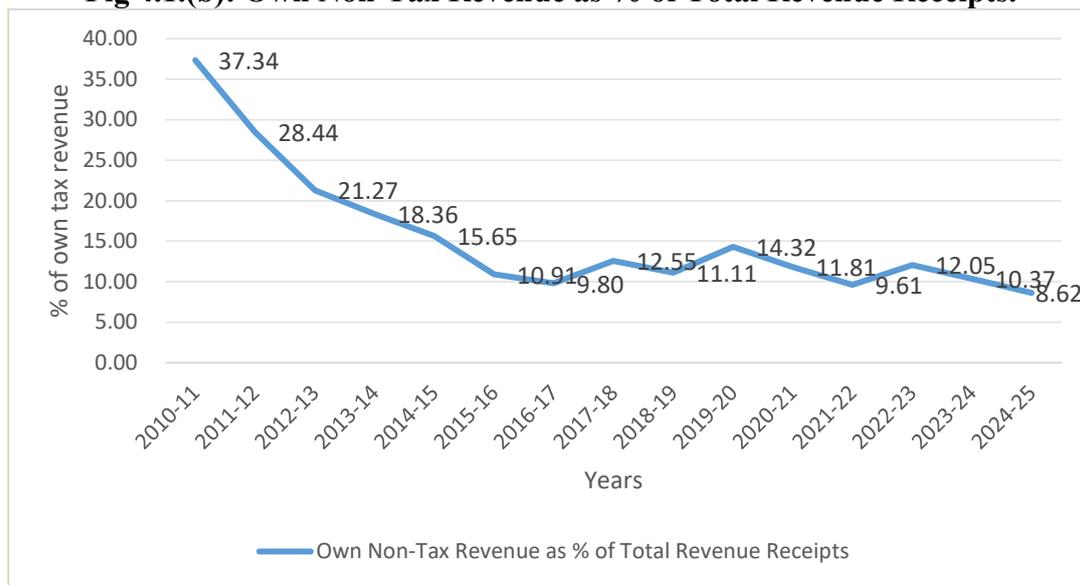


Source: CAG(SFAR), 2023

A major Caveat needs to be noted down here is that the non-tax revenue of the state is decreased by 50.33% from the 13th FC to be equal to the 14th FC in mean value. Then non-tax revenue of 14th FC value is increased by 74.11% for 15th FC in mean value. The increase is mainly due to the increase by 99% in the Economic Services.

From the **Fig 4.1.b** reflects the own non-tax revenue as the percentage of total receipts, the figure show that during 13th FC (2010-15) there is the upward rise the own tax revenue as a percentage of total receipts. The upward trend in Sikkim's own non-tax revenue as a percentage of total receipts, as observed in the 13th Finance Commission report, reflects a concerted effort by the state to enhance its revenue generation capabilities. This increase can be attributed to improved collection mechanisms, policy reforms, and potentially new revenue sources or higher charges for existing services. The fluctuations in Sikkim's finances noted in the 14th Finance Commission report are likely due to a combination of economic conditions, changes in revenue and expenditure patterns, the impact of policy recommendations, and state-specific factors. Understanding these fluctuations requires a comprehensive look at both macroeconomic trends and local fiscal management practices. Similarly, 15th FC (2015-2020) there is total decline in the own non tax revenue due the factors such as Social service, Economic service, Interest Receipts, Dividends and Profits, and General services.

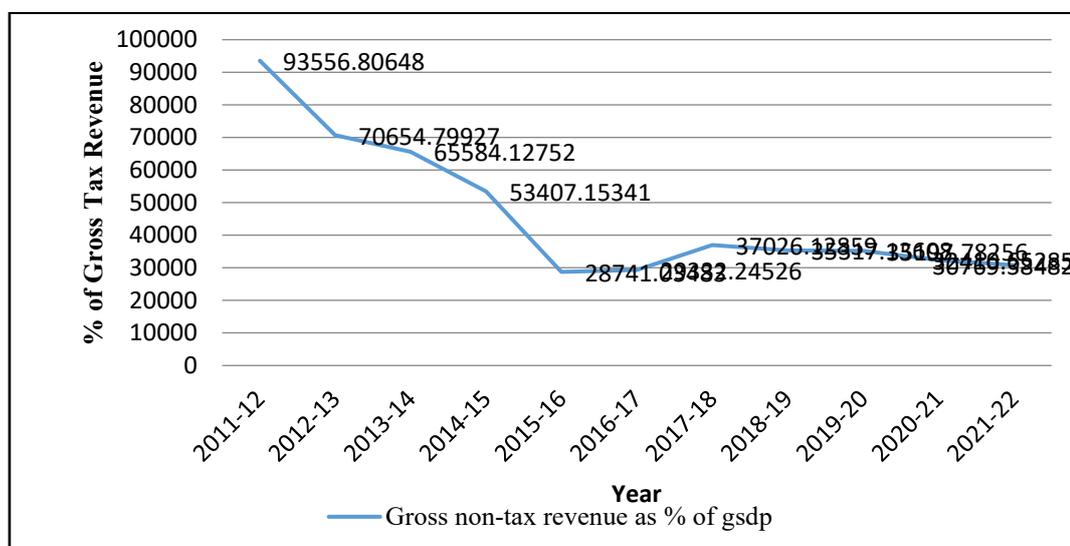
Fig 4.1.(b): Own Non-Tax Revenue as % of Total Revenue Receipts.



Source: CAG (SFAR), 2023

Fig 4.1.c reflects Gross non-tax revenue as a percentage of GSDP, the graph shows a significant decline in gross non-tax revenue as a percentage of GSDP from 2011-12 to 2015-16. After a brief period of stability around 2016-17, there is a slight upward trend from 2017-18 to 2018-19. However, the percentage then declines again from 2018-19 to 2021-22, reaching its lowest point in the final year. The graph suggests a fluctuating trend in the contribution of gross non-tax revenue to GSDP over the analyzed period.

Fig 4.1(c): Gross Non-Tax Revenue as % of GSDP



Source: Finance Department, Govt of Sikkim, 2024.

The non- tax revenue of the government mainly accrues from four categories, Interest Receipts, Dividends and Profits, General Services, Economic Services and Social Services

(Murari & Chettri, 2020). From **Table 4.2** we can infer that over the past 14 years, Economic Services have contributed the maximum share towards the non-tax revenue in Sikkim. This is followed by General Services.

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

Year	Overall Period	13th Finance Commission From 2010 – 2015	14th Finance Commission From 2015 – 2020	15th Finance Commission From 2020– 2025 (RE)
	From 2010-11 to 2024-25 (RE)			
Interest Receipts, Dividends and Profits	11.74	5.91	18.81	12.89
General service	40.14	76.25	23.40	21.53
Social Services	2.39	0.98	2.31	3.43
Economic Services	45.72	16.87	55.49	62.15

Source: Government of Sikkim, Budget in Brief, (2015-24).

The proportional contribution of various components has performed differently over the last three Finance Commission award periods depicted in **Table 4.3** the Economic Services has a steady growth rate over 11.77% in the 13th FC period to 66.41% in the 15th FC period. General Services on the other hand had a decline of its contribution from 84.81% in 13th FC period to 21% in 15th FC period. Social Service showed a growth from 0.73% in the 13th FC period to 4.61% in the 15th FC period.

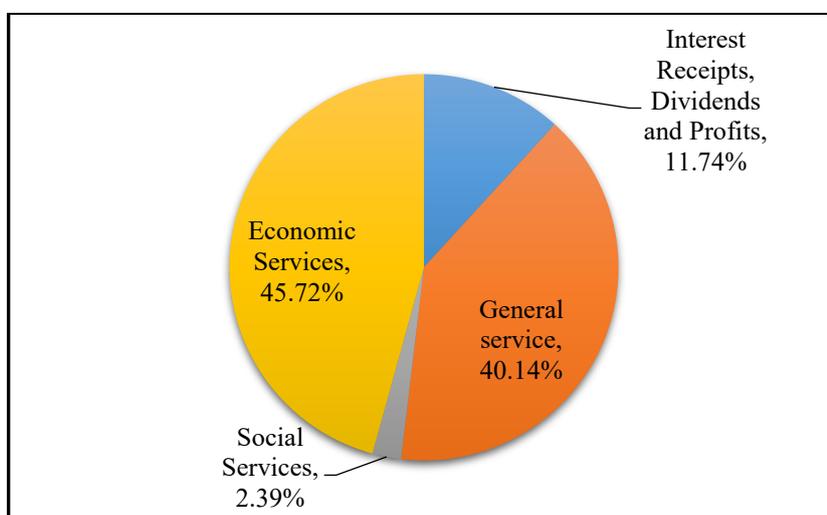
Table 4.3: Share of Components of Non-Tax Revenue over 2010-2025 (in%)

Year	Interest Receipts, Dividends and Profits	General services	Social Services	Economic Services
2010-11	2.68	84.81	0.73	11.77
2011-12	2.81	83.83	0.79	12.56
2012-13	5.89	76.45	0.97	16.69
2013-14	8.50	70.31	1.14	20.04
2014-15	9.64	65.83	1.26	23.26
2015-16	20.64	25.29	2.30	51.77
2016-17	17.80	24.45	2.59	55.16
2017-18	17.98	20.45	2.03	59.53
2018-19	19.72	23.89	2.55	53.85
2019-20	21.20	26.32	2.42	50.05
2020-21	19.59	13.16	4.21	63.04
2021-22	7.55	27.84	3.87	60.75
2022-23	7.20	20.49	2.84	69.47
2023-24	6.96	18.05	3.51	71.47
2024-25	7.98	21.00	4.61	66.41

Source: Government of Sikkim, Budget in Brief, 2024.

The Fig 4.1.d reflects average share of the various components of own non-tax revenue (2010-2025). The economic services share the highest revenue followed the general service.

Figure 4.1.(d): Average Share of Various Components of Non- Tax Revenue



Source: Government of Sikkim, Budget in Brief, 2024.

Table 4.4 provides insights into the trends and patterns of non-tax revenue generation over time. It helps to understand how different components have contributed to the overall non-tax revenue and how their growth rates have varied across different periods. This component has experienced negative growth rates in some periods, indicating a decline in revenue from this source.

Table 4.4: Growth Rate of Various Components of Non- Tax Revenue

Period	Overall Period	13th Finance Commission	14th Finance Commission	15th Finance Commission
	From 2010-11 to 2024-25 (RE)	From 2010 – 2015	From 2015 – 2020	From 2020 – 2025 (RE)
Interest Receipts, Dividends and Profits	0.061	0.171	0.113	-0.083
General service	-0.123	-0.165	0.086	0.036
Social Services	0.116	0.011	0.119	0.171
Economic Services	0.102	0.039	0.225	0.097

Source: Government of Sikkim, Budget in Brief, 2015-2024.

4.2 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 (Rai et. al, 2024). 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 (Datta et.al, 2017).

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

Years	Dividend and profits (₹ in Cr.)
2010-11	2.37
2011-12	0.0008
2012-13	1.53
2013-14	0.55
2014-15	0.87
2015-16	12.69
2016-17	2.01
2017-18	2.92
2018-19	4.37
2019-20	3.2
2020-21	2.78
2021-22	1.45
2022-23	4.12
2023-24	2
2024-25	4

Source: Government of Sikkim, Budget in Brief, 2024.

Table 4.6: Cost Recovery (Percent).

Items	2010-11 to 2024-25(RE)	13 FC	14 FC	15 FC (RE)
General service	45.85	81.98	25.84	14.53
Social Services	2.64	1.00	1.60	4.43
Economic Services	51.51	17.02	72.56	81.04

Source: Government of Sikkim, Budget in Brief, 2024.

The recovery rates mentioned here are likely higher than they should be because the costs are not included in the calculations. This is especially true for areas like irrigation, where the investment costs are high. To get a more accurate estimate of cost recovery, we need to calculate it separately for merit goods and non-merit goods.

Merit goods and services are those that provide significant benefits to society, while non-merit goods do not. Low recovery rates might be acceptable for merit goods and services,

but it's difficult to justify very low recovery rates for non-merit goods. Now, we'll look at some specific items in the state's own non-tax revenue that affect the state budget. Two examples are toll receipts and dividends and profits from public sector undertakings.

4.2.1 Toll Receipts

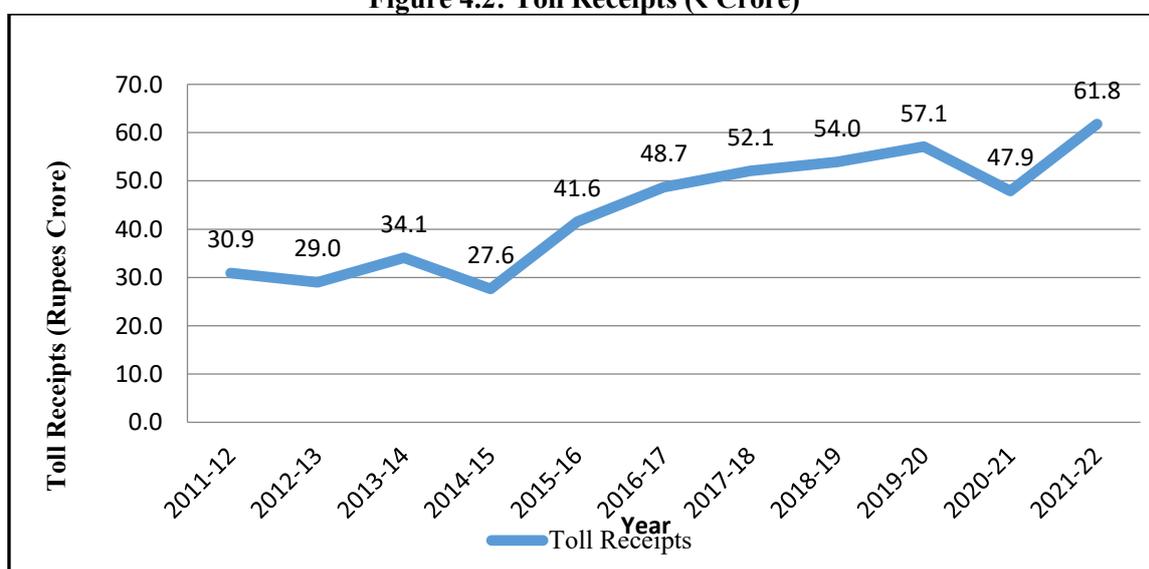
Toll charges, also known as toll taxes, are fees imposed by state governments to recover the costs of building roads and bridges. These charges are only paid when the specific facility is used (Verhoef & Small, 2004). The tolls collected help cover the costs of operating and maintaining the facility, as well as paying off any debt incurred from its construction. Toll receipts (in Rupees Crore) for the period 2011-12 to 2021-22 are given in the **Table 4.7**

Table 4.7: Toll Receipts (in ₹ Cr).

Year	Toll Receipts
2011-12	30.8908
2012-13	29.0105
2013-14	34.0963
2014-15	27.6257
2015-16	41.5509
2016-17	48.7088
2017-18	52.0849
2018-19	53.9585
2019-20	57.1024
2020-21	47.8743
2021-22	61.7766

Source: CAG Finance account, 2023.

Figure 4.2: Toll Receipts (₹ Crore)



Source: CAG Finance account, 2023.

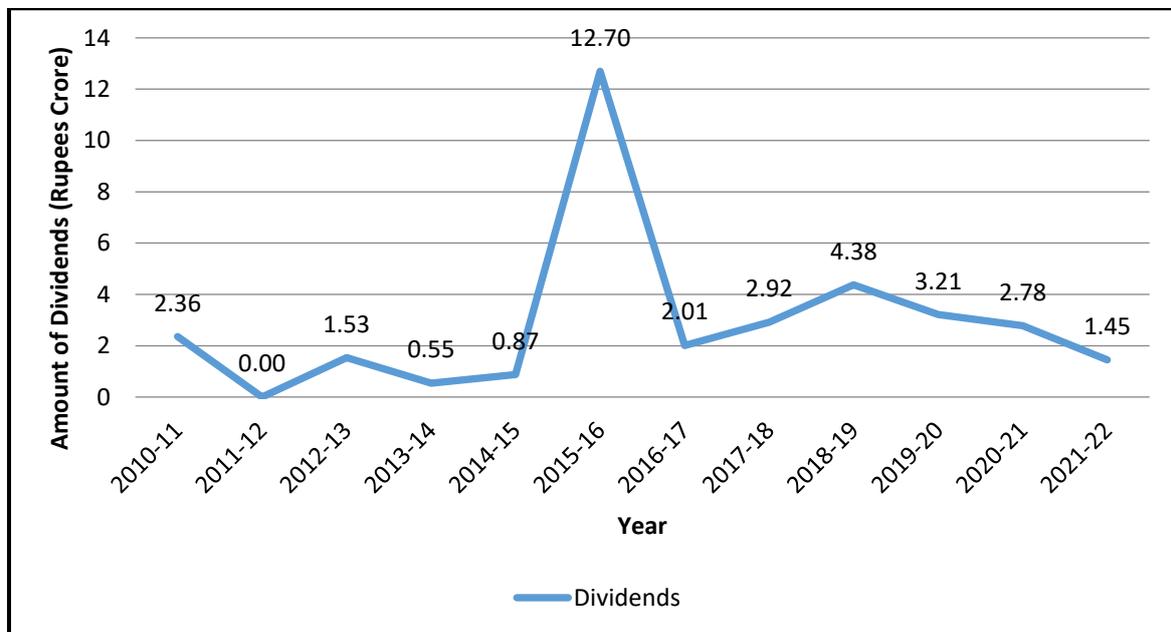
Public Sector Undertakings (PSUs) and Statutory Corporations in Sikkim are set up to engage in commercial activities while considering public welfare. These PSUs mainly operate in sectors like power and infrastructure. However, the dividends from these PSUs are very low, reflecting their poor performance over the years. Most of these PSUs have been running at a loss since 2010-11. Despite this, the state continues to invest in these loss-making entities, leading to significant revenue losses for the state budget. The detailed results can be found in **Table 4.8**.

Table 4.8: Dividends from PSUs and other Investments (in ₹ Cr).

Year	Dividends
2010-11	2.36
2011-12	0.00
2012-13	1.53
2013-14	0.55
2014-15	0.87
2015-16	12.70
2016-17	2.01
2017-18	2.92
2018-19	4.38
2019-20	3.21
2020-21	2.78
2021-22	1.45

Source: CAG Finance account,2023.

Figure 4.3: Dividends from PSU & Other Investment (₹ Cr)



Source: CAG Finance account,2023.

Table 4.9: Total Investment at the end of Year in Public Sector Undertakings (₹ Cr).

Year	Statutory Corporations	Government Companies	Co-operative Banks/Societies and Local Bodies	Total
2010-11	2	0.3	0.006	2.36
2011-12	0	0	0	0
2012-13	0	0.32	1.2	1.53
2013-14	0	0.39	0.16	0.55
2014-15	0	0.33	0.54	0.87
2015-16	5.34	7.25	0.11	12.7
2016-17	0.53	1.48	0	2.01
2017-18	1.34	1.45	0.13	2.92
2018-19	1.34	1.45	1.59	4.38
2019-20	1.33	1.45	0.28	3.21
2020-21	1.33	1.45	0	2.78
2021-22	0	1.45	0	1.45
2022-23	2.67	1.45	0	4.12

Source: Government of Sikkim, Budget in Brief, 2024.

Table 4.9 shows the total investment at the end of the year from PSUs, so by conducting a more comprehensive analysis, the Sikkim government can gain valuable insights into the potential for further enhancing revenue generation from its public sector undertakings. While **Table 4.10** reflects the dividend / interest receive during the Year from PSUs, Government companies were the main contributors, making up the majority of the total. Their contributions increased steadily, indicating strong support or involvement.

Table 4.10: Dividend / Interest Received During the Year from PSUs (₹ Cr).

Years	Statutory Corporations	Government Companies	Co-operative Banks/Societies and Local Bodies	Total
2010-11	0	1	0	1
2011-12	0	16	0	16
2012-13	0	0	0	0
2013-14	0	0	0	0
2014-15	0	0	0	0
2015-16	8.26	77.11	12.05	97.42
2016-17	8.26	77.11	12.05	97.42
2017-18	8.26	82.12	12.05	102.42
2018-19	8.26	85.6	11.6	105.46
2019-20	8.14	84.41	11.63	104.18
2020-21	8.14	86.91	11.63	106.68
2021-22	8.14	87.81	11.63	107.58
2022-23	8.14	91.31	11.63	111.08

Source: Government of Sikkim, Budget in Brief, 2024.

Table 4.11 Budget Effort of Non -Tax Revenue in Sikkim (in ₹ Cr)

Year	Actual (A)	Budget (B)	Budget Effort (A/B*100)
2010-2011	242.15	1274.5696	19.00
2011-2012	244.04	1281.5406	19.04
2012-2013	302.00	1025.502	29.45
2013-2014	361.59	1054.5267	34.29
2014-2015	323.76	1098.9196	29.46
2015-2016	412.9943	350.3611	117.88
2016-2017	451.6365	362.2559	124.67
2017-2018	654.3761	426.4571	153.44
2018-2019	657.7806	481.9233	136.49
2019-2020	693.4023	704.5394	98.42
2020-2021	662.2903	710.6625	93.19
2021-2022	680.6271	775.2186	87.80
2022-2023	976.1099	990.0862	98.59
2023-2024[RE]	990.4983	1078.8983	91.81

Source: Government of Sikkim, Budget in Brief, Various Years (2010-2011 to 2024-25).

The data in **Table 4.11** shows fluctuations in the Budget Effort of Non-Tax Revenue in Sikkim from 2010-11 to 2023-2024. The Budget Effort, which is stated as a percentage, is the proportion of actual non-tax revenue collected to the budgeted projection. The effort was high in the early years, such as 2010-11, at ₹19 Cr. This efficiency grew progressively, reaching ₹153.44Cr in 2017–2018, showing an improvement in non-tax revenue collection. This efficiency grew progressively, reaching 153.44 in 2017–2018, showing an improvement in non-tax revenue collection. However, efficiency declined once more between 2019–20 and 2020–21, with 98.42 and 93.19, respectively, indicating a drop in actual revenues in comparison to the budget. With 2022–2023 at 98.59 and the updated projection for 2023–2024 at 91.81 in recent years, performance has been mixed and suggests a moderate level of efficiency in reaching the projected revenue targets.

Non- tax revenue is part of the revenue receipt. From 2010 onwards, the State FRBM Act targeted to generate revenue surplus and set the fiscal deficit limitation of 3.5% of GSDP. In order to meet the target, the government aimed to boost non-tax revenue overly estimating it. However, the state lottery share went down from 17.8% in 2011-12 to 12.6% in 2013-14. Another component that declined was power sector. The National Hydroelectric Power Corporation had contribution in the state non-tax revenue. The relative share of power sector

was at its peak in 2009-10. However, this had decline to 34.6% during 2013-14 (13th FC), so the actual non tax revenue during 13th FC was lesser than budgeted (FRED, GOS, 2016)

4.3 Major Findings

- ❖ **Toll receipts and dividends from PSUs** have been volatile, impacting the state budget.
- ❖ **Cost recovery** remains low for both social and economic services, suggesting a significant level of government subsidization.
- ❖ **General Services** have seen a decline in their contribution, suggesting a potential need for reforms to improve revenue generation from this sector.
- ❖ Over the past 14 years, Economic Services have contributed the maximum share towards the non-tax revenue in Sikkim. This is followed by General Services
- ❖ The share of non-tax revenue has increased significantly from the 13th Finance Commission period to the 15th Finance Commission period, the steady growth rate over 11.77% in the 13th FC period to 66.41% in the 15th FC period. General Services on the other hand had a decline of its contribution from 84.81% in 13th FC period to 21% in 15th FC period. Social Service showed a growth from 0.73% in the 13th FC period to 4.61% in the 15th FC period.
- ❖ In the initial years, the Budget Effort was high, indicating strong performance in achieving non-tax revenue targets. The highest efficiency was observed in 2017-18 at 153.44, suggesting a period of exceptional performance in non-tax revenue collection.

4.4 Conclusions

The chapter provides valuable insights into the trends and challenges associated with Sikkim's non-tax revenue. The changing composition of revenue sources, low-cost recovery rates, and the underperformance of PSUs underscore the need for a comprehensive review of the state's revenue generation strategies. Economic Services have emerged as the primary contributor to Sikkim's non-tax revenue, surpassing General Services in recent years. This shift in revenue composition has significant implications for the state's fiscal management. While historically a major source, the contribution of General Services to non-tax revenue has significantly diminished. This necessitates a reassessment of revenue generation strategies within this sector.

The chapter reveals low dividend payouts from PSUs, indicating poor performance and financial difficulties for many state-owned enterprises. This highlights the need for significant reforms and improvement in the management and operations of these entities to enhance their

contribution to state revenues. The share of Economic Services in non-tax revenue has increased significantly from the 13th Finance Commission period to the 15th Finance Commission period. The Budget Effort of Non-Tax Revenue in Sikkim has been characterized by periods of high efficiency followed by periods of decline. This suggests that factors influencing non-tax revenue collection may be dynamic and subject to change over time.

4.5 Recommendations

- ❖ Conduct regular reviews and evaluations of non-tax revenue performance to identify areas for improvement and adjust strategies accordingly.
- ❖ Strengthen financial reporting and accountability mechanisms to ensure transparency and effective monitoring of non-tax revenue.
- ❖ Ensure that revenue forecasts are integrated into the budget-making process to improve budget realism and enhance fiscal planning.
- ❖ Implement differentiated pricing strategies for social services based on user ability to pay and the nature of the service.

CHAPTER - 5
TOTAL EXPENDITURE: TRENDS AND PATTERNS

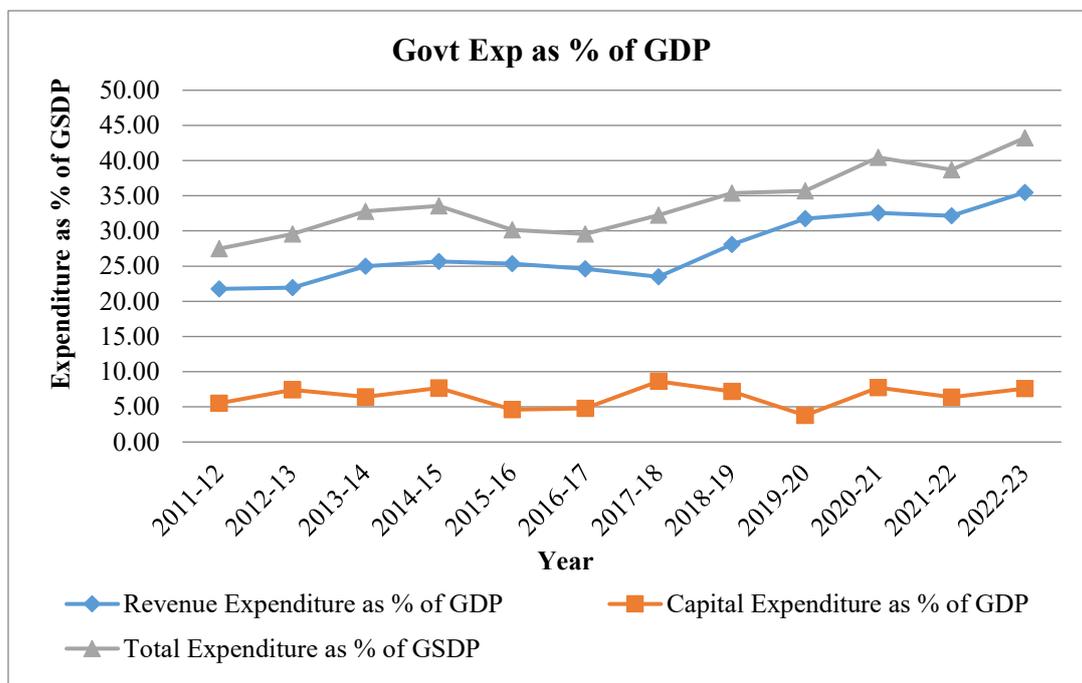
5.1 Introduction

Understanding a state's financial health requires a close look at its spending. How a government allocates its money directly affects its financial stability. Since India provides many public services, its states spend heavily on welfare programs and development projects. However, other expenses also make up a significant portion of state budgets. This chapter will examine how and where states spend their money (Vyavahar & Deshmukh, 2018).

5.2 Total Expenditure: Pattern and Trend.

The State's total expenditure as a percentage of its GSDP has increased, reflecting a growing budget. A significant portion of this expenditure is allocated to revenue expenditure, which initially accounts for about 81% of the total, while capital expenditure comprises around 19%. The rise in revenue expenditure relative to GSDP is expected to positively impact the state's development. The expenditure pattern is illustrated in **Figure 5.1** below.

Figure 5.1: Government Expenditure as a % of GSDP.



Source: Budget Paper GOS, 2024.

Table 5.1: Total Expenditure and its Components (₹ Cr).

	Years	Revenue Expenditure	Capital Expenditure	Total Expenditure	Total Expenditure as % of GSDP
13TH FC	2010-11	2011.92	451.07	2468.74	33.31
	2011-12	2429.61	615.76	3094.54	34.74
	2012-13	2507.39	842.35	3354.85	32.03
	2013-14	3025.06	911.94	3947.4	31.89
	2014-15	3356.64	980.71	4363.92	30.06
	Average	2666.124	760.366	3445.89	32.406
14TH FC	2015-16	3644.58	633.98	4305.59	23.87
	2016-17	3788.08	720.29	4525.37	21.88
	2017-18	4151.85	1506.78	5675.58	21.85
	2018-19	5226.57	1291.31	6564.45	23.11
	2019-20	6185.08	720.61	6922.75	22.02
	Average	4599.232	974.594	5598.748	22.546
15Th FC	2020-21	6368.65	1513.88	7882.53	23.87
	2021-22	6668.84	1315.78	7985.47	21.26
	2022-23	7630.58	2376.6	10007.56	23.41
	2023-24	8628.8	3743.84	12372.63	25.28
	2024-25	10249.79	3752.9	14002.69	26.64
	Average	7909.332	2540.6	10450.176	24.092

Source: SFAR, 2023.

Table 5.2: Growth Rate of Expenditure

	Revenue Expenditure	Capital Expenditure	Total Expenditure	GSDP
13Th FC	38.16	59.27	42.42	17.07
14TH FC	69.71	13.66	61.40	35.65
15Th FC	60.94	147.90	77.64	168.73
2010-11 To 2024-25	321.87	509.48	359.80	370.71

Source: Budget Papers, Government of Sikkim 2024

5.3 Composition of Expenditure

Starting with revenue expenditure, we observe spending across General Services, Social Services, and Economic Services (Ramakumar, 2008). **Table 5.3** reflects over the years, there has been a noticeable decrease in General Services expenditure. Meanwhile, both Social Services and Economic Services show a slight upward trend, indicating an increase in their share as a percentage of total revenue expenditure.

Table 5.3: Composition of Revenue Expenditure.

Years	General Services	Social service	Economic service
2011-12	48.08	31.94	19.01
2012-13	46.01	31.45	21.78
2013-14	42.45	36.91	19.61
2014-15	42.57	34.30	22.00
2015-16	34.13	33.92	30.89
2016-17	37.51	35.24	25.78
2017-18	36.81	36.90	24.77
2018-19	37.51	39.64	21.59
2019-20	39.12	36.44	23.08
2020-21	37.94	38.17	22.43
2021-22	38.36	37.05	22.95
2022-23	39.10	36.87	22.74
2023-24 (RE)	38.31	36.14	24.17
2024-25 (BE)	39.69	34.05	24.83

Source: Budget Papers, Government of Sikkim 2024.

Secondly, the trend in capital expenditure as a percentage of the total capital expenditure reveals different patterns. General Services show an increasing trend, while Social Services experience a decline. Economic Services, on the other hand, saw an increase in expenditure during the 13th Finance Commission (FC). However, this trend reversed in the 14th FC and eventually stabilized during the 15th FC. On account of Capital expenditure economic services takes the bulk share (48.83 percent) of the State's budget.

Table 5.4: Composition of Capital Expenditure as a % of Total Capital Expenditure

Years	General Services	Social Service	Economic Service
2011-12	3.80	41.68	47.13
2012-13	9.83	34.37	55.21
2013-14	9.83	34.37	55.21
2014-15	10.96	26.99	60.15
2015-16	9.93	31.18	57.34
2016-17	9.86	33.67	56.19
2017-18	8.02	28.64	44.07
2018-19	4.24	21.21	49.90
2019-20	11.19	23.08	28.31
2020-21	5.85	31.76	57.39
2021-22	15.96	26.80	48.83
2022-23	10.71	41.57	41.09
2023-24 (RE)	21.84	40.88	29.34
2024-25 (BE)	25.71	35.66	27.56

Source: Budget Papers, Government of Sikkim 2024

5.4 Committed Expenditure

The Committed expenditure refers to financial obligations or expenses that an individual, business, or government has already agreed to pay and is legally or contractually bound to fulfill in the future. These expenditures typically arise from pre-exist commitments or contracts that require payments regardless of any changes in circumstances (Jones & Smith, 2017). The Committed Expenditure of the state is largely induced in Salary, followed by Pension expenses and lastly interest which is the lowest of the state (**Table 5.5**).

Table 5.5: Committed Expenditure of Government of Sikkim.

	Revenue Expenditure	Salary	Interest payments	Pension	Total Committed Expenditure
13th FC	3535.4	1453.5	209.6	248.2	1911.3
14TH FC	4535.8	1377.1	316.2	451.3	2144.6
15TH FC	4063.8	1591.5	380.3	608.3	2580.2

Source: Budget Papers, Government of Sikkim 2024.

The proportion of committed expenditure relative to the state's revenue receipts serves as a valuable indicator of anticipated government spending. While the salary component remains substantial, there has been a decline in the ratio of interest payments and pension disbursements to revenue expenditure. This reduction in the interest payment-to-revenue expenditure ratio is a positive sign for the state's fiscal health. The trend of Committed Expenditure in relation to revenue receipts exhibited a decline from the 13th Finance Commission (FC) to the 14th FC, followed by an upward trajectory in the 15th FC. Notably, during the 15th FC, the allocation for Salary and Pension remained substantial compared to interest payments.

Table 5.6: Committed Expenditure as a Percentage of Revenue Receipts.

FC	Year	Revenue Receipt	Salary	Interest payments	Pension	Total Committed Expenditure
13TH FC	2011-12	2872.101	52.85	6.64	6.05	65.55
	2012-13	3288.3603	40.80	6.05	6.85	53.70
	2013-14	3893.5433	35.78	5.37	6.69	47.84
	2014-15	4087.6445	38.20	5.86	8.15	52.20
14Th Fc	2015-16	3784.2858	32.29	6.93	10.63	49.85
	2016-17	4610.2986	29.96	7.04	9.68	46.68
	2017-18	5212.7907	29.31	6.95	9.69	45.95
	2018-19	5920.362	33.11	7.31	12.45	52.88
	2019-20	4841.2705	49.98	10.53	18.81	79.32
15TH FC	2020-21	5607.8216	43.08	9.78	16.19	69.06
	2021-22	7080.7221	36.13	8.97	13.89	58.98
	2022-23	8103.7988	36.81	8.86	14.19	59.87

	2023-24	9552.8353	34.60	8.64	13.63	56.88
	2024-25	10749.1298	37.85	8.54	14.07	60.46

Source: Budget Papers, Government of Sikkim 2024.

Table 5.7: Growth Rate of Committed Expenditure

FC	Revenue Expenditure	Salary	Interest payments	Pension	Total Committed Expenditure
13th FC	42.3	2.9	25.5	91.7	13.4
14TH FC	27.9	98.0	94.5	126.3	103.6
15TH Fc	91.7	68.4	67.5	66.6	67.8

Source: Budget Papers, Government of Sikkim 2024.

The rate at which committed expenditures increase is a key indicator of the financial burden on a government. Notably, between the 14th and 15th Finance Commission periods, salary expenses grew at the slowest pace, followed closely by pension costs. This trend is anticipated to contribute substantially to the state's efforts to improve its financial health and stability over time.

5.5 Major Findings

- ❖ The increasing share of revenue expenditure and the rising share of committed expenditures (particularly salaries and pensions) pose significant challenges to the state's fiscal sustainability.
- ❖ The state's total expenditure as a percentage of its GSDP has increased, indicating a growing budget.
- ❖ Revenue expenditure initially accounted for a larger share of the total expenditure, with Capital Expenditure comprising a smaller portion.
- ❖ The ratio of interest payments to revenue expenditure has declined, which is a positive sign for the state's fiscal health.

5.6 Conclusion

The total expenditure of the state as a percentage of its GSDP has steadily increased, reflecting a growing budget. The analysis of the total expenditure patterns in the state of Sikkim over the past finance commission cycles reveals significant insights into the fiscal management and economic priorities of the government. Capital expenditure has also grown, indicating

investment in infrastructure and development projects. The changing composition of expenditure, with a declining share for General Services and increasing shares for Social and Economic Services, reflects evolving priorities and development objectives. The analysis underscores the need for a comprehensive review of expenditure patterns, a prioritization of essential services, and the implementation of cost-effective service delivery models to ensure that public resources are utilized efficiently and effectively in achieving the state's development goals.

5.7 Recommendations

- ❖ Implement measures to control the growth of the wage bill, such as rationalizing recruitment, implementing performance-based incentives, and exploring alternative delivery models for public services.
- ❖ Develop and implement a medium-term fiscal framework to ensure fiscal sustainability and guide budgetary decisions over the medium term.
- ❖ Adhere to fiscal rules and regulations to ensure fiscal discipline and control expenditure growth.

CHAPTER - 6
ANALYSIS OF FISCAL AND REVENUE DEFICITS

6.1 Introduction

A fiscal deficit occurs when a government's total expenditures exceed its total revenues, excluding the money borrowed. It indicates a need for borrowing to bridge the gap between income and spending (IMF, 2013). Thus, Fiscal Deficit (FD) reflects the total borrowing requirements of the Government of Sikkim. The level of a state's fiscal deficit (FD) reflects the amount of debt required to balance its budget and finance its essential functions. The composition of the FD, particularly the share of the Revenue Deficit (RD), is crucial in assessing the overall deficit. If a significant portion of the FD is attributed to RD, it indicates that the government is borrowing mainly to cover current expenses rather than investing in future assets. Conversely, if a larger fraction of the FD is related to the Capital Account, it suggests that the government is using the debt to fund long-term investments. This approach is generally more favorable as it can lead to the development of productive assets and enhance the sustainability of the government's debt (Rangarajan & Srivastava, 2005).

Table 6.1: Revenue Deficit and Fiscal Deficit¹ from 2011-12 to 2021-22 (₹ Cr).

Years	Revenue Surplus (+)/ Deficit (-)	Fiscal Surplus (+)/ Deficit (-)
2010-11	139.7(1.89)	-316.25 (-4.27)
2011-12	442.5 (3.96)	-180.2 (-1.61)
2012-13	781.0 (6.84)	-65.6 (-0.57)
2013-14	868.5 (7.17)	-52.9 (-0.44)
2014-15	731.0 (5.59)	-275.4 (-2.11)
2015-16	139.7 (0.97)	-519.9(-3.62)
2016-17	822.2 (5.34)	86.3(0.56)
2017-18	1060.9 (6.00)	-461.9 (-2.61)
2018-19	693.8 (3.73)	-642.3 (-3.45)
2019-20	-1343.8 (-6.89)	-2081.2(-10.68)
2020-21	-760.8 (-2.30)	-2273.5 (-11.63)
2021-22	411.9 (1.99)	-904.3(-4.36)
2022-23	473.22(1.10)	34.15 (0.08)
2023-24	924.04(1.95)	-370.49(-0.78)
2024-25	499.33(0.95)	-22.04(-0.04)

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

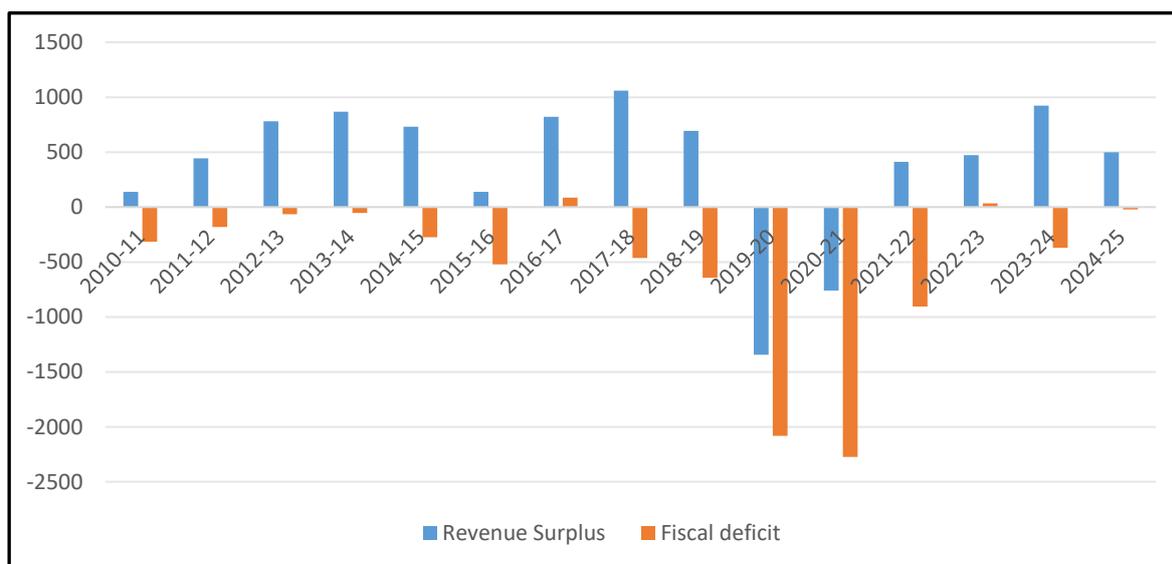
RS= Revenue exp -Revenue receipts FD = Total exp -Total revenue

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

6.2 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 visualized 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 (₹) from ₹ 442.5 Cr in 2011-12 to ₹ 781.0 Cr in 2012-13 and this trend in sharp rise continued till 2013-14. In 2014-15 and 2015-16 we can see a slight drop in RS and in 2015-16 the surplus plunged to a record low of ₹139.7 Cr to again rise in the subsequent years thereafter. This sharp rise in the ₹ values can be broadly attributed to a significant jump in grants from the central government, which increased from ₹1105 Cr in 2010-11 to ₹1722 Cr in 2011-12, further continuing its rise to ₹ 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 ₹934 Cr in 2015-16, ₹1436 Cr in 2016-17 and ₹2470 Cr in 2017-18, which explains the sudden plunge in ₹ in 2015-16 to again rise in the subsequent years. A similar trend can be observed for the ₹ 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: RS, FD (% of GSDP) from 2011-12 to 2024-25.



Source: Various Budget Documents, Government of Sikkim 2024.

When analyzing the data across different Finance Commission (FC) periods, several notable trends emerge. During the 13th FC period, the state recorded a Revenue Surplus of ₹592.55 crore, which represented 5.21% of the Gross State Domestic Product (GSDP).

However, in the 14th FC period, the average surplus decreased to ₹274.56 crore, accounting for 1.6% of the GSDP. This indicates that the average growth rate of the GSDP during the 14th FC period lagged behind the average increase in the state's Revenue Account surplus.

During the 15th FC period, the growth rate further inclined, resulting in a Revenue surplus of ₹309.5 crore, which is 0.73% of the GSDP. Over the period from 2011-12 to 2024-25, the average Revenue Surplus was ₹410.3 crore, constituting 1.55% of the GSDP.

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

FC	Average Revenue Surplus (+)/ Deficit (-)	% to GSDP
13 th FC	592.55	5.21
14 th FC	274.56	1.60
15th FC (2020-21 to 2021-22)	309.5	0.73
Overall Average	410.3	1.55

Source: Budget Paper, Government of Sikkim 2024.

6.3 Trends in Fiscal Deficit in Sikkim

Let's take a look at how the fiscal deficit (FD) of the State has changed over the years, from 2010-11 to 2024-25. Understanding the FD helps us to see how the State's debt has grown over time. This analysis is a good starting point for figuring out if the State's debt is sustainable in the long run. The state's financial situation improved from 2010-11 onwards. The fiscal deficit shrank, due to an increase in revenue surplus from central grants. However, when the Fiscal surplus went down in 2014-15 and 2015-16, the fiscal deficit started to grow again. In 2016-17, the state finally had a surplus for the first time, mainly because of increased revenue surplus. When we look at the fiscal deficits during different Finance Commission periods, we see that it increased from the 13th FC to the 15th FC. However, even with this increase, the average fiscal deficit from 2011-12 to 2024-25 is still below the limit set by the state's FRBM Act.

Table 6.3: Fiscal Deficits (₹ Cr.) and % to GSDP arranged by FCs.

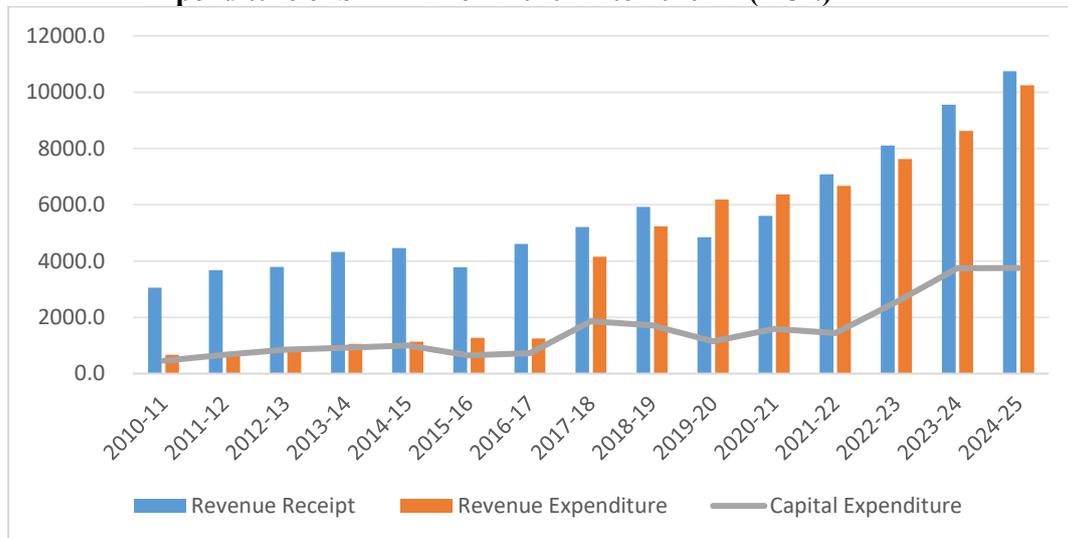
FC	Average Fiscal Surplus (+)/ Deficit (-)	% to GSDP
13 th FC	-178.07	-1.83
14 th FC	-723.80	-4.23
15 th FC	-707.236	-1.67
Overall period	-552.1	-2.1

Source: Various Budget Documents, Government of Sikkim 2024.

6.4 Trends in Revenue Receipt

The amount of revenue the state receives is very important in determining its revenue and fiscal deficits. This is because revenue receipts make up the biggest part of the government's total income, excluding debt (World Bank, 2020).

Figure 6.2: Revenue Receipts Compared to the Revenue Expenditure and Capital Expenditure of Sikkim from 2010-11 to 2020-22 (₹ Cr.)



Source: Various Budget Documents, Government of Sikkim 2024.

The state's total revenue increased significantly from 2010-11 to 2014-15, mainly due to a sharp rise in grants from the central government. This led to a significant improvement in the state's financial situation, as the revenue surplus increased and the fiscal deficit decreased. However, after 2015-16, the increase in revenue receipts didn't keep up with the growth in both revenue and capital spending. As a result, the revenue receipts were no longer enough to control the fiscal deficit, unlike in the earlier period. The state of Sikkim's fiscal deficit has gotten worse during the 14th Finance Commission period and worsen during the 15th Finance Commission period, even though its revenue deficit has decreased from the 13th Finance Commission period. The amount of debt taken by the Sikkim government and how it's used is an important issue for the Finance Commission, as it helps us determine if the state's debt is sustainable.

6.5 Major Findings

- ❖ Despite overall surpluses, there were significant fluctuations, particularly during the 14th and 15th Finance Commission periods, leading to a revenue deficit in the latter period. This highlights vulnerability to external funding changes.
- ❖ Post-2015-16, revenue receipts lagged behind the growth in expenditures, creating pressure on fiscal balance.

6.6 Conclusion

Sikkim experienced consistent revenue surpluses throughout the study period, peaking in 2017-18 at ₹1,060.9 crore (6.00% of GSDP). This positive trend was largely attributed to substantial central government grants, which increased significantly from 2010-11 onwards. Throughout the Finance Commission periods analyzed, the fiscal deficit increased from -178.07 crore (-1.83% of GSDP) during the 13th FC to -1,588.90 crore (-7.89% of GSDP) during the 15th FC, signaling increasing financial strain and reliance on borrowing. The rising fiscal deficit indicates a growing reliance on debt, which poses risks to long-term fiscal sustainability. The analysis underscores the vulnerability of Sikkim's finances to fluctuations in central transfers. A decline in grants, as witnessed in certain years, can significantly impact the state's ability to maintain fiscal balance. This dependence on external funding necessitates a proactive approach to diversifying revenue sources and enhancing fiscal autonomy. Furthermore, the rising fiscal deficit raises concerns about debt sustainability. While the average deficit remains within the limits set by the state's FRBM Act, the increasing reliance on borrowing warrants careful consideration. A comprehensive assessment of the state's debt-to-GDP ratio and debt service costs is crucial to ensure long-term financial stability.

6.7 Recommendations

- ❖ Modernize and streamline property tax assessment and collection systems to increase revenue.
- ❖ Leverage Sikkim's unique tourism potential by developing sustainable tourism infrastructure and promoting high-value tourism products. Explore innovative revenue models such as eco-tourism taxes and entry fees for popular tourist sites.
- ❖ Encourage PPPs (Public-Private Partnerships) in infrastructure development and other sectors to attract private investment and generate revenue.
- ❖ Allocate resources strategically to sectors with high social and economic returns, such as education, healthcare, infrastructure, and skill development.

CHAPTER - 7
THE LEVEL OF DEBT

7.1 Introduction

The Finance Commissions play a vital role in assessing and ensuring the sustainability of state debt. The FCs evaluate states' debt levels on a regular basis to make sure borrowing stays within reasonable boundaries. These involves looking at the debt maturity profile, debt to GDP ratio and composition. Concern related to debt are particularly in crucial to Finance Commission of India, who takes the responsibility to cover up the revenue account that fall short (Gurumurthi,2002). The commission manage a efficiently and examines the effects of growing debt on the state's capacity, so that, the outcome and expenses ensure the preservation of fiscal stability.

In this chapter, we analyze the trends and patterns in the debt that are incurred by the Government of Sikkim from 2010-11 to 2024-25 (Budget Estimate).

7.2 Definition

Based on the overall position of debt described in the various budget documents of Finance Department, we classify the Government of Sikkim's whole debt stock. The following essential elements make up the entire debt stock (1+2+3):

1. Public Debt (a + b)

a) Internal Debt: This includes market loans, Ways and Means Advances (WMA) from the RBI, and negotiated loans from banks and financial institutions.

b) Loans and Advances from the Central Government.

2. Provident Fund and Small Savings, etc.

3. Other Interest-Bearing Obligations (a + b)

a. Reserve Funds.

b. Interest-Bearing Deposits (CAG, 2016)

Public debt is the amount of money, that the government owes to its citizens or to nationals of other countries (Sethi & Andrews,1999). In the Indian context, public debt refers to the total liabilities of the Union Government, that must be repaid using the funds from the Consolidated Fund of India. The Union government categorizes its liabilities into two main types. The first type, known as public debt, includes debts incurred against the Consolidated Fund of India, along with any other funds received outside this fund as specified in Article 266(2) of the Constitution, where the government functions as a banker or custodian. The second type of liabilities is referred to as the public account (Financial Express, 2019).

The Consolidation Fund of state which was created in accordance with the Article 266 (1) of the Constitution contains all the loans made under the public category. The establishment

of a public account covered by Article 266 (2). The State Legislature is not required to authorize the funds in the public account because they are administrated by the government in a banking capacity. This includes receipts and expenditures related to Provident Funds, Small Savings (such as insurance and pension funds), Reserve Funds, and various Deposits and Advances (including civil deposits and those from Panchayati Raj Institutions). Since the government reports data on debt from Provident Funds and Small Savings separately from other interest-bearing obligations, we will adhere to this convention as well (Dutta et.al,2018).

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

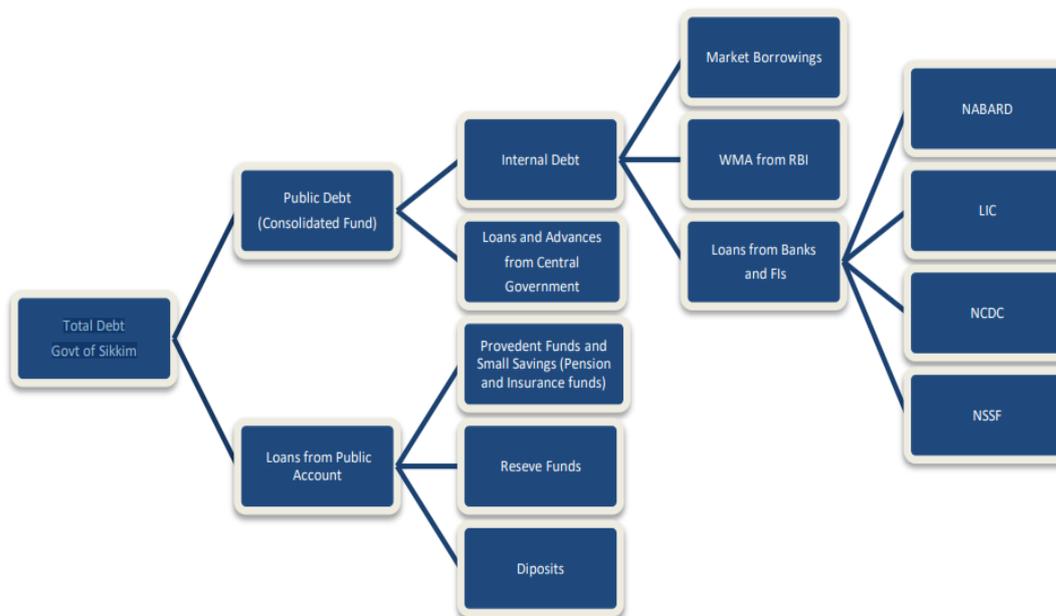


Figure 7.1: offers a detailed illustration of the various components that constitute the Total Debt Stock of the Government of Sikkim.

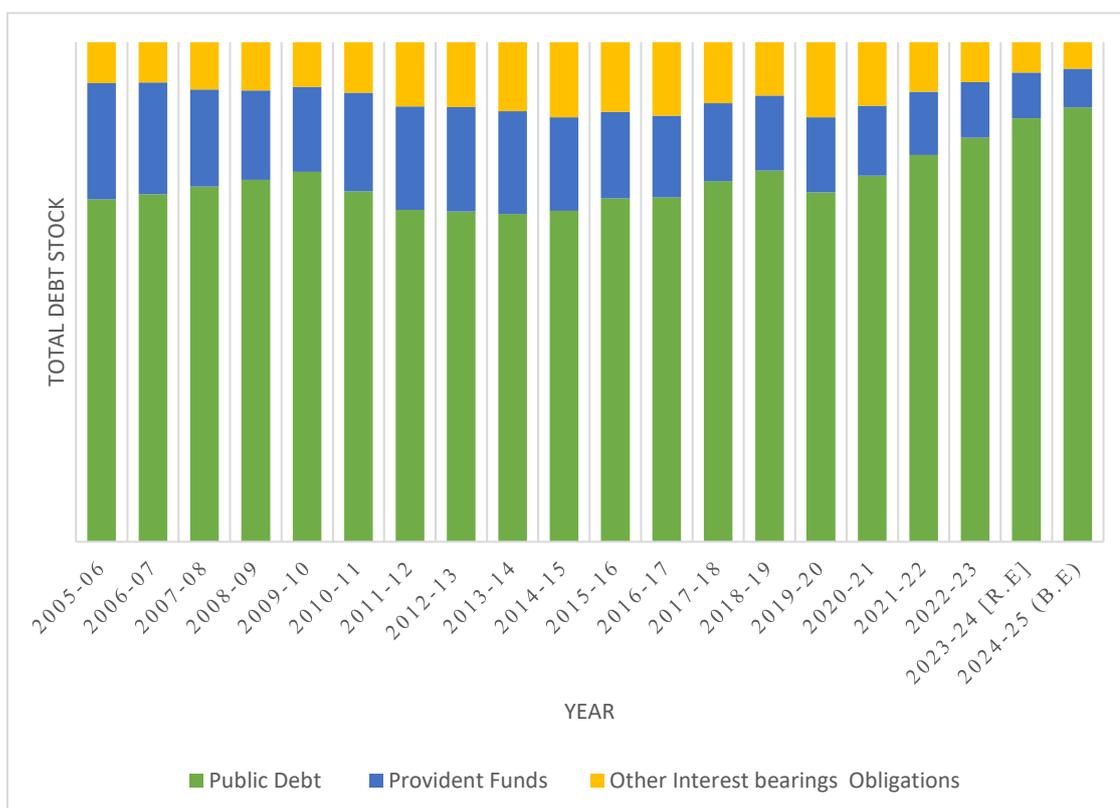
7.2 Trends and Pattern of Total Debt Stock and its Components

Tables 7.1 and **Figure 7.2** present an overview of components of the total debt stock of Sikkim. Table 7.2 illustrates the total debt stock and its components across the Finance Commission period in (₹ Cr.).

The analysis of the total debt stock of the Government of Sikkim, from 2005-06 to 2024-25 (Budget Estimate) presents overview of the evolving debts. From the Table 7.1 it can be seen that public debt has increased, rising from ₹896.88 crores in 2005-06 to an estimated ₹16,277.78 crores by 2024-25[B.E]. The state's reliance on public debt are expected to make up 86.99% of the overall debt stock by 2024-25. The other interest-bearing obligation has increase to 9.20% in 2023-24 (R.E.) compared to 23.29% in 2005–06. The proportion of overall

debt held by the Provident Funds has been steadily decreasing. It is expected to decline even more, to just 7.72% in 2024–2025 [B.E.], suggesting that the government is becoming less dependent on these sources of funding. Other interest-bearing obligations, such as deposits, have varied tendencies. Despite the different trends, it is anticipated that by 2024–2025, other interest-bearing obligations such as deposits and reserve fund will account for only 5.29% of the total debt stock, down from 8.18% in 2005–2006. By 2025, it is projected that the total debt (overall debt composition) from public accounts (principal money, minor savings, and other interest-bearing obligations) will have reached its peak.

Figure 7.2: Components of Total Debt Stock from 2005-06 to 2024-25 (%)



Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25)

The trend of public debt over the time is such that, it shows a consistent upward course, rising from ₹1,308.75 crores in 2005-06 to anticipated ₹18,711.17 crores in 2024-25. Government’s needs for funding, to promote development initiatives is reflected in this. A strategic change in financing methods is indicated by the growing share of public debt in comparison to other types of debt. Over the time, the proportion of other interest-bearing debts has changed.

Table 7.1: Total Debt Stock and Components (₹ Cr) from 2005-06 to 2024-25[B.E]

Year	Public Debt (1)	Provident Funds (2)	Other Interest-bearing Obligation (3)	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)	578.8 (20.76)	357.55 (12.8)	2788.61
2012-13	1977.96 (66.13)	624.15 (20.87)	388.79 (13.00)	2990.9
2013-14	2185.54 (65.62)	685.64 (20.59)	459.36 (13.80)	3330.54
2014-15	2510.3 (66.24)	710.2 (18.74)	568.98 (15.00)	3789.48
2015-16	2969.06 (68.76)	747.85 (17.32)	601.39 (13.90)	4318.3
2016-17	3506.13 (68.96)	831.15 (16.35)	747.18 (14.70)	5084.46
2017-18	4216.97 (72.22)	911.72 (15.61)	710.62 (12.17)	5839.31
2018-19	4986.29 (74.31)	1005.65 (14.99)	717.74 (10.70)	6709.68
2019-20	5405.72 (69.93)	1162.86 (15.04)	1161.59 (15.03)	7730.17
2020-21	6890.69 (73.27)	1318.29 (14.02)	1195.56 (12.71)	9404.54
2021-22	8653.39 (77.41)	1416.31 (12.67)	1108.92 (9.92)	11178.62
2022-23	10522.53 (80.88)	1453.36 (11.17)	1034.26 (7.95)	13010.15
2023-24 [R.E]	13416.08 (84.76)	1455.60 (9.20)	955.85 (6.04)	15827.53
2024-25 (B.E)	16277.78 (86.99)	1443.72 (7.72)	989.67 (5.29)	18711.17

Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25)

Note: Figures in the parentheses are the % of component to total debt stock.

Table 7.2: Total Debt Stock and Components by FCs (in ₹ Cr.)

F.C Period		(1) Public Debt	(2) Provident Funds etc	(3) Other Interest-Bearing Obligations	Total Debt
12th Finance Commission	Mean	1279.93	347.81	159.95	1787.73
	% to Total Debt	71.15	19.99	8.85	
13th Finance Commission	Mean	2067.90	621.81	407.14	3096.86
	% to Total Debt	66.91	20.14	12.95	
14th Finance Commission	Mean	4216.83	931.85	787.70	5936.38
	% to Total Debt	70.84	15.86	13.30	
15th Finance Commission	Mean	11152.09	7087.28	1056.85	13626.40
	% to Total Debt	80.66	10.95	8.38	
Overall Period (2005-2025)	Mean	4679.19	829.73	602.92	6111.85
	% to Total Debt	72.39	16.74	10.87	

Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25).

Table 7.2 shows that, in 12th F.C. the average public debt during this period was ₹1,279.93 crores, making up 71.15% of total debt. For 13th F.C. public debt increased to an average of ₹2,067.90 crores, contributing 66.91% to the total debt stock. A further increase was noted, with public debt averaging ₹4,216.83 crores and accounting for 70.84% in the Period of 14th F.C. Public debt saw a significant rise in 15th F.C. to an average of ₹11,152.09 crores, comprising 80.66% of total debt. Overall (2005-2025): The mean total debt was ₹6,111.85 crores, with public debt consistently making up 72.39% of the total. The analysis illustrates a clear trend of increasing public debt in Sikkim, reflecting the government's growing reliance on this form of financing.

7.2 Public Debt

This section examines the composition of public debt, which includes public account as well internal debt and loans or advances from the Central Government, the composition of public debt by F.C and are illustrated in **Table 7.3** and **Table 7.4**. Internal debt started at 63.47% in 2005-06 and increased steadily to 84.28% by 2009-10 in 12th F.C. period. The trend continued with internal debt rising to 94.19% by 2013-14, reaching 95.18% in 2014-15 in 13th F.C period. During 14th F.C period the internal debt reached a peak of 98.04% in 2018-19, reflecting an overwhelming reliance on internal source. With internal debt at 95.75% at the initial phases of 15th F.C period in the year 2020-21, there was a slight decrease, which suggest a possible change in borrowing strategy.

On the other hand, Central Government loans drastically decreased over time. from 36.53% in 2005-06 to 1.96% in 2018-19, suggesting a decline in reliance on outside financing. With a projected 20.06% increase in central loans in 2024-2025, the 15th F.C. indicates a strategic return to some degree of external borrowing.

Table 7.3: Composition of Public Debt in (%)

	Year	Internal Debt to Public Debt (%)	Loans and advances from Central Government to Public Debt (%)
12th Finance Commission	2005-06	63.47	36.53
	2006-07	67.53	32.47
	2007-08	74.21	25.79
	2008-09	79.8	20.2
	2009-10	84.28	15.72
13th Finance Commission	2010-11	85.68	14.32
	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 Finance Commission	2015-16	96.16	3.84
	2016-17	96.85	3.15
	2017-18	97.56	2.44
	2018-19	98.04	1.96
	2019-20	98.14	1.86
15th Finance Commission	2020-21	95.75	4.25
	2021-22	93.24	6.76
	2022-23	89.29	10.71
	2023-24 [R.E]	83.31	16.69
	2024-25 (B.E)	79.94	20.06

Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25).

Table 7.4 gives an overview of public debt from 2005 to 2025 by summarizing the average composition of public debt across several Finance Commissions. (B.E.) The average internal debt for the 12th F C (2005–2010) is 73.86%, indicating a foundation of internal debt dependence. However, the internal debt improved by an average of 91.81% over the 13th F.C. indicating a more profound change. Internal debt increased to an average of 97.35% by the 14th FC (2015–2020), indicating nearly complete reliance. The average internal drop for the 15th FC (2020–2025) is 88.31%, suggesting a possible strategy recapitalization. The Central Government's loan portion showed the opposite pattern. It was 26.14% of the national debt in the 12th F.C., but it fell precipitously to 2.65% in the 14th F.C. By 2018-19, with internal debt rising to 98% and central government loans falling to just 2%. While market loans (Internal Debt) have a higher interest burden than typically lower-interest central loans, this shift reflects

the state's growing reliance on market borrowings, which, while providing greater autonomy, come with higher fiscal costs (Dutta et.al, 2018). With an average of 11.69%, the 15th FC shows a significant rise, indicating a revived interest in outside finance.

Table 7.4: Composition of Public Debt by FCs

FC	Year	Internal Debt to Public Debt (%)	Loans and advances from Central Government to Public Debt (%)
12th Finance Commission	2005-2010	73.86	26.14
13th Finance Commission	2010-2015	91.81	8.19
14th Finance Commission	2015-2020	97.35	2.65
15th Finance Commission	2020-2025	88.31	11.69
Overall Average	2005-2025[B.E]	87.83	12.17

Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25).

7.3 Loans taken in Public Accounts

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

Ratios to Debt from Public Account		
Year	Provident Funds and Small Saving	Other Interest-bearing Obligation
2005-06	74.02	25.98
2006-07	73.49	26.51
2007-08	67.35	32.65
2008-09	64.91	35.09
2009-10	65.51	34.49
2010-11	66.16	33.84
2011-12	61.81	38.19
2012-13	61.62	38.38
2013-14	59.88	40.12
2014-15	55.52	44.48
2015-16	55.43	44.57
2016-17	52.66	47.34
2017-18	56.20	43.80
2018-19	58.35	41.65
2019-20	50.03	49.97
2020-21	52.44	47.56
2021-22	56.09	43.91
2022-23	58.42	41.58
2023-24 [R.E]	60.36	39.64
2024-25 (B.E)	59.33	40.67

Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25).

Table 7.5 represents the composition of states debt from a public account that has changed over time. This emphasizes the proportion of small savings, the shares of provident

fund other interest-bearing obligation over the years. In 2005- 2006 the percentage of saving and provident fund was 74.02% which was rather high. This implies both the accessibility of provident funds, which are typically steady but may have higher interest rates, and a significant reliance on these traditional financial sources. In contrast, the proportion of other interest-bearing obligations started at 25.98% in 2005–06. This category has consistently increased, indicating a shift in the state borrowing policy. By 2019–20, the percentage of provident funds had decline to 50.03%, a considerable decrease over the years. This indicates a shift away from a significant reliance on these money, which may be brought about by evolving financial regulations.

The percentage of other interest-bearing obligation increased gradually, reaching 49.97% in 2019–20. The state has improved its financial flexibility, by actively attempting to expand its debt portfolio After a minor rebound in 2020–21, the percentage of provident funds increased to 60.36% by 2023–24 (RE), while the share of other interest bearings fell to 39.64%. This state looks for more reliable support in the face of challenges of economic conditions.

7.4 Interest Payments to Revenue Expenditure:

The **Tables 7.6** and **Table 7.7** presents the analysis of interest payments relative to revenue expenditure from 2010-11 to 2024-25. The interest payments are those which the government pays to bondholders on its issued public debt (Hemming & Liuksila,1991). Revenue expenditure is the expenditure of government that does not generate any tangible assets (Andrews & Sethi, 1999)

Table 7.6: Interest payments as a percentage of Revenue Expenditure (2010-11 to 2024-25)

Year	Interest Payment	Revenue Expenditure	Interest Payment as % of Revenue Expenditure
2010-11	198.77	2011.93	9.88
2011-12	190.83	2429.61	7.85
2012-13	198.92	2507.39	7.93
2013-14	209.16	3025.06	6.91
2014-15	239.55	3356.64	7.14
2015-16	262.07	3644.58	7.19
2016-17	324.39	3788.08	8.56
2017-18	362.17	4151.85	8.72
2018-19	433.05	5226.58	8.29
2019-20	509.68	6185.08	8.24
2020-21	548.41	6368.64	8.61
2021-22	635.04	6668.84	9.52
2022-23	733.18	7630.58	9.61
2023-24 [R.E]	840.48	8628.26	9.74
2024-25 (B.E)	938.34	10249.85	9.15

Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25).

Table 7.6 highlight ongoing trends in fiscal management. Although interest payments have apparently increased, their relation with revenue expenditure shows a mixed picture, in the context of different Finance Commission periods. From 2010-11 to 204-25(B.E) the Interest payments rose from ₹198.77 to ₹938.34 crore as the result the ratio of interest payment to revenue expenditure was at peak initially (9.88%) in 2010-11, after which it declined until later on, it rose again 9.52 % during 2021-22. It is expected to stay steady at 9% by 2024-25. The ratio exceeded 9% in several years such as in the year 2021-22, 2022-23, 2023-24 and 2024-25 which shows that state government has been putting efforts to strike a balance between debt costs and revenue growth.

Table 7.7 shows the average interest payment as a percentage of revenue expenditure. During the 13th Finance Commission (2010-15) the average interest payment as percentage of revenue expenditure was 7.94%. This figure increased slightly to 8.20% during 14th FC. The estimated average for the 15th FC (2020-25 B.E.) is higher at 9.28%, signifying a rising burden of interest payments, relative to revenue expenditure. The overall average for the period 2010-25 (B.E.) is projected at 8.49%, reflecting the long-term trend of increasing interest payments relative to revenue.

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

Period	Year	Interest Payment as % of Revenue Expenditure (Average)
13th Finance Commission	2010-15	7.94
14th Finance Commission	2015-20	8.20
15th Finance Commission	2020-25 [B.E]	9.33
Overall Average	2010-25 [B.E]	8.49

Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25).

7.4 Public Debt to GSDP

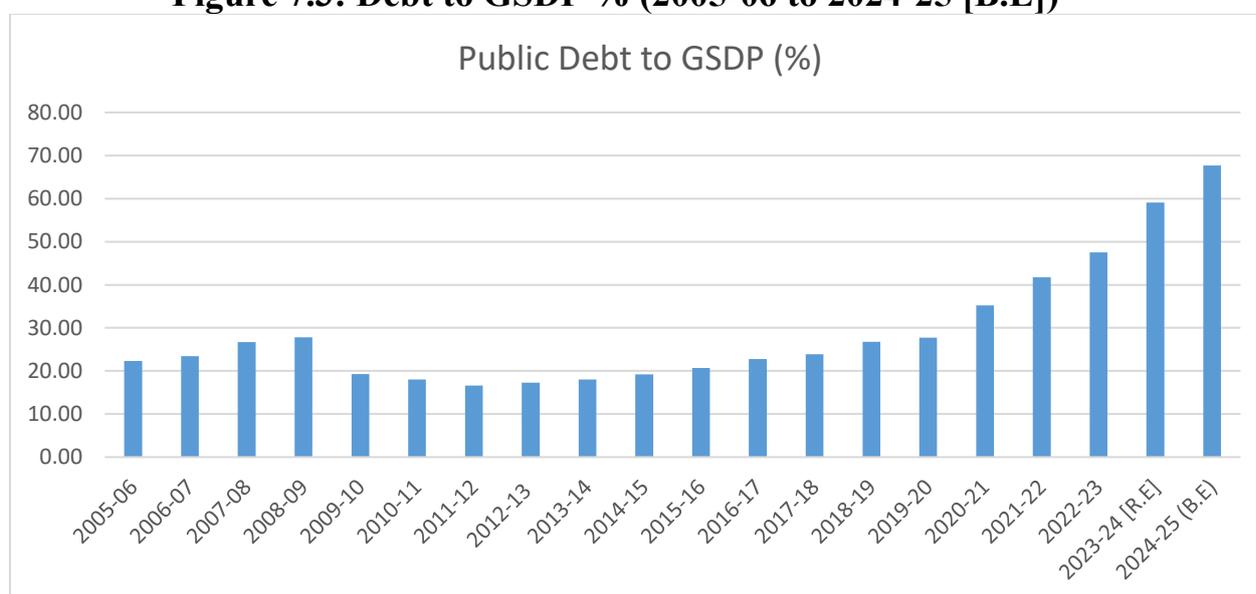
Table 7.8 presents a comprehensive picture of the public debt of the Sikkim Government, expressed as a percentage of its Gross State Domestic Product (GSDP), across all Finance Commissions (FCs). This table shows the trends in public debt and its components, which are indicated by shifts in fiscal health and management. the total public debt is shown in this table, which is made up of two primary parts:

- A. State Government Internal Debt: This is the total amount of debt that the state has accrued through different forms of borrowing, including bonds and loans.
- B. Central Government Loans and Advances: This includes money that the central government

has given to support state finances (Mithani,1998; Dutta et.al 2018)

While provident fund obligations and other similar liabilities are included in the provident fund, and other interest-bearing obligations include a variety of other debts and obligations which carry interest, such as deposits and reserve funds. The total stock is the sum of all the parts and represents the state's overall level of debt (Lekhi & Singh, 2016)

Figure 7.3: Debt to GSDP % (2005-06 to 2024-25 [B.E])



Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25).

Table 7.8: Debt Stock and Components as a Percentage to GSDP (2005-06 to 2024-25) 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	Total Debt Stock:(1)+(2)+(3)
12th FC	43.08	31.49	11.59	12.32	5.38	60.77
13th FC	19.12	17.49	4.84	5.72	3.65	28.50
14th FC	24.26	23.73	0.63	5.42	4.57	34.36
15th FC	58.87	42.51	6.35	6.34	4.78	60.00

Source: Government of Sikkim, Budget in Brief, Various Years. (2010-2011 to 2024-25).

Table 7.8 illustrates, the dynamic nature of Sikkim's public debt over the time. It highlighting the efforts of the state govt. to control and reduce debt in earlier FCs, followed by a more recent trend of increasing borrowing. During 12th F.C the public debt was at 43.08 % of GSDP, signifying high levels of debt comparative to economic output. Here the internal debt made a significant portion of public debt. The heavy reliance on both internal and external borrowing are reflected as indicated by total debt, that has reached to 60.77 %. While, during 13th FC, there was a notable decline in public debt to 19.12% of GSDP, signaling effective fiscal management and adherence to the targets set by the FRBM, (The Fiscal Responsibility

and Budget Management Bill). As a result, the total debt stock decreased to 28.50 %, indicating improved fiscal health and sustainability. There has been a slight increase in public debt to 24.36% of GSDP during 14th FC period, this however remained low than levels that were seen in 12th FC. The total debt in this period rose to 34.36%, showing an increase in debt for developmental activities within the manageable limits. In the recent period of FC, there has been a significant improvement in the public debt (50.25%) of GSDP. This may be the result of increase in borrowing or investment in the infrastructure. Hence the total debt stock also rose to 61.65%, which may raise concern related about the long-term fiscal sustainability. Therefore, the government should manage public debt very carefully.

7.5 Sustainability of Debt

A country is said to be sustainable in debt if its current and future debts are met in time without rescheduling or resourcing the debt relief (Mustapha and Prizzon, 2015). Debt is an essential tool for the growth of the economy as it is used for several reasons such as, in addressing budget deficits, responding the crisis, meeting the multilateral lending to institutions like the World Bank. An economy can be strained out of its financial resources due to excessive borrowing. The pandemic year has escalated these borrowing in many economies (Hakura,2020). According to Rangarajan and Srivastava (2005) debt sustainability is defined as management of debt in such a way, so that the balance between its benefit and cost of repayment are maintained. The authors found that fiscal Deficit and debt are interlinked. Hence the issue related to both should be addressed together. In a situation where if the Government borrows money to cover deficits and cannot manage it well can have consequences where more fiscal deficits are made by the economy also agreed by Dutta (2018). This section presents the different indicators of sustainability debt that are formulated by different researcher and academia as shown by **Table 7.9**

Table 7.9 Fiscal Sustainability Indicators

Indicator	Description
Rate of nominal growth of GSDP (Y) should be more than rate of growth of Debt (D)	$Y-D > 0$
Primary Balance should be in Surplus	$(PB/GSDP) * 100 > 0$
Primary Revenue Balance (PRB) as % to GSDP should be greater than zero	$(PRB/GSDP) * 100 > 0$
Primary Revenue Balance (PRB) should be in surplus and adequate to meet Interest Payments (IP)	$PBR/GSDP > 0$ and $(PBR/IP) * 100 > 100$
Interest Burden defined by Interest Payments (IP) to GSDP ratio should decline over time	$IP/GSDP * 100$
Interest Payments as a proportion of Revenue Expenditure should decline overtime	$IP/RE * 100$
Interest Payments as a proportion of Revenue Receipts (RR) should decline overtime	$IP/RR * 100$

Total Debt to GSDP ratio should decline over time

TD/GSDP*100

Source Kaur et.al, (2019)

Table 7.10: Fiscal Sustainability Indicators for Sikkim (2010-11 to 2024-25 [B.E])

Description	Y-D > 0	(PB/GSDP) * 100 > 0	(PRB/GSDP) *100>0	PBR/GSDP> 0 and (PBR/IP) *100 >100	IP/GSDP *100	IP/RE *100	IP/RR *100	TD/GSDP *100
2010 -11	14.05	0.29	4.41	179.24	2.52	9.28	8.68	34.87
2011-12	2.14	0.35	5.67	337.55	1.71	7.85	6.64	24.98
2012-13	6.79	1.1	8.58	501.18	1.74	7.93	6.05	26.19
2013-14	10.49	1.71	8.9	524.11	1.73	6.91	5.37	27.49
2014-15	14.86	2.48	7.43	412.58	1.83	7.41	5.86	28.99
2015-16	18.27	3.19	2.8	156.11	1.82	7.19	6.93	30.05
2016-17	18.09	3.49	7.45	360.91	2.11	8.56	7.04	33.02
2017-18	20.27	4.02	8.05	400.99	2.05	8.72	6.95	33.04
2018-19	18.24	4.13	6.05	266.26	2.33	8.29	7.31	36.03
2019-20	8.41	2.15	-4.28	159.38	2.61	8.61	10.53	39.66
2020-21	27.47	7.59	-1.09	37.65	2.8	8.24	9.78	48.09
2021-22	25.58	8.5	5.05	169.81	3.06	9.52	8.97	53.93
2022-23	21.6	8.15	5.26	169.8	3.38	9.61	9.05	56.69
2023-24	27.5	11.62	7.09	217.03	3.38	9.74	8.8	63.56
2024 -25	21.33	11.89	5.98	159.19	3.9	9.15	8.73	77.77

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

Table 7.11: 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)	0
Primary Balance should be in Surplus	2
Primary Revenue Balance (PRB) as % to GSDP should be greater than zero	2
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	10
Interest Payments as a proportion of Revenue Expenditure should decline overtime	8
Interest Payments as a proportion of Revenue Receipts should decline overtime	5
Total Debt to GSDP ratio should decline over time	13

Note: Highlighted cells indicate breach in sustainability

Using the methodology used by Kaur et.al, (2019) the results in **Table 7.10** are found, it is worthy to note that the indicators and descriptions provided in **Table 7.9** are used in this Table. **Table 7.11** identifies with max sustainability breaches and **Table 7.12** highlights the years where these indicators were breached. From **Table 7.10** and **Table 7.11** based on the indicators the following observations are made. The indicator on which the government falls short of sustainable definition consistently is the ratio between the total debt and GSDP. If this

ratio declines over time, it shows that the government has a sound fiscal management.

Table 7.12: Number of Breaches in the Sustainability Indicators from 2010-11 to 2024-25

Year	No. of breaches in Sustainability path indicators
2010-11	1
2011-12	1
2012-13	3
2013-14	1
2014-15	3
2015-16	1
2016-17	4
2017-18	2
2018-19	3
2019-20	5
2020-21	2
2021-22	3
2022-23	4
2023-24	3
2024-25	3

Note: Highlighted cells indicate breach in sustainability

However, this ratio has shown an upward rising trend in 13 years out of 15 years in the study. This ratio has been rising since the midway of the 13th FC period (2012-13) and it is predicted to rise consciously to 2024-2025(B.E). This shows that the government is in a debt trap where the deficits are increasing as well.

Another indicator that falls short of sustainability definition is interest burden defined by interest payment to the GSDP ratio. This ratio should decline over time. In 10 years of 15 years has not declined over time, rather from 2018-19 to 2024-25 (B.E) has been rising continuously showing that government debt is more than growth of the economy, the reason may be that the Government of Sikkim is still dealing with the crisis of COVID -19.

Although we see that ratio of nominal growth GSDP (Y) is greater than the rate of public debt (D) throughout 15 years even though the ratio of total debt is still rising showing government fiscal policy might be not be sustainable. The interest payment as a proportion of revenue expenditure have been increasing over 8 years even though it should decline over time, showing there here is fiscal challenge.

The maximum number of breaches has occurred in the 2019-20 as shown by **Table 7.12**. In this year fiscal deficit was ₹ 2081.18 cr reaching to a new high 10.67 % to GSDP showing that the grants from central government have declined as a result the debt level has risen thereby increasing the budget deficits. This shows that Sikkim is dealing with situation called fiscal unsustainable

7.6 Major Findings

- ❖ The public debt of government in Sikkim has been estimated to increase from ₹896.88 crores in 2005-06 during 12th FC to ₹16,277.78 crores by 2024-25[B.E] (15th FC.)
- ❖ The trend of public debt over the time from the year 2005-25 is such that, it has shown a consistent upward trajectory, rising from ₹1,308.75 crores in 2005-06 to an anticipated ₹18,711.17 crores in 2024-25
- ❖ During 15th FC the public debt saw a significant rise to an average of ₹11,152.09 crores, comprising 80.66% of total debt. Overall (2005-2025): The mean total debt was ₹6,111.85 crores, with public debt consistently making up 72.39% of the total.
- ❖ Internal debt was at 63.47% in 2005-06 and which increased steadily to 84.28% by 2009-10 in the 12th F.C. period. The trend continued with internal debt rising to 94.19% by 2013-14, reaching 95.18% in 2014-15 in the 13th F.C
- ❖ During 14th F.C period the internal debt grasped a peak of 98.04% in 2018-19, reflecting a devastating reliance on internal source. In the initial phases of 15th F.C (2020-21), the internal debt slightly decreased to 95.75%, due to a possible change in borrowing strategy. On the other hand, Central Government loans drastically decreased over time from 36.53% in 2005-06 to 1.96% in 2018-19, as the reliance outside financing in State declines.
- ❖ Over time, other interest-bearing obligations rose progressively, reaching a high of 49.97% in 2019–20.
- ❖ The State Finance attempts to increase the flexibility in its debt portfolio. The share of the provident funds has improved to 60.36% by 2023-24 (RE) after a minor setback in 2020-21. But in 2023-24 the share of other interest-bearing obligation fell to 39.64%.
- ❖ The interest payments to revenue expenditure ratio have exceeded over 9 % in several years between 2021 and 2024, showing that Sikkim government has been trying to achieve an equilibrium between debt costs and revenue growth.
- ❖ During the 13th Finance Commission (2010-15) the average interest payment as percentage of revenue expenditure was 7.94%. This figure increased slightly to during 14th FC. However, the estimated average for the 15th FC (2020-25 B.E.) is higher at signifying a rising burden of interest payments, relative to revenue expenditure.
- ❖ The overall average for interest payment as fraction of revenue expenditure the period 2010-25 (B.E.) is projected at 8.49%, reflecting the long-term trend of increasing interest payments relative to revenue.

- ❖ During 12th F.C the public debt was at 43.08 % of GSDP, signifying high levels of debt comparative to economic output. Here the internal debt made up a significant portion of public debt.
- ❖ While, during 13th FC, there was a notable display an effective fiscal responsibility and commitment of the State government to achieve the targets set by the FRBM Act.
- ❖ In the recent period of FC, there has been a significant rise in the public debt (50.25%) of GSDP. This could be the effect of increasing borrowing or investment in the infrastructure.
- ❖ The ratio between the total debt and GSDP been rising since the midway of the 13th FC period (2012-13) and it is predicted to rise consciously to 2024-2025(B.E). This shows that the government is in a debt trap where the deficits are increasing as well.
- ❖ In 10 years of 15 years, interest burden defined by interest payment to the GSDP ratio has been rising continuously, rather from 2018-19 to 2024-25 (B.E) showing that government debt is more than growth of the economy, the reason may be that the Government of Sikkim is still dealing with the crisis of COVID -19.
- ❖ Although we see that ratio of nominal growth GSDP (Y) is greater than the rate of public debt (D) throughout 15 years even though the ratio of total debt is still rising showing government fiscal policy might be not be sustainable
- ❖ The maximum number of breaches has occurred in the 2019-20 as shown by **Table 7.12**.

7.7 Conclusion

The trend in Sikkim's debt from 2005-06 to 2024-25 shows a constant upward rising trend, which are the outcomes of increasing fiscal demands, caused by economic development, government initiatives, and investments in infrastructure. The internal debt was at its highest level during the 14th FC, revealing a strong reliance on domestic support. During the 15th FC, it slightly reduced and the central government loans increased compared to the 14th FC. This suggests that the state expanded the borrowing policies. Though its debt levels are increasing, Sikkim has made an effort to diversify its sources of debt, as evidenced by the growing share of other interest-bearing liabilities through 2019-20. During the first half of the 15th FC, the provident fund increased. Escalating interest payments emphasizes, the rising cost of serving debt, which often exceeds 9% of revenue expenditures, stressing the fiscal pressure. The debt-to-GSDP ratios have recently risen to 50.25%, indicating that financial demands have increased, after rising from 43.08% in the 12th to 19.12% in the 13th FC.

Sikkim's debt management plans have developed, because of altering preferences in borrowing and some diversification. Still, the increasing amount of debt and interest rates underlines the

needs for constant, careful ongoing, and close financial supervision. Sikkim is dealing with a condition called fiscal unsustainability this is evidenced by Table 7.10 which shows the growing interest burden and debt to GDP ratio over the time showing that the Sikkim government has the potential to enter debt trap. Despite GDP growth outpacing public debt, it is concerning. The situation has probably gone worse due to Covid-19 pandemic. Therefore, a sustainable fiscal approach is needed.

7.8 Recommendation

- ❖ Government should give more emphasize on utilizing IMF's Debt Sustainability Analysis and World Bank's Debt Management Performances Assessment in order to maintain increasing Debt for long-term. This will help the debt to be sustainable.
- ❖ Authorities should focus on introducing more policy that reduces interest burden, at the same time increases borrowing that will help the economy grow.
- ❖ The Central Government can also recommend the target to maintain Debt to GSDP for all states, so that they do not exceed the targets.
- ❖ Government should establish schemes that address the post- Covid economic stress

CHAPTER - 8
IMPLICATION OF FRBM ACT

8.1 Introduction

The Fiscal Responsibility and Budget Management (FRBM) Bill was presented in India by then Finance Minister, Mr. Yashwant Sinha, in December 2000. This initiative aims to promote fiscal discipline and ensure transparency in the management of finance of the government. The FRBM Act, also known as Act No. 39 of 2003 was established in order to promote efficient fiscal management in India. It is an important part of legislation that intends to ensure fiscal sustainability and discipline in the country. The Act necessitates the Central Government to maintain long-term macroeconomic stability intergenerational equity in fiscal management. It aims to facilitate prudent debt management and effective monetary policy. (Department of Economic Affairs, 2003). The FRBM is applicable across the country and comes into force within the date specified by the Central Government.

The operationalization of the FRBM Act of 2003 is primarily guided by the FRBM Rules 2004, which came into force in July 2004. These rules specify the precise measures and procedures for achieving the objectives, that are charted in the Act. A significant aspect of the Act are three key fiscal indicators: *revenue deficit*, *effective revenue deficit*, and *fiscal deficit*. These indicators are measured as a percentage of Gross Domestic Product (GDP), with a aim to eliminate them by March 31, 2018. To prevent the government from borrowing too much. The Act also limits guarantees and liabilities of the govt. Furthermore, it limits borrowing from the Reserve Bank of India to extraordinary situations, which incentivizes the government to look into other funding sources. (Comptroller and Auditor General India, 2021).

Under the FRBM Act the government is required to submit important policy statements such as the Medium-Term Fiscal Policy (MTFP) Statement, Fiscal Policy Strategy (FPS) Statement, and Macro-economic Framework (MF) Statement, to both houses of Parliament, in order to foster accountability and openness. These provide a thorough understanding of the government's budgetary policy and must be included with the Annual Financial Statement and Grant Requests.

For the purpose of to guide expenditure planning in accordance with fiscal goals, a Medium-term Expenditure Framework (MTEF) must also be presented following these declarations. To further improve accountability and transparency, the Act also requires the submission of six prescribed disclosure forms and quarterly review reports on fiscal performance. (Indian Audit and Account Department, 2018).

8.1.1 Features of FRBM Act

According to 15th Finance Commission Report; Indian Audit and Account Department (2018), the FRBM Act has following Features

- a) The revenue deficit must be reduced by 0.5% or more of GDP each year, beginning in the financial year 2004-05, with the aim of completely eliminating it by March 2009.
- b) In addition, the fiscal deficit should be decreased by at least 0.3% of GDP annually, also starting in 2004-05, with the target of reaching 3% of GDP by March 2009. Moreover, the Central Government is prohibited from issuing guarantees that exceed 0.5% of GDP in any financial year, commencing in 2004-05.
- c) The Central Government should not incur additional liabilities exceeding 9% of GDP for the financial year 2004-05, with a requirement to reduce this limit by at least 1 percentage point of GDP in each following year.
- d) The Reserve Bank of India (RBI) should refrain from subscribing to primary issues of Central Government securities starting from the financial year 2006-07.
- e) The finance minister is required to conduct a quarterly assessment of trends in government receipts and expenditures in relation to the budget and present the results of these assessments to both Houses of Parliament.
- f) Each financial year, the Central Government should submit three statements to Parliament: the Medium Term Fiscal Policy Statement, the Fiscal Policy Strategy Statement, and the Macro-Economic Framework Statement, alongside the Annual Financial Statement and Demands for Grants.
- g) According to the FRBM Act, the Central Government is prohibited from borrowing from the RBI except in the form of means and advances to address temporary cash shortages.
- h) By March 31, 2018 the Act sets targets for deficits, aiming to eliminate the Effective Revenue Deficit (ERD) and limit the Revenue Deficit (RD) to 2% and Fiscal Deficit (FD) to 3% of the GDP.
- i) The annual reduction targets were 0.5% for ERD and 0.4% for RD and FD, but in April 2018 amendment removed ERD and RD targets and extended the FD target deadline to March 31, 2021, with a revised annual reduction of 0.1%.
- j) The Act originally imposed a limit on total guarantee, which was updated in April 2018 in order to cap additional guarantees for loans secured by the Consolidated Fund of India (CFI).
- k) Initially, there was a target for reducing additional liabilities each year, but the amended

Act, now focuses on targets for General and Central Government Debt as a percentage of GDP.

- 1) To enhance transparency in fiscal operations, the Act and Rules mandate that the Government to present Disclosure Forms to Parliament alongside the Budget. With the removal of the Effective Revenue Deficit (ERD) target, the requirement to disclose grants for creating capital assets has been eliminated.

8.2 Sikkim FRBM Act, 2010

In 2010, the State enacted the Sikkim Fiscal Responsibility and Budget Management Act, aligning with the FRBM Act of 2003. According to clause 7 (7) of this Act, the Government is allowed to elect an independent external agency to conduct periodic reviews. The Sikkim Fiscal Responsibility and Budget Management Act, 2010 aims to attain fiscal stability and sustainability by ensuring a balanced revenue account, minimizing the fiscal deficit, carefully managing state debt, and promoting transparency in fiscal operations in Sikkim. According to this Act, the government is required to make a statement on economic trends, growth projections, and how they affect financial situations. Understanding the growth trajectory and sector contributions is essential for modifying the fiscal plan and assessing the revenue consequences (Finance Department, GOS, 2022-23 to 2024-25)

Future economic outlook is crucial for expressing fiscal outcomes as a percentage of GSDP, especially since borrowing limits set by the Central Government are based on GSDP proportions influenced by growth rate assumptions from the Central Finance Commission. It establishes borrowing limits and requires the government to present a Medium-Term Fiscal Plan (MTFP) alongside the budget, outlining three-year targets for key fiscal indicators and evaluating sustainability in revenue and capital expenditures. Following a projected rebound in national economic growth, the MTFP for 2022-23 aligns with these dynamics. (Finance Department, GOS, 2022-23 to 2024-25)

Sikkim has experienced better fiscal results since FRBM was implemented, including stabilized debt and lower deficits, while maintaining revenue and concentrating on infrastructure development. The high expense of delivering public services in a hilly area and the restricted internal revenue generation, however, continue to be problems. Increased capital borrowing was made possible by amendments made during the COVID-19 pandemic to alleviate financial strains, and frequent evaluations by impartial organizations improve fiscal

management responsibility. Despite Sikkim's heavy reliance on central transfers, the Finance Commissions' suggestions have been crucial, particularly in view of recent plan grant losses. The MTFP guides the government's fiscal condition and strategic aims, evaluating macroeconomic performance and setting expected budgetary. Despite the financial burden of the epidemic, Sikkim has achieved significant advancements in social indicators, like literacy rates and poverty reduction, and has a high per capita income (Finance Department, GOS assessed on 2024).

Following the COVID-19 pandemic, which caused a 7.3% contraction, the importance of the Medium-Term Fiscal Policy (MTFP) has increased. Although the economy rebounded to 9.2% growth in 2021-22, this recovery was on a weaker base. The projected 7.8% growth for 2022-23 indicates a positive trend. The pandemic caused job losses and a decline in consumption, which prompted the Indian government to enact fiscal and monetary policies to promote infrastructure investment and health. In order to promote employment and accelerate recovery, state fiscal policy must be aligned with national economic objectives (MTFP for Sikkim, 2022-25)

The Sikkim FRBM Act was amended in Year 2011, 2020, and 2021. The Act No:6 of 2011 Amendment of the Sikkim FRBM Act of 2010, clause (d) of sub-section (1) of Section 5 reduced the debt stock to 55.9% of GSDP within five years starting from 2010-2011 with 68.4% to 2014-2015 with 55.9%. This Amendment of Act of 2010 was enacted by the Sikkim Legislature in the Sixty-second Year of the Republic of India (Law Department Government of Sikkim, 2011).

The Act of 2010, was further amended in year 2020 by For the Act no. 5 of 2020 and was enacted by the legislature of Sikkim in the Seventy-First Year of the Republic of India. In the Sikkim Fiscal Responsibility and Budget Management Act, 2010, in section 5, after sub-section 2, the following proviso shall be added: "Provided that, notwithstanding anything in section 5, the State Government shall have an additional borrowing capacity of up to ₹216 crores for the financial year 2019-20 as a one-time special dispensation" (Law Department Government of Sikkim, Gangtok, 30th March, 2020)

The Act No. 11 of 2020 amended it further to Notwithstanding section 5, the State Government may borrow an additional 2% of GSDP for 2020-21. This additional capacity will have both unconditional and conditional components based on reforms(a) One Nation One Ration Card; (b) Ease of Doing Business;(c) Urban Local Body reforms;(d) Power Sector reforms. Each reform counts for 0.25% of GSDP, that sum to 1%. Two 0.50% installments of the remaining 1% would be given, the second of which would be subject to the implementation of at least three reforms. While this extra borrowing is warranted now, it must ensure long-term sustainability, necessitating growth in GSDP and revenue or cuts in unproductive spending. The additional borrowing must be utilized within 2020-21 and cannot be carried forward (Law Department Government of Sikkim, Gangtok, 21st September, 2020).

The Act No. 9 of 2020, made changes in the sub-section (1), for the clause (b). The State Government shall adhere to a maximum fiscal Deficit of 4% of GSDP in 2021-22. A 3.5% of GSDP in 2022-2023 and 3% of GSDP in 2023-2024. An additional borrowing space of 0.5% of GSDP is allowed on the performance in the power sector. For the clause (d) The state government shall maintain a declining Debt to GSDP ratio post 2022-23 (Law & Parliamentary Affairs Department, 2021)

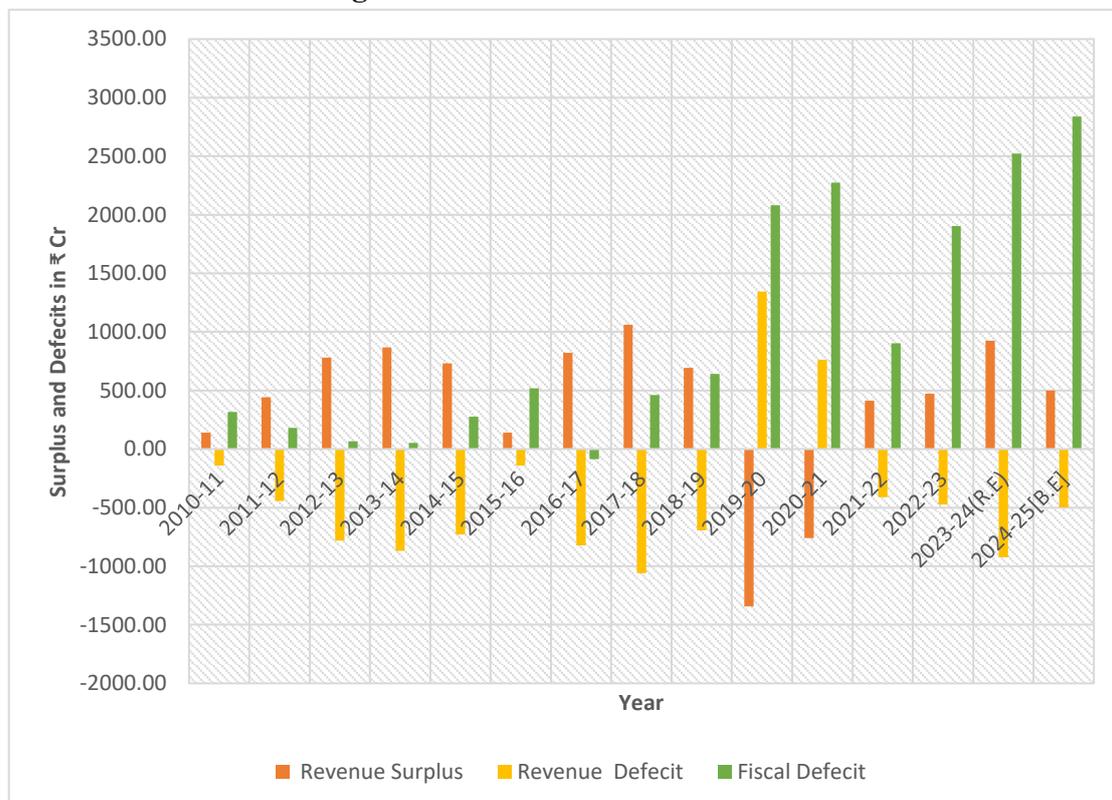
8.3 Overview of State Finances

Sikkim's financial position has been strengthened since the FRBM Act was put into effect in 2010–11. The financial performance of the state from the year 2010-11 to 2024-25[B.E], provides a nuanced picture of fiscal management and economic trends, which are frequently defined by important indicators such as gross state domestic product (GSDP), revenue receipts, revenue expenditures, revenue surplus, revenue deficit, and fiscal deficit. The reduction in the fiscal deficit relative to Gross State Domestic Product (GSDP) are the result of the structural framework recognized by the FRBM. This ratio declined from 4.27% in 2010-11 to 0.43% in 2013-14, and stabilizing at 0.47% in 2016-17. However, challenges emerged in subsequent years, particularly during the COVID-19 pandemic.

Figure 8.1 gives an overview of Fiscal Indicators. Here we can see that, from the year 2010-11 to 2018-19, Sikkim has recorded positive revenue surpluses with many fluctuations, peaking at ₹1,060.94 Crore in 2017-18. This is due to the prudent fiscal management that increased the non-tax revenue such as hydropower royalties, interest receipts and other miscellaneous services in 2017-18 (CAG' SFAR,2019). These surpluses were heavily reliant

on central transfers, which often came with specific usage mandates. However, A dramatic shift occurred in 2019-20 and 2020-21, with revenue surpluses turning negative - ₹1,343.81 Cr in 2019-20 and - ₹ 760.82 Cr in 2020-21) due to the economic fallout from the Covid 19 pandemic, which severely impacted revenue generation and increased expenditures for health and social support. Fiscal Deficits The fiscal deficit showed high values in the early years but improved significantly post-FRBM implementation. In 2020-21, the fiscal deficit reached ₹2,273.52 Cr reflecting the financial strain from pandemic-related expenditures.

Figure 8.1: Fiscal Outcome of Sikkim



Source: Budget Papers, Government of Sikkim

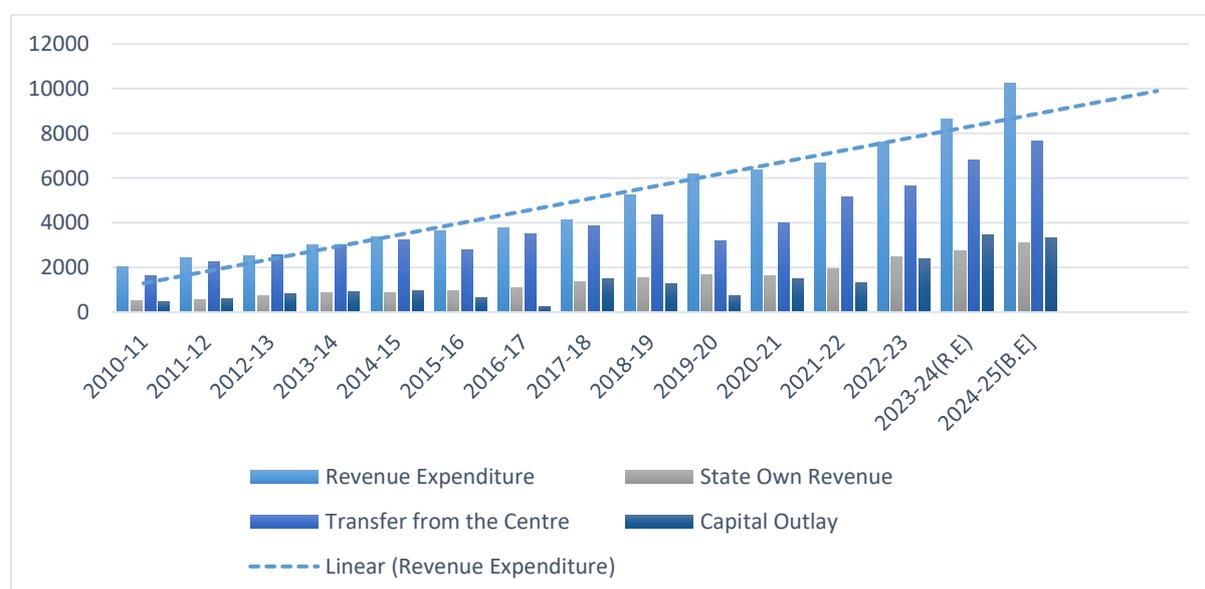
Note: 2023 -24 is Revised Estimate; 2024-25 is Budget Estimate.

The fiscal deficit, expressed as a percentage of GSDP, presents a significant improvement from 3.13% in 2010-11 to a commendable low of 0.43% in 2013-14. This decline can be the results of fiscal framework established by Fiscal Responsibility and Budget Management (FRBM) Act. However, the fiscal deficit began to rise again in subsequent years, particularly following the economic disruptions caused by the COVID-19 pandemic, which necessitated increased government spending in response to the crisis reaching 4.36% in 2021-22. GSDP Growth Patterns. The GSDP figures reflect steady growth over the years, though the economic contraction during the pandemic reveals vulnerabilities within the state's economy. The recovery to a growth rate of 9.2% in 2021-22 is noteworthy; however, it is essential to

contextualize this growth against the backdrop of the pandemic’s impact, which disrupted economic activity and led to significant job losses and decreased consumption.

Sikkim’s faces several fiscal challenges, as a significant portion of the revenue surplus depend on central grants, lack fiscal flexibility, high cost of public services and legislative framework. The Sikkim FRBM Act aims to ensure fiscal stability by setting defined targets and promoting transparency. It mandates: Periodic reviews by independent agencies to ensure compliance and presentation of a Medium-Term Fiscal Plan (MTFP) that outlines fiscal targets for three years. The amendments made in 2020 introduced temporary flexibility in borrowing limits to address financial pressures due to the pandemic, allowing for a maximum fiscal deficit of 4% of GSDP in 2021-22 and reducing to 3% in 2023-24. In 2023-24 (Revised Estimates), the estimated revenue surplus of ₹924.04 Cr that indicates a recovery, even though the fiscal deficit remains elevated at ₹2,523.06 Crore for 2024-25 (Budget Estimates). Sikkim's fiscal journey post-FRBM Act showcases both achievements and challenges.

Figure 8.2: Broad Fiscal Trends in Sikkim



Source: Budget Papers, Government of Sikkim.
 Note: 2023 -24 is Revised Estimate; 2024-25 is Budget Estimate.

Figure 8.2 illustrates the key fiscal trends of the state, focusing on the state's own revenue, transfers from the Centre, total revenue expenditure, and capital outlay. The fiscal landscape of Sikkim between 2010 and 2025 reveals notable shifts in revenue generation, expenditure management, and dependence on central transfers, that are shaped by the Fiscal Responsibility and Budget Management (FRBM) Act of 2010 and the effect of the COVID-19 pandemic. Revenue expenditure has been consistently increasing from ₹2,011.93 crore in 2010-11 and is expected to be ₹10,249.79 crore by 2024-25, with its percentage of GSDP

steadily increasing from 19.96% to a concerning 42.60%. During the pandemic, the state had prioritized health and social support, so the spending peaked at ₹6,368.64 Crore in 2020-21. On the other hand, the state's own revenue has remained relatively steady at around 5.6% of GSDP, growing from ₹521.69 Crore in 2010-11 to an anticipated ₹3,090.51 Crore by 2024-25, highlighting a limited ability to enhance revenue due to a growing reliance on central transfers, which increased from ₹1,630.01 Crore to a projected ₹7,658.62 Cr over the same period.

Although the FRBM Act 2010 aimed to introduce fiscal discipline, by helping to reduce the fiscal deficit. The fiscal deficit has been reduced from 4.27 % in 2010-11 to 0.43% in 2013-14 this shows the state dependence on central funds that rises expenditures causing significant challenges. Capital outlay has decreased, falling to ₹233.08 crore (1.51% of GSDP) in 2016-17. By 2024-25 the capital outlay is forecasted to recovery to ₹3,337.96 million (13.88% of GSDP). Economic stress was evident in 2019-20 and 2020-21, highlighting the fiscal pressures brought on by the pandemic. Hence, Sikkim must address fundamental problems with revenue generation and efficiently manage public expenditure to ensure long-term fiscal health and economic progress, even though the FRBM Act of 2010 has resulted in modest fiscal improvements.

Table 8.1: Tax Buoyancy Across Different Finance Commission 2010-11 to 2024-25 [B.E]

Particulars	Overall, From 2010-11 to 2020-25 [B.E]	13th Finance Commission. From 2010-11 to 2014-2015	14th Finance Commission From 2015-16 to 2019-20	15th Finance Commission From 2020-21 to 2024-24[B.E]
Own Tax Revenues	3.001	1.162	1.997	5.378
Sales Tax	0.335	1.279	-1.103	1.218
Excise Duties	2.391	1.126	1.285	4.952
Motor Vehicles	2.603	1.074	2.348	6.605
Stamp Duty and Registration Fees	1.739	0.245	1.579	4.909
Other Taxes	0.255	1.267	-1.037	4.667

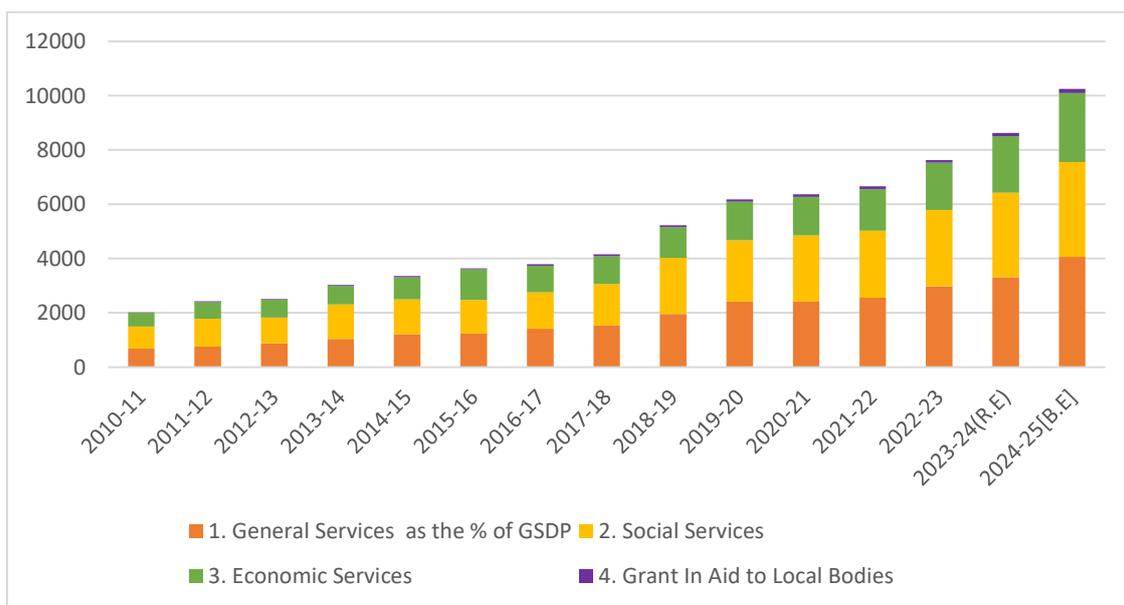
Source: Budget Papers, Government of Sikkim.

Note: 2023 -24 is Revised Estimate; 2024-25 is Budget Estimate

Table 8.1 presents the tax buoyancy rates across different Finance Commission from 2010-11 to 2024-25, highlighting the state's revenue generation capabilities. The overall buoyancy rate for own tax revenues from 2010-11 to 2024-15(B.E) is 3.001, indicating that there has been a significant revenue growth related to the economic expansion. Especially during the 15th FC, the tax buoyancy of own tax revenue soared at 5.378 reflecting improving efficiency in tax collection. Sales tax buoyancy showed a mixed trend, during the 13th FC period (2010-2015), sales tax buoyancy showed a positive trend of 1.279, but again during 14th FC it declined to -1.103. The Goods and Services Tax (GST), which replaced the Sales Tax

system in 2017 and caused transitional difficulties, coincides with this downturn. However, during the 15th FC period, Sales Tax buoyancy stabilized at 1.218, signaling recovery as the state adapted to the GST framework. When it comes to excise duties it shows a stable positive tax buoyancy across all the periods of Finance Commission. It reached its highest point during 15th FC where tax buoyancy was 4.952 signifying increasing demand for excisable goods and an improvement in administration. Similarly, the motor vehicle tax buoyancy so significantly increases from 2.348 in 14th FC to 6.605 during 15th FC, this was an impact that was driven by increase in vehicle sales and stringent compliance measures. The 13th FC period saw a modest increase in stamp duty and registration fees (0.245), but the 15th FC period saw a sharp increase to 4.909, indicating strong real estate activity and improved tax collection procedures. Whereas Other taxes, fluctuated during the 14th FC period, showing a negative tax buoyancy of -1.037, which may have been caused by tax reforms. But in the 15th FC period, the category bounced back to 4.667, indicating better performance. Therefore Sikkim’ s post-pandemic fiscal recovery, enhanced compliance, and simplified tax administration are highlighted by the 15th FC period's high buoyancy across all tax categories. On the other hand, transitional problems brought on by structural reforms like GST caused difficulties during the 14th FC period, especially with regard to Sales Tax and Other Taxes.

Figure 8.3: Composition of Revenue Expenditure in Sikkim



Source: Budget Papers, Government of Sikkim

Note: 2023 -24 is Revised Estimate; 2024-25 is Budget Estimate

Figure 8.3 illustrates the composition of revenue expenditure in Sikkim, showing a significant overall increase of approximately 35% in total revenue expenditure over the years. General services have seen notable fluctuations, with their share rising from 34.04%

in 2010-11 to a projected 39.69% in 2024-25, and funding increasing from ₹684.94 Crore to ₹4,068.03 Crore. Social services expenditure has also grown substantially, averaging a 33% increase and rising from 40.58% to an estimated 34.05% of total expenditure, with absolute figures increasing from ₹816.43 Crore to ₹3,490.35 Crore. Economic services, on the other hand, have experienced a 25% growth, though their share has slightly decreased from 24.73% to 24.83%, reflecting a slower growth rate, with amounts rising from ₹497.61 million to ₹2,545.18 Crore. Meanwhile, grants in aid to local bodies have seen minimal growth, only by 0.01%, rising from ₹12.94 Crore in 2010-11 to ₹146.24 Crore in 2024-25. This indicates a low share in it. There has been a general increase in overall revenue expenditure. The disparities in growth rates across different categories indicate a need for targeted reforms, especially in economic services and grants to local bodies, to achieve balanced fiscal development.

Table 8.2: Revenue Receipts of Government of Sikkim (in ₹ Cr)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24 (R.E)	2024-25 [B.E]
Total Revenue Receipts	2151.70	2872.10	3288.36	3893.54	4087.64	3784.29	4610.30	5212.79	5920.36	4841.27	5607.82	7080.72	8103.80	9552.84	10749.13
State's Own Revenue	521.69	537.95	737.48	886.51	851.33	979.81	1104.20	1342.71	1555.77	1663.81	1628.99	1935.05	2473.37	2733.76	3090.51
Total Tax Revenue	279.54	537.95	737.48	886.51	851.33	979.81	1104.20	1342.71	1555.77	1663.81	1628.99	1935.05	2473.37	2733.76	3090.51
Tax on Sales, Trade etc.	142.74	124.20	227.08	286.32	282.10	325.72	364.82	249.66	188.20	197.63	195.25	227.18	248.77	280.00	250.00
State Excise of which	70.64	96.26	111.12	120.64	131.36	142.08	156.24	150.47	183.09	207.15	210.27	249.21	298.46	315.00	450.00
Stamps Duty	5.70	8.27	5.35	6.45	6.77	8.51	12.57	13.57	14.95	13.30	13.13	23.35	26.52	27.00	27.97
Taxes on Vehicles	10.66	16.56	16.38	18.52	19.41	22.36	24.90	29.37	33.11	41.08	28.96	39.09	49.69	56.00	73.00
Transfers from the Centre	1630.01	2334.15	2550.88	3007.03	3236.32	2804.48	3506.10	3870.08	4364.60	3177.46	3976.83	5145.67	5630.43	6819.08	7658.62
Own Non-Tax Revenues	242.15	244.05	302.00	361.59	323.78	412.99	451.64	654.38	657.78	693.40	662.39	680.62	976.11	990.50	926.97
Grants from Centre	1105.02	1722.50	1852.40	2244.41	2427.00	934.20	1436.91	1235.42	1524.99	881.90	1676.56	1858.13	1765.68	2533.63	2819.45
Tax Devolution	-1350.4	-1796.20	-1813.40	-2120.5	-2384.99	-1824.67	-2401.90	-2527.37	-2808.8	-1513.6	-2347.8	-3210.6	-3157.0	-4085.3	-4568.11

Source: Various Budget Papers, Government of Sikkim (2010-25)

From the **Table 8.2** the tax devolution for each year shows a negative value, indicating that the transfers from the Centre were significantly higher than the total tax revenue collected by the state.

While the electricity generated by newly commissioned hydroelectric units contributes to growth figures, it doesn't expand the tax base. Similarly, improved production in the pharmaceuticals sector also boosts growth, however most of it leaves the state as consignments that attract minimal VAT, only 0.15 percent. However, the increased economic activity from construction and higher employment in these sectors, along with a rise in business, should have led to higher tax collections beyond the usual growth. It is crucial for the state to address these issues to enhance tax mobilization

Table 8.3: Capital Outlay of Sikkim

Year	Capital expenditure	Capital expenditure % of GSDP
2010-11	451.07	4.47
2011-12	651.76	5.84
2012-13	842.35	7.38
2013-14	911.95	7.53
2014-15	980.71	7.5
2015-16	633.98	4.41
2016-17	720.92	4.68
2017-18	1506.78	8.53
2018-19	1291.31	6.93
2019-20	720.61	3.7
2020-21	1513.88	7.74
2021-22	1315.78	6.35
2022-23	2376.6	10.36
2023-24(R.E)	3446.78	13.84
2024-25[B.E]	3337.96	13.87

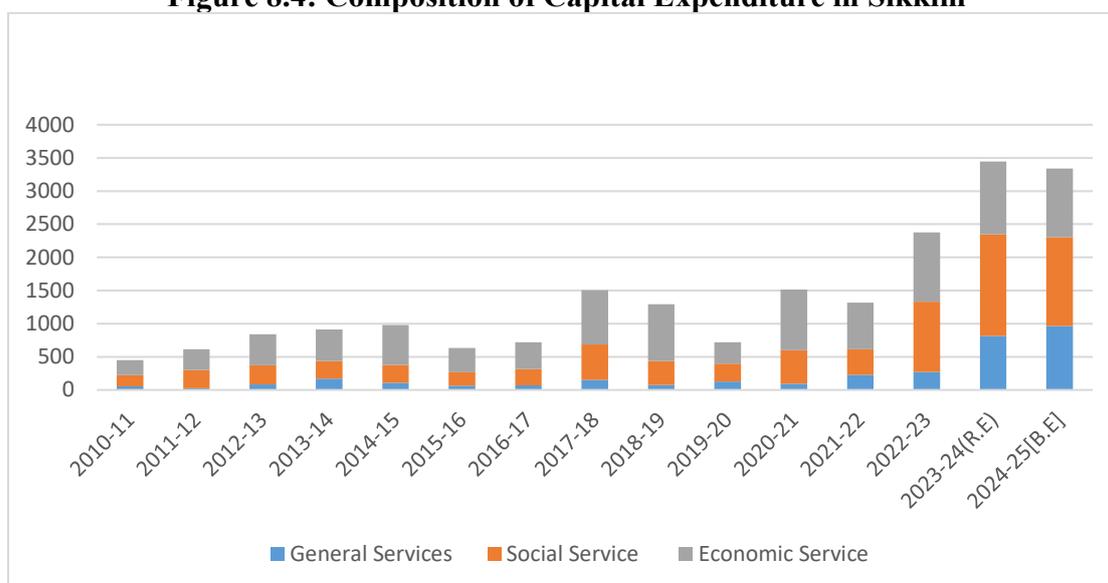
Source: Budget Papers, Government of Sikkim

Note: 2023 -24 is Revised Estimate; 2024-25 is Budget Estimate

Table 8.4 highlights the capital outlay of Sikkim over the years, showing significant trends in capital expenditure relative to GSDP. The Capital expenditure has increased over the time, starting at ₹451.07 crore, it is expected to reach ₹3,337.96 crore by 2024-25, with its percentage of GSDP also increasing from 4.47% to 13.87%, this indicating a substantial rise in infrastructure investment. The amount spent on capital projects peaked in 2017-18 at ₹1,506.78 crore (8.53% of GSDP), but it fell to ₹720.61 crore (3.7%) in 2019-20. Notably, this tendency has reversed, particularly in 2022-2023 with ₹2,376.60 crore (10.36% of GSDP) and ₹3,446.78 crore (13.84%). The Finance department has changed its projection for 2023–2024 and it is expected to be ₹ 3337.96 for 2024–2025.

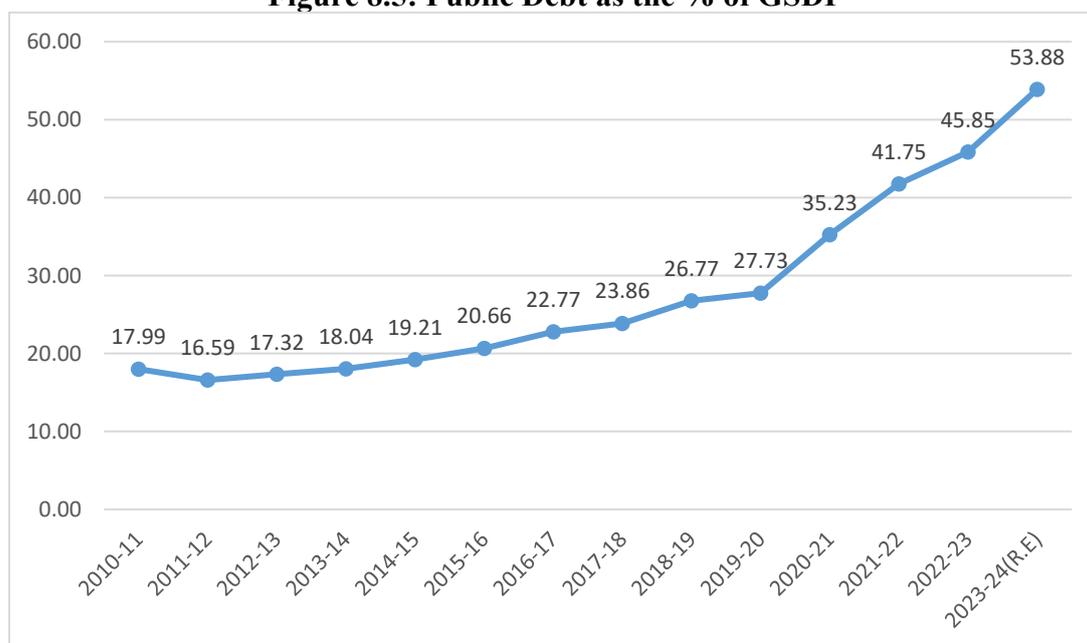
This increased trajectory is indicative of the state's dedication to capital investments, which are necessary for long-term economic and infrastructure development.

Figure 8.4: Composition of Capital Expenditure in Sikkim



Source: Budget Papers, Government of Sikkim
 Note: 2023-24 is Revised Estimate; 2024-25 is Budget Estimate

Figure 8.5: Public Debt as the % of GSDP



Source: Budget Papers, Government of Sikkim

Figure 8.5 Sikkim's public debt over various years about its Gross State Domestic Product (GSDP), highlighting the public debt as a percentage of GSDP. Following the guidelines set in 2010, the State Government aimed to keep this ratio at 25% by 2011-12. The ratio was approximately 18 percent in 2010-11 during the 13th Finance Commission, but

by 2014-15 it had risen to about 19 percent. Public debt increased steadily as the state entered the 14th Finance Commission period, reaching 27.73% by 2019-20, a sign of expanding borrowing requirements. During the 15th Finance Commission, the public debt reached to 35.23% in 2020-21 and estimated to reach 67.66% by 2024-25. (It should be kept in mind that, this debt situation is not result of 15th FC's action, but rather just occurred during this period). Concerns regarding debt management and fiscal sustainability are raised by this increase which is above the intended limits. The rising trend in these ratios, particularly in recent years, demonstrated the urgent need for efficient fiscal strategies to stabilize public debt relative to GSDP, despite the government's progress in debt management. The rising debt levels shows the necessity for ongoing reforms to maintain long-term fiscal health and adhere to the goals set out in the Sikkim FRBM Act, which aims to keep debt levels within manageable bounds.

8.4.1 FRMB Targets and Fiscal Achievements of the Government of Sikkim

After a 5.8% contraction brought by pandemic in 2020-21, the economy of India recovered strongly returning to its India has returned to pre-pandemic levels GDP growth rates such as 9.1% in 2021-22 and 7% in 2022-23. The challenges faced by the economy were high commodity prices, geo-political tensions, and inflation, which were trickled by increasing the consumer spending and production. The increase in public expenditure on infrastructure, improved internet services, and special assistance given to vulnerable and disadvantaged groups played a key factor in stimulating this recovery. The public expenditure is expected to be 8.2% growth in 2023–2024 [B.E] as the attention given to digital innovations and infrastructure continues and to deal the risks associated with the slower growth and global instability in wealthy countries. (Finance Department Gangtok,2023-2024) The recovery of the national economy has had a positive effect on public finances in the states Sikkim's finances has improved in the post-pandemic period.

The Sikkim government has updated the Fiscal Responsibility and Budget Management (FRBM) Act to meet to the recommendations made by the 15th Finance Commission. The state budget and fiscal policies are also drawn in the Medium-Term Fiscal Policy (MTFP) for 2024–2025. The Gross State Domestic Product (GSDP) of Sikkim has increased at an average rate of 7.82% between 2015–16 and 2022–23. It only grew by 0.33% in 2020–21. Since then onwards, the economy has been recovering. The increase in GSDP growth is expected to help to boost the state's revenue generation (Finance Department Gangtok,2024)

The key provisions of the Sikkim FRBM Act include:

- ❖ The requirement to present a Medium-Term Fiscal Plan (MTFP).
- ❖ Implementation of appropriate fiscal management principles outlined in the Act to meet established targets.
- ❖ Achievement of fiscal targets related to deficits, debt levels, and outstanding guarantees.
- ❖ Adoption of measures to enhance transparency in fiscal operations.
- ❖ Adherence to prescribed measures for ensuring compliance with the Act. (Dutta et.al,2018)

The FRBM Act requires the presentation of a Medium-Term Fiscal Plan (MTFP) alongside the budget in the State Legislative Assembly:

The FRBM Act of 2010 requires the presentation of a Medium-Term Fiscal Plan (MTFP) alongside the budget in the State Legislative Assembly:

- a. To transparently plan and state the government's fiscal position as projected in the budget.
- b. The MTFP for 2024-25 represents strategic resource allocation priorities and medium-term fiscal objectives.
- c. Projected goals that include the financial objectives for the upcoming budget year 2024-25 as well as for the next two years.
- d. The macroeconomic and fiscal performance of Sikkim are being also evaluated.
- e. The assumptions regarding revenue growth and expenditure restructuring are guided by the MTFP. The projections that are based on current trends and recent policy changes related to revenue enhancement strategies and expenditure priorities across different sectors are reviewed
- f. These are prepared according to the rules specified in the FRMB Act.

The state government regularly reviews the compliance by means of the FRBM Act, through a recognized independent institution, as required by the Act, and as recommended by the 13th Finance Commission. This process creates an institutional framework where an independent agency assesses the achievement of fiscal targets and management principles, enhancing transparency and accountability in fiscal management (MTFP for Sikkim, 2023-24 to 2025-26).

The government of Sikkim under FRBM must meet the following fiscal targets:

1. **Revenue Account Balance:** Starting from 2011-12 the government should maintain a balanced revenue account.
2. **Fiscal Deficit:** Reduce the fiscal deficits to 3.5% of the estimated Gross State Domestic Product (GSDP) each financial year from 2011-12, and to not more than 3% by March 31,

2014, which is continuing thereafter.

3. **Outstanding Guarantees:** Limit total outstanding guarantees as specified under the Sikkim Ceiling on Government Guarantees Act, 2000.
4. **Debt-GSDP Ratio:** Ensure the outstanding debt-GSDP ratio remains sustainable, following the deficit targets set since 2011-12. (Dutt et.al, 2018)

Table 8.4: Fiscal Indicators-Rolling Targets

Particulars	Previous Year (Y-4) Actuals	Previous Year (Y-3) Actuals	Previous Year (Y-2) Actuals	Current Year (Y-1) Revised Estimates	Ensuing Year (Y) Budget Estimates	Targets for Year (Y+1)	Targets for Year Y+2)
	2020-21	2021-22	2022-23	2023-24 (RE)	2024-25 (BE)	2025-26	2026-27
Revenue deficit as percentage of GSDP	2.32	-1.12	-1.11	-1.95	-0.95	-1.00	1.00
Fiscal deficit as percentage to GSDP	6.95	2.46	4.45	5.33	5.40	4.70	4.50
Primary deficit as percentage of GSDP	5.27	0.73	2.77	3.59	3.66	2.83	2.56
Total Debt Stock as Percentage of GSDP	39.42	29.50	29.70	32.16	34.36	35.66	35.62

Source: MTFP report, Finance Department, Govt of Sikkim.

Notes: 1. GSDP is the Gross Domestic Product at current prices given by CSO at 2011-12 base 2. The negative sign for revenue deficit indicates surplus.

Table 8.4 presents the fiscal outcome of the indicators like fiscal deficit, revenue deficit, and outstanding liabilities for previous, current, and future years, in accordance with the Sikkim FRBM Act rules (Form F-2). The figures for 2020-21, that is the latest audited year, shows that the State government exceeded the fiscal deficit targets, which goes beyond the allowable limit of 5% set by the effects of the Covid-19 pandemic. This mainly due the special assistance that boost capital spending which in turn increased fiscal deficit and secondly due to declining the transfers from central. The fiscal year 2021-22 shows that government has followed the FRBM target for to maintain the deficits. The government has balanced the budget deficit below 3% of its gross state domestic product (GSDP) and also achieved a surplus in its revenue account.

Furthermore, the debt-to-GDP ratio rose as a result of the use of special assistance to promote capital spending. The fiscal outcomes for 2022-23 reveals that the State government has maintained the FRBM Act targets, achieving a revenue surplus and keeping the fiscal deficit below 3% of GSDP. For 2023–2024 [R.E.], the budget deficit has gone beyond the 3.5% limitation because of an extra 0.5% in borrowing for the power industry.

The special support for capital expenditures and other borrowings of ₹ 7.98 Cr. is the reason. In the absence of these additional income, the budget deficit would only amount to 2.60 percent of GSDP. A revenue surplus of 1.95% of GSDP are also seen in the same year. For the 2024-25 (B.E), the fiscal deficit target is set at 2.70% of GSDP, along with extra borrowings for capital investments (1.95%), the power sector (0.30%) and pension funds (0.45%) that would result in aggregate fiscal deficit of 5.40%. The Medium-Term Fiscal Plan (MTFP) starts here. Forecasts for 2025-2026 and 2026-2027 are consistent with the FRBM Act as revised, including anticipation that the overall fiscal deficit would decrease to 4.70% of GSDP in 2025-2026 and 4.50% in 2026-2027. While the total amount of debt is rising, these estimates take into consideration the extra allowed borrowings (MTFP Report for Sikkim 2021-26).

8.4.2 Proposed MTFP Targets

1. Macro Parameters

- ❖ The projected nominal growth of GSDP is 11%, which slightly low the 15th Finance Commission's recommendation

2. Revenue Resources

- ❖ State Excise Duty: Compared to an observed coefficient of 0.740, the expected buoyancy of 1.00 is high.
- ❖ Sales Tax + GST: 1.305 is the assumed buoyancy, based on observations from 2011–12 to 2021–22.
- ❖ Stamp Duty and Registration Fees: Based on the past data from 2011-12 to 2021-22, the estimated tax buoyancy is 0.719.
- ❖ Motor Vehicle Tax: Assumed buoyancy is 1.00, while the observed buoyancy is 0.807.
- ❖ Other Taxes: Projected buoyancy is 0.50, contrasting with an observed buoyancy of -0.110.

3. Expenditure Projections:

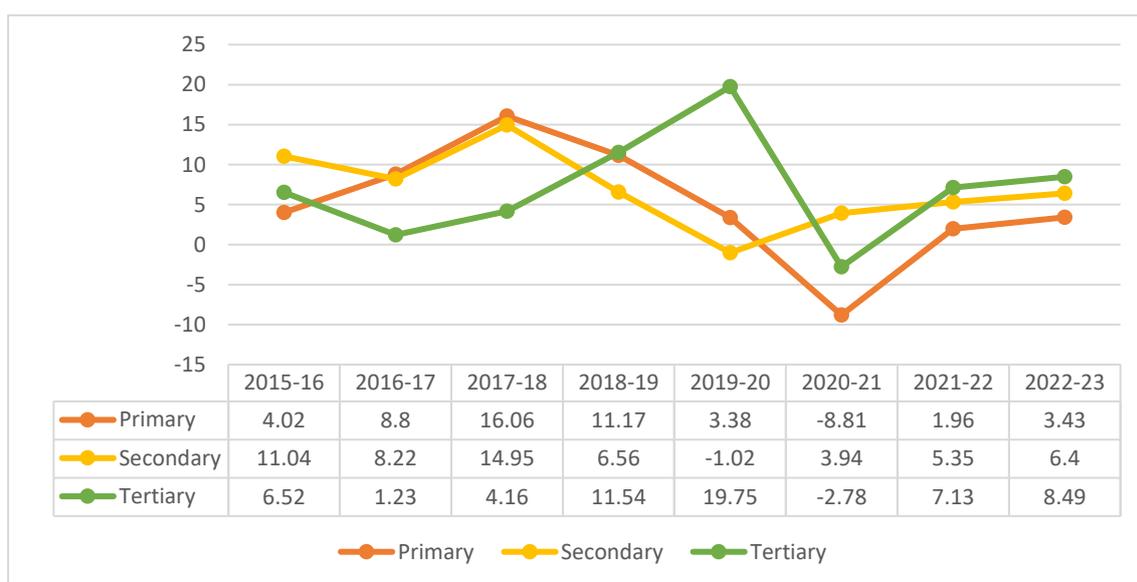
- ❖ Pension Payments: The projections are based on the needs of 2022–2023, and expected over the next two years by 11% growth rate.
- ❖ Interest Payments: Effective interest rate is estimated to be used or calculated by dividing the interest payments for 2022-23 to the previous year's debt stock.
- ❖ High-Priority Development Expenditure: The growth rates in social services, particularly in health and education, are expected to remain strong during the MTFP period.
- ❖ Social Services: Projected to grow at 13.78% annually in the last two years of the MTFP.
- ❖ Education Expenditure: Expected to increase at a rate of 13.28% annually in the final two years of the MTFP.

- ❖ Health Expenditure: Anticipated to grow by 16.37% per year.
- ❖ Capital Expenditure to GSDP Ratio: Projected to decrease from 4.17% in the budget year to 4% over the subsequent two years of the MTFP.

4. Deficit and Debt Targets

- ❖ The MTFP anticipates a revenue surplus throughout its duration.
- ❖ The fiscal deficit is expected to decrease from 4.00% to 3.5%.
- ❖ The outstanding debt-to-GSDP ratio is projected to drop from 44.11% in 2022-23 to 43.24% in 2023-24, and further to 42.45% in 2024-25 (MTFP for Sikkim, 2023-27).

Figure 8.6: Sector Growth Rates (%) in Sikkim



Source: MTFP report, Finance Department, Govt of Sikkim

Figure 8.6 sector growth rates in Sikkim from 2015-16 to 2022-23 highlight key trends, especially in the post-COVID years:

Primary Sector

- ❖ 2015-16 to 2019-20: Generally stable growth, peaking at 16.06% in 2017-18, but facing a decline to -8.81% in 2020-21 due to the pandemic.
- ❖ Post-COVID (2021-23): Gradual recovery with growth from 1.96% in 2021-22 and reaching 3.43% in 2022-23 are seen

Secondary Sector

- ❖ 2015-16 to 2019-20: Initial strong growth is seen, reaching at the peak at 14.95% in 2017-18, followed by a significant downturn to -1.02% in 2019-20.
- ❖ Post-COVID (2021-23): Modest recovery, with growth of 3.94% in 2020-21, which got stabilized at 6.4% by 2022-23.

Tertiary Sector

- ❖ 2015-16 to 2019-20: Healthy growth are seen initially, reaching the peak at 19.75% in 2019-20, then a sharp decline of -2.78% in 2020-21 due to pandemic restrictions were witnessed.
- ❖ Post-COVID (2021-23): Following COVID, there was a robust recovery, with growth of 7.13% in 2021–2022 and 8.49% in 2022–2023, indicating a recovery in services and tourism.
- ❖ The Sikkim’s economy has demonstrated, especially in the years after the COVID-19 pandemic, a notable recovery in every sector. The secondary and tertiary sectors particularly in tourism and services—are recovering more forcefully than the primary sector, which is recovering more slowly. Sustaining this development trajectory requires ongoing investment and assistance. (MTFP for Sikkim, 2023-27).

8.4.3 Achievements of the State under FRBM

Sikkim's post-pandemic fiscal approach and governance have been greatly influenced by the 15th Finance Commission in such a way by giving the state the authority to raise its fiscal deficit by 0.5% of GSDP. the 15th FC allowed for the required changes to be made in order to tackle new economic problems while maintaining budgetary discipline. Sikkim has modified the FRBM Act in accordance to the 15th FC's recommendations, by setting fiscal deficit objectives of 4% of GSDP for 2021–2022, 3.5% for 2022-2023, and 3% for 2023-2024. These are the main accomplishments of this organized strategy, which promotes sustainable budgetary management.

The state was granted an additional borrowing capacity of 0.5% of GSDP for the period 2021-22 to 2024-25, contingent on performance criteria in the power sector, enhancing financial flexibility for crucial investments. The 15th FC facilitated access to significant financial assistance for capital expenditure, including interest-free loans, enabling Sikkim to invest in infrastructure and other development projects crucial for economic recovery. The Medium-Term Fiscal Policy (MTFP) prepared for 2024-25 reflects the 15th FC’s recommendations, emphasizing resource allocation to priority areas and enhancing fiscal consolidation to support social and economic growth (MTFP for Sikkim, 2023-24 to 2026-27).

8.5 Major Findings

- ❖ The marked reduction in the fiscal deficit relative to Gross State Domestic Product (GSDP) in Sikkim was the result of the FRBM Act. It deteriorated from 4.27% in 2010-11 to 0.43%

in 2013-14, then stabilizing at 0.47% in 2016-17. But the difficulties occurred in the following years, especially since the COVID-19 pandemic.

- ❖ Sikkim has repeatedly recorded positive revenue surpluses, the highest figure at ₹1,060.94 Crore in 2017-18. These surpluses primarily depended on central transfers, which often involve a specific convention restriction.
- ❖ The fiscal deficit in Sikkim has begun to expand again in recent years, especially after the COVID-19 pandemic that caused economic disruption that led to an increased government spending to address the crisis reaching 4.36% in 2021-22.
- ❖ Sikkim FRBM Act seeks to maintain budgetary stability and transparency. It prepares of a Medium-Term Fiscal Plan (MTFP) that sets fiscal goals for three years as well as periodic evaluations by impartial agencies to guarantee compliance.
- ❖ The 2020 amendment of FRBM act addressed the financial strains brought on by the epidemic by temporarily easing the borrowing limitations. allowing for a maximum fiscal deficit of 4% of GSDP in 2021-22 and reducing to 3% in 2023-24.
- ❖ The fiscal deficit is still high at ₹2,523.06 Crore for 2024–2025 (Budget Estimates), expected revenue surplus of ₹924.04 Crore in 2023–2024 (Revised Estimates) shows a recovery, suggesting the success and setback of FRBM Act.
- ❖ Revenue expenditure have been regularly expanding from ₹2,011.93 Crore in 2010–11 to ₹10,249.79 Crore by 2024–25, and its share to GSDP went up from 19.96% to 42.60%. Sikkim prioritized health and social support throughout the pandemic, the expenditure was ₹6,368.64 in the year 2020-21.
- ❖ The state's own revenue has remained relatively steady at around 5.6% of GSDP, growing from ₹521.69 Crore in 2010-11 to an anticipated ₹3,090.51 Crore by 2024-25
- ❖ By 2024-25 the capital outlay is forecasted to recover to ₹3,337.96 million (13.88% of GSDP).
- ❖ The fluctuating buoyancy rates reveal equally accomplishments and obstacles, with a need to boost the sales tax performance to assure long-term fiscal sustainability.
- ❖ The tax devolution for each year shows a negative value, indicating that the transfers from the union government were much higher when compared to the state's total tax revenue collection.
- ❖ The composition of Sikkim's revenue expenditures shows a startling rise in overall revenue expenditure over time of 35%. In addition to increasing grant funding, the government has altered the proportion of general services.
- ❖ Social services expenditure has also grown significantly. Economic services, on the other

hand, grew by 25%, but their share decreased marginally from 24.73% in the 13th F.C. to 24.83% in the 14th F.C indicating a slower growth rate.

- ❖ Starting at ₹451.07 Cr in 2010–11, capital expenditure is predicted to rise to ₹3,337.96 Cr by 2024–25. Its share of GSDP also increased from 4.47% to 13.87%, indicating a significant increase in infrastructure investment.
- ❖ Following the guidelines set in 2010, the State Government intended to keep the public debt to GSDP ratio at 25% by 2011-12. The ratio was 18 percent approx. in 2010–11 during the 13th Finance Commission, but just to about 19 percent in 2014-15.
- ❖ Public debt increased steadily as the state entered the 14th Finance Commission, reaching 27.73% by 2019–20, a sign of expanding borrowing requirements. The condition worsened during the 15th Finance Commission.
- ❖ Except for the years of COVID-19, Sikkim mostly achieved the FRBM targets. In the first half of 15th FC (2020-21) the fiscal deficits crossed 5% but the following years was within the targets. Although the state witnessed a revenue surplus, borrowing for the power sector and capital expenditure exceeded 3.5% in 2023-24. This deficit is expected to be 5.40% in 2024-25 and then decline to 4.70 in 2025-26 and further decline to 4.50% in 2026-27.

8.6 Conclusion

Sikkim's financial situation under the FRBM Act led to a reduction in the fiscal deficit that is supported by a revenue surplus that mostly depends upon the central transfers during the 13th and 14th FC. However, the COVID-19 epidemic increased these fiscal deficits from 0.47% to 4.26% in 2021-22. The FRBM amendment of 2020 provided borrowing flexibilities to address the crisis, however, the deficits are expected to remain still high during 2024-2025 [B.E]. Revenue spending during the pandemic grew steadily, while the state 's own revenue remained constant. The Capital outlay is expected to recover by 2024-25 in the 15th FC period. State Government intended to keep the public debt to GSDP ratio at 25% by 2011-12. During the 13th FC and 14th FC Sikkim under the FRBM Act reduced the fiscal deficit and maintained the revenue surplus. During the 13th FC Sikkim relies on the central transfers, improving the tax system and sustaining revenue growth are crucial for Sikkim. To accelerate economic growth, the 15th FC has further extended its borrowing capacity and fiscal relief for capital expenditure. The MTFP 2024-25 stresses on resource allocation and fiscal reduction. The FRBM framework displays both attainments and issues in the financial structure of Sikkim.

8.7 Recommendations

- ❖ Sikkim Government must continue to make policies that focus on improving administration and execution of tax with adoption of new methods
- ❖ Even though the FRBM Act of 2010 has improved results in Fiscal Management. Govt must address and effectively manage the fundamental problem related to income generation and public expenditure
- ❖ The state can do more activity following the guidelines of MTFP, where it invests more on sectors that have high yields (Tourism and Organic Farming)
- ❖ The FRBM target and policy should be such that it aligns with State's fiscal need and development.

CHAPTER - 9
FINANCES OF LOCAL BODIES

9.1 Introduction

Sikkim, a small yet culturally diverse state in northeastern India, has established a distinctive framework for local governance tailored to its unique geographical and cultural context (Tamang, 2018). This framework is crucial for ensuring effective decentralized administration and fostering greater community engagement in governance at the grassroots level. 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 2025-2030 (Reddy, 2018). 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 (Rai, 2018).

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
Namchi	54	75,000	146,742
Gyalshing	33	116,600	136,299
Mangan	25	422,600	43,354
Gangtok	24	95,400	281,293
Soreng	36	29,300	64,760
Pakyong	27	40,400	74,583
Total	199	709,600	610,577

Source: Census of Sikkim, 2011 & PDI 2023.

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 location and competitive advantages. There is a greater need for rural – urban linkage.

9.1.2 Local Bodies in Sikkim

In Sikkim, local governance is structured through various local bodies that are responsible for grassroots-level administration and development (GOS,2015). **Table 9.2** provides the composition of Local bodies in Sikkim.

Table 9.2: No. of Local Bodies in Sikkim

PRIs & Urban Local Bodies	No. of Local bodies in Sikkim
Gram Panchayats (GPs)	199
Municipal Corporation	01
Municipal Councils	05
Nagar Panchayats	04

Source: DES&ME, Govt. of Sikkim 2022-23.

9.1.3 Devolution of powers to local bodies

The state government has taken a proactive step by devolving 29 subjects, as specified in Schedule XI of the Indian Constitution, to Panchayati Raj Institutions (Khadka, 2017). This move marks a significant advancement in decentralization, earning the state a spot among the top five in India for its commitment to empowering PRIs. However, the devolution of powers to urban bodies has been slower in comparison (Bhandari & Rai, 2017). To address the resource needs of local bodies (LBs), successive Finance Commissions have consistently recommended increased allocations from consolidated funds. Along with these grants from the Finance Commission, local bodies also receive financial transfers from the state government (Chopra & Sethi,2016).

9.2 Expenditure profile of Sikkim as a percent to GSDP.

Table 9.3 provides a detailed overview of the expenditure patterns of the population in Sikkim.

Table 9.3: Expenditure Pattern of Sikkim as % to GSDP

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Expenditure	21.76	21.95	24.97	25.68	25.36	24.60	23.49	28.06	31.73	32.56	32.17	34.46
General Services	6.74	7.71	8.54	9.29	8.66	9.23	8.65	10.52	12.41	12.35	12.34	13.47
Interest Payment	1.71	1.74	1.73	1.83	1.82	2.11	2.05	2.33	2.61	2.80	3.06	3.24
Pension	1.56	1.97	2.15	2.55	2.80	2.90	2.86	3.96	4.67	4.64	4.74	5.19
Other	3.47	4.00	4.67	4.91	4.03	4.22	3.74	4.24	5.13	4.91	4.53	5.35
Social Services	9.24	8.30	10.54	9.79	8.60	8.67	8.67	11.12	11.56	12.43	11.92	12.71
Education	4.38	4.63	5.33	5.58	5.38	5.00	4.77	5.34	6.81	6.40	6.20	6.21
Medical and Public Health	1.02	1.10	1.19	1.40	1.23	1.24	1.25	1.60	1.85	2.22	2.57	2.58
Other Social Services	0.16	0.15	0.28	0.06	0.05	0.25	0.22	0.15	0.12	0.05	0.20	0.18
Economic Services	5.50	5.74	5.60	6.28	7.83	6.34	5.82	6.06	7.32	7.30	7.38	7.84
Assignment to LB's	0.28	0.20	0.29	0.32	0.27	0.36	0.36	0.36	0.43	0.48	0.53	0.45

Source: Govt. Of Sikkim, Finance Department of Sikkim 2024

Sikkim's current allocation to Local Bodies stands at just 0.36% of its Gross State Domestic Product, a figure that is woefully inadequate for fulfilling the state's ambitious development goals. As tourism in the region continues to grow, the need for a strong and reliable local infrastructure and services has become more critical than ever. This increase in tourist activity places additional strain on existing resources and highlights the necessity for substantial improvements in facilities and services to enhance visitor experience and ensure community well-being. To truly capitalize on its potential and address these pressing demands,

Sikkim must make a significant increase in its financial commitments to Local Bodies. By doing so, the state can better support the development of essential services such as transportation, sanitation, and public safety, ultimately fostering a more sustainable and vibrant environment for both residents and tourists alike. Such an investment would not only help in achieving long-term developmental goals but also strengthen the overall economic resilience of 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. The General Basic Grant is much higher than that of General Performance Grant. Maximum allocation goes to PRIs as shown in **Table 9.4**.

Table 9.4: Grants from Finance Commissions

Particulars	Grants from 13 th FC			Grants from 14 th 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: 15th FC Report, GOS 2020.

Table 9.5 reflects the funds transfers from State Govt to the GPs. However results reflects 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.

Table 9.5: Fund Transfers from State Government to GPs.

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

Source: Budget Papers, Government of Sikkim 2022.

Note: Data updates are not available beyond this period.

9.2.2 Taxes levied by GPs in Sikkim

In Sikkim, Gram Panchayats (GPs) generate revenue through various principal taxes and fees, which play a vital role in local governance and community services (Bhandari & Rai,2017). The main sources of revenue include:

1. **Household Tax:** A tax imposed on residential properties that contributes to the local budget.
2. **Sale of Tender Forms:** Fees charged to those wishing to participate in bidding for local contracts and projects.
3. **Building Construction Fee:** Charges collected for permits related to construction, ensuring compliance with local building regulations.
4. **Miscellaneous Receipts:** This category encompasses various income sources, including: Interest earned from bank deposits, Donations from community members or organizations, Income from the disposal of unserviceable items, Fees for the use of community facilities such as the Panchayat Ghar and 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 expenditure of PRs primarily consists of honorarium payments, discretionary grants, expenditure on salaries/ wages and office expenses (Chopra & Sethi,2016).

9.2.3 Own Revenue of Local Bodies of Sikkim.

The own revenue of local bodies in Sikkim refers to the income generated by urban and rural local governments through their own sources, rather than relying on grants or transfers from the state or central government (Dutta et.al, 2020). This revenue is crucial for local bodies as it enables them to fund various services and developmental projects independently (Dafflon, 2011). **Table 9.6** represents the own revenue of Sikkim analysis shows the increasing own revenue of local bodies, particularly in urban areas, underscores the importance of local governance in financial sustainability. While rural areas show potential for growth, targeted strategies may be required to enhance revenue generation in these regions. Overall, the data reflects a positive trend in local financial autonomy, essential for fostering sustainable development in Sikkim.

Table 9.6: Own Revenue of Local Bodies of Sikkim.

	2015-16	2016-17	2017-18	2018-19	2019-20
Own Source of Revenue (Urban)	552.53	710.44	1171.53	1041.64	1206.44
Own Source of Revenue (Rural)	99.6	91.07	111.04	139.84	150.26

Source: Budget Documents, Govt. of Sikkim 2021.

Note: Updates are not available beyond this period

9.2.4 Revenue of Zilla Panchayat in Sikkim

Table 9.7 gives the revenue of Zilla Panchayat. The table highlights the financial challenges faced by Zilla Panchayats in Sikkim, emphasizing their reliance on state funding rather than developing a robust local revenue generation system. It shows the total own revenue, assignment/devolution funds, grants-in-aid from the state government, total revenue, and the total revenue as a percentage of the Gross State Domestic Product (GSDP). **Assignment/Devolution** column shows the funds received by the Zilla Panchayats from the state government as a part of the devolution process. There is a steady increase in these funds over the years. **Grant-in-Aid from State Govt** column shows the additional grants received by the Zilla Panchayats from the state government. There is a slight increase in these grants initially, followed by a more significant rise in recent years. **Total Revenue** column shows the total revenue of the Zilla Panchayats, which is the sum of the own revenue, assignment/devolution funds, and grants-in-aid.

The total revenue has been steadily increasing over the years. The total revenue as a percentage of the Gross State Domestic Product (GSDP). This metric gives an idea of the

relative contribution of the Zilla Panchayats to the state's economy. The percentage has been increasing consistently, indicating a growing contribution of the Zilla Panchayats to the state's economy. The absence of own tax revenue and the low levels of non-tax revenue limit the Panchayats ability to address local needs effectively. Moreover, fluctuations in grants from the state government suggest a lack of stable financial planning, which could impact long-term development goals at the local level. This situation calls for strategies to enhance local revenue generation and reduce dependency on state allocations.

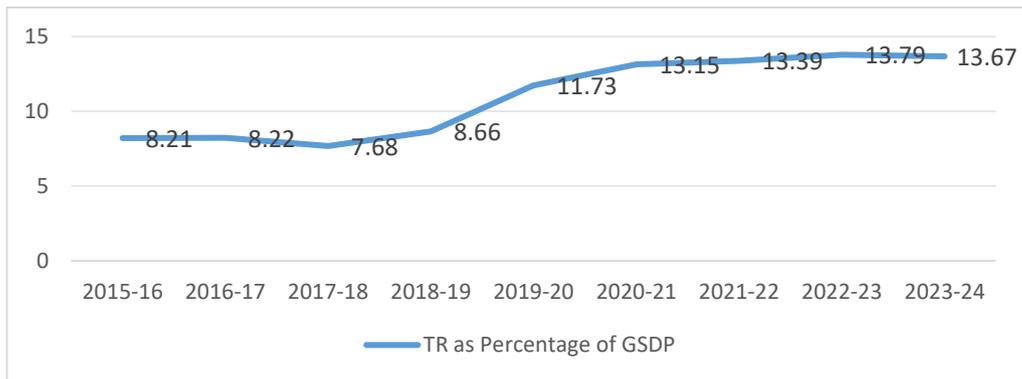
Table 9.7: Revenue of Zilla Panchayats in Sikkim.

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total Own Revenue	NA								
Assignment+Devolution	267.81	632.66	690.15	713.14	948.98	1366.19	1419.18	1735.4	1835
Grant in Aid from State Govt	912	633.4	668	900.83	1317.41	1182.25	1365.39	1407.85	1534.96
Total Revenue	1179.81	1266.06	1358.15	1613.97	2287.53	2571.96	2818.11	3166.4	3404.97
TR as Percentage of GSDP	8.21	8.22	7.68	8.66	11.73	13.15	13.39	13.79	13.67

Source: Budget Report, GOS 2024.

The **Fig 9.1** illustrates the trend in the Total Revenue (TR) of Zilla Parishads as a percentage of the Gross Domestic Product (GDP) over the years 2015-16 to 2023-24. The graph shows a relatively stable period from 2015-16 to 2017-18, with the percentage of TR/GSDP fluctuating slightly around the 8% mark. From 2018-19 onwards, there is a noticeable upward trend in the percentage of TR/GSDP. This indicates that the Zilla Panchayats' revenue has been increasing at a faster rate than the overall state economy. The highest point reached in 2021-22, where the TR/GSDP percentage exceeded 14%. This suggests that the Zilla Panchayats experienced a significant boost in revenue during that year. In the most recent year, 2023-24, there is a slight dip in the TR/GSDP percentage, though it remains above 13%.

Figure 9.1:TR of ZP as % of GDP



Source: Budget Report, GOS 2024.

9.2.5 Expenditure of Zilla Parishad

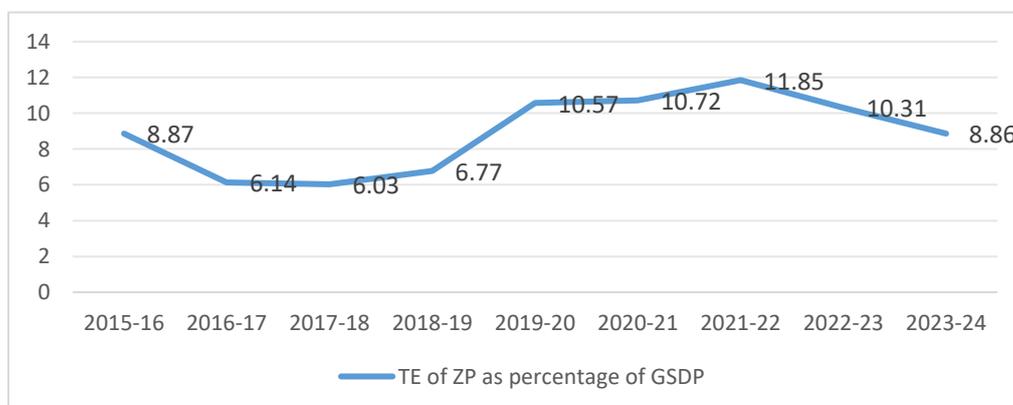
The **Table 9.8** shows the expenditure of the Zilla Parishad. It categorizes the expenditure into two main types: Revenue Expenditure (the day-to-day expenses incurred by the Zilla Parishad to run its operations and provide services includes salaries, wages, maintenance costs, administrative expenses) and Capital Expenditure (represents the investment made by the Zilla Parishad in creating long-term assets like infrastructure projects, building schools, hospitals, roads, etc.) and also shows the total expenditure each year (the sum of Revenue Expenditure and Capital Expenditure for each year). There's a general upward trend in Revenue Expenditure over the years, with a significant jump in 2019-20 and 2020-21. It could be due to increased operational costs or expansion of services. Capital expenditure fluctuates across the years, with peaks in 2019-20 and 2021-22, suggesting periods of higher investment in infrastructure and development projects. The positive correlation between TE of ZP as a percentage of GSDP and GSDP suggests a connection between the Zilla Parishad's expenditure and the state's economic performance. However, further analysis is recommended to understand the underlying factors driving these trends and expenditure allocations.

Table 9. 8: Expenditure of Zilla Parishad

	Revenue Expenditure	Capital Expenditure	Total Expenditure	TE of ZP as percentage of GSDP
2015-16	1081.08	194.9	1275.98	8.87
2016-17	787.83	158.93	946.77	6.14
2017-18	843.75	223.61	1067.36	6.03
2018-19	1028.71	234.06	1262.77	6.77
2019-20	1606.35	455	2061.35	10.57
2020-21	1692.76	405.31	2098.07	10.72
2021-22	2318.54	139.52	2458.06	11.85
2022-23	2255.47	110.85	2366.32	10.31
2023-24	1983.01	224.39	2207.41	8.86

Source: Budget Report, GOS 2024.

The Fig 9.2 illustrates the trend in the Total Expenditure (TE) of Zilla Parishads as a percentage of the Gross State Domestic Product (GSDP) over the years 2015-16 to 2023-24. There is a general upward trend in the TE of Zilla Parishads as a percentage of GSDP during this period. This indicates that Zilla Parishads have been increasing their expenditure relative to the overall state economy.

Figure 9.2: TE of Zilla Parishad as Percentage of GSDP

Source: Budget Report, GOS 2024.

9.2.6 Revenue of Gram Panchayat

Table 9.9 gives the revenue pattern of the Gram Panchayat. The data reflects the Gram

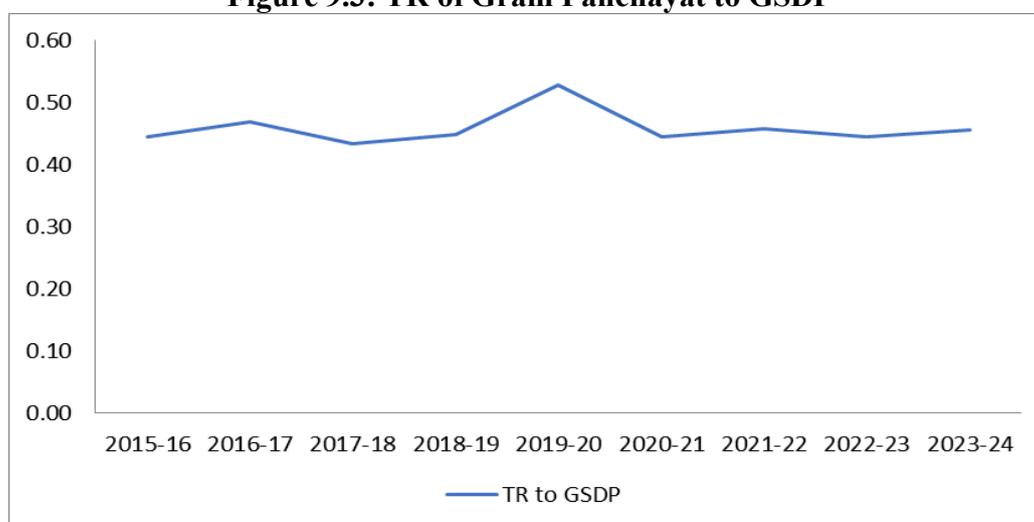
Panchayat's heavy reliance on state grants and allocations. The slight increase in total own revenue is promising but still minimal. The fluctuations in grant aid indicate a vulnerability to changes in state funding policies, which could impact the Gram Panchayat's ability to meet local needs. Overall, while there has been some growth in total revenue, the lack of a robust local revenue base remains a significant challenge for effective governance and development at the grassroots level.

Table 9.9: Revenue of Gram Panchayat

	Total Revenue Gram Panchayat								
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total Own Revenue	2.07	2.93	3.09	5.92	5.54	4.79	5.52	6.62	6.75
Assignment +Devolution	22.29	37.22	43.92	45.36	60.80	49.37	47.64	54.57	50.40
Grant in Aid from State Govt	39.32	34.85	29.42	32.27	36.59	32.51	41.45	40.70	56.25
Total Revenue	63.68	72.00	76.43	83.56	102.93	86.68	94.61	101.89	113.40
TR to GSDP	0.44	0.47	0.43	0.45	0.53	0.44	0.46	0.44	0.46

Source: Budeget Report, GOS 2024.

Figure 9.3: TR of Gram Panchayat to GSDP



Source: Budeget Report, GOS 2024.

Prior to Sikkim became the 22nd state of India, urban areas were managed by the Bazaar Department. Following the merger, the Gangtok Municipal Corporation Act was enacted, but the GMC was later abolished under the Sikkim (Repeal and Miscellaneous Provisions) Act of 1985, with its powers and functions returned to Local Self Government. On July 28, 1990, the Local Self Government was rebrand as the Urban Development and Housing Department. In Sikkim, the decentralization of power in rural areas represents a significant achievement for the State Government. More authority has been transferred to villages through Panchayati Raj institutions, allowing citizens to actively participate in planning and implementing local schemes. The State has conducted a mapping exercise to clarify the distribution of functions between the State Government and local governments in both rural and urban areas. Funds are allocated to these bodies to ensure they can effectively carry out their responsibilities. Services such as primary schools, health centers, libraries, community information centers, and small-scale irrigation projects have been handed over to the Panchayats. Sikkim was recognized as the 3rd Best State in Panchayati Raj in 2006-07, the 2nd Best in 2009-10, and again the 3rd Best in 2010-11, as noted on February 26, 2016. The Urban Local Bodies, established in 2010-11, are still in their formative stages and require adequate funding to fulfill their designated functions and responsibilities. Analyzing the state's financial transfers to urban and rural local bodies involves understanding both the amount of funding provided and the qualitative aspects of these transfers. This analysis should be contextualized within the recommendations of the Central and State Finance Commissions

9.2.7 Expenditure of Gram Panchayat

Table 9.10 highlights the expenditure of Gram Panchayat. The data reveals a trend of increasing expenditure by the Gram Panchayat, particularly in revenue spending, which is vital for operational efficiency. But in the year 2023-24 the upward trajectory changed to opposite. However, the lack of capital expenditure raises concerns about the long-term development and infrastructure investment necessary for sustainable growth. The significant revenue expenditure as a percentage of GSDP underscores the role of local governance in the state's economic framework, but the absence of investment in capital projects could hinder future progress. This situation suggests a need for balanced financial strategies that include both operational and capital investment

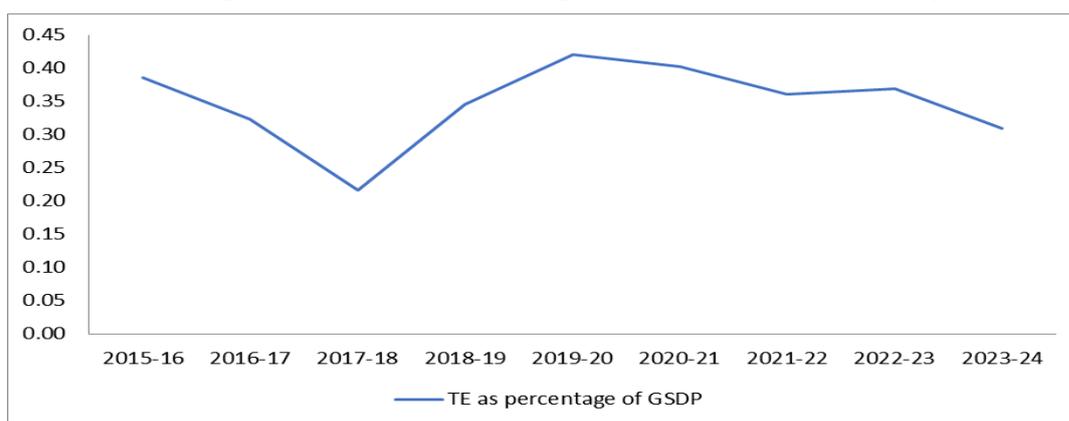
Table 9.10: Expenditure of Gram Panchayat.

	Total expenditure Gram Panchayat								
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Revenue Expenditure	39.65	35.88	20.45	49.19	32.71	60.73	57.04	65.04	30.48
Capital Expenditure	15.75	12.40	17.76	15.15	42.46	18.05	18.09	19.82	47.85
Total Expenditure	55.40	49.86	38.23	64.35	81.98	78.62	74.89	84.55	77.15
TE as percentage of GSDP	0.39	0.32	0.22	0.35	0.42	0.40	0.36	0.37	0.31

Source: Budeget Report, GOS 2024.

The **Fig 9.4** illustrates the trend in the Total Expenditure (TE) of Gram Panchayats as a percentage of the Gross Domestic Product (GDP) over the years 2015-16 to 2023-24. The ratio of the total expenditure of Gram Panchayats to the GSDP expresses how significant the local governance spending is in relation to the overall economy of the state. This metric helps in understanding the scale and impact of local governance on the state's economy. The figure highlights the extent to which local governance bodies, like Gram Panchayats, are financially supported to perform their functions. A higher percentage indicates a substantial allocation of resources towards local governance, which is crucial for decentralized administration.

Figure 9.4: TE as Percentage of GDP of Gram Panchayat



Source: Budget Report, GOS 2024.

Table 9.11 Year-wise Distribution of 4.5% of Net Own Tax Revenue to individual ULBs for the period 2020-25 (₹ in Lakh)

Name of Urban Local Body	2020-21	2021-22	2022-23	2023-24	2024-25
Gangtok Municipal Corporation	574.87	628.83	689.24	756.91	832.80
Namchi Municipal Council	69.88	76.44	83.78	92.01	101.23
Gyalshing Municipal Council	23.00	25.16	27.58	30.29	33.32
Jorethang Municipal Council	51.64	56.49	61.92	68.00	74.81
Mangan Nagar Panchayat	26.62	29.12	31.92	35.05	38.57

Table. 9.12: Year-wise Distribution of 4.5% of Net Own Tax Revenue to individual ULBs for the period 2020-25(₹ in Lakh)

Name of Urban Local Body	2020-21	2021-22	2022-23	2023-24	2024-25
Rangpo Nagar Panchayat	59.90	65.52	71.82	78.87	86.78
Singtam Nagar Panchayat	33.64	36.80	40.33	44.29	48.73
Total	839.55	918.36	1006.59	1105.42	1216.24

9.3 Findings

- ❖ The state government has devolved 29 subjects to PRIs, but devolution to urban bodies has been slower.
- ❖ The own revenue of local bodies, especially in rural areas, is relatively low, hindering their financial autonomy and capacity to undertake independent projects.
- ❖ Zilla Panchayats rely heavily on state funding, with no significant own tax revenue, making them vulnerable to changes in state funding policies.
- ❖ Decentralization has been more pronounced in rural areas through the empowerment of Panchayati Raj Institutions.

9.4 Conclusion

Sikkim shows a rapid urbanization and the increasing pressure on local bodies to meet the needs of the population. Local bodies in Sikkim are heavily dependent on state grants, which can lead to financial instability and limited autonomy. The capacity of local bodies to generate their own revenue is limited, hindering their ability to meet local needs and undertake development projects. By addressing the issues of financial dependence, resource mobilization, expenditure patterns, and financial management, Sikkim can enhance the effectiveness and efficiency of its local governance system. The allocation to local bodies as a percentage of GSDP is low, indicating a need for increased financial support from the state government to enable them to effectively fulfill their responsibilities. While devolution of powers has made significant strides in rural areas, progress in urban areas has been slower. This imbalance requires attention to ensure equitable distribution of powers and resources across all tiers of local governance. Issues related to financial management, including inefficient resource utilization and a lack of transparency, require attention to ensure the effective and accountable use of public funds.

9.5 Recommendations

- ❖ The state government should significantly increase its financial allocations to local bodies, commensurate with their responsibilities and the needs of their communities.
- ❖ Accelerate the devolution of powers and functions to urban bodies and provide adequate

support and capacity building initiatives for local body officials and staff.

- ❖ Improve coordination and communication between different levels of government to ensure effective resource allocation and utilization.
- ❖ Invest in capacity building programs for local body officials and staff to enhance their skills in financial management, revenue generation, and service delivery.

CHAPTER - 10
IMPACT OF STATE PUBLIC SECTOR UNDERTAKINGS
(PSUs) ON STATE FINANCE

10.1 Introduction

In India, State Public Sector Undertakings (PSUs) refer to enterprises that are owned and operated by state governments. These organizations play a crucial role in the economic development of states by engaging in various sectors such as energy, transportation, agriculture, and manufacturing (Bhattacharya, 2020). State Public Sector Undertakings (SPSUs) in Sikkim play a pivotal role in the state's economic development. These entities contribute significantly to job creation, investment attraction, and overall economic growth. Sikkim maintains a moderate number of SPSUs, primarily structured as corporations (Mishra, 2007). The following table provides an overview of the SPSUs in Sikkim and their financial performance. The key objectives of SPSUs:

1. Economic Development: Foster industrialization and support the economic growth of the state and to generate revenue for the state government through various business activities.
2. Employment Generation: Create job opportunities for local populations, thereby reducing unemployment rates.
3. Providing Essential Services; Deliver critical services such as electricity, transportation, and healthcare, especially in areas that may not attract private investment.
4. Infrastructure Development: Invest in and develop infrastructure projects, including roads, power plants, and public transportation systems, to enhance connectivity and accessibility.
5. Promotion of Local Industries: Support small and medium enterprises (SMEs) by providing resources, funding, and infrastructure, promoting self-sufficiency and local entrepreneurship.
6. Social Welfare: Engage in corporate social responsibility (CSR) initiatives to improve the quality of life, focusing on education, health, and community development.
7. Regional Development: Address regional imbalances by promoting development in less economically advanced areas, ensuring equitable growth across the state.
8. Sustainability: Implement environmentally sustainable practices in operations, contributing to ecological balance and promoting renewable resources.
9. Market Stability: Act as stabilizers in the economy by regulating prices and providing goods and services that might not be profitable for private enterprises. These objectives

reflect the commitment of state PSUs to not only drive economic growth but also to ensure social equity and sustainable development in their respective regions.

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: *Commerce and Industries Development of Sikkim 2024.*

Sikkim's small size and limited industrial development have meant that the state has leaned heavily on State Public Sector Undertakings (SPSUs) for its economic growth (Katyal, 2005). However, some of these SPSUs faced financial difficulties and ultimately had to shut down. This situation has sparked important discussions about the future of the remaining SPSUs, as they continue to place a significant burden on the state's finances. Finding a sustainable path forward is crucial for Sikkim's economic stability.

10.2 Composition of SPSUs in Sikkim.

Table 10.2 shows the categories of SPU in Sikkim of all the state PSU's six are companies, three are Board (of which one is Departmental Organization) and seven are departmental organization. The categorization of SPU in Sikkim reveals a multifaceted strategy aimed at balancing economic growth with social welfare. The combination of companies, cooperatives, boards, and departmental organizations illustrates a holistic approach to development (GOS, 2019). By integrating various organizational structures, Sikkim not only

promotes efficiency and profitability but also ensures community engagement and public service delivery(Kumar, 2017). This model can serve as a valuable reference for other regions aiming to leverage public sector undertakings for sustainable development.

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: Budget Papers, Government of Sikkim 2024.

10.3 Financing Pattern of the SPSUs

The state government provides financial assistance to State Public Sector Undertakings (SPSUs) through various means, including capital support, budgetary support, and grants(Kumar,2017). Over the years, the total financial support for SPSUs has increased significantly, rising from 84.16 crore rupees in 2010-11 to 424.21 crore rupees in 2024-25.

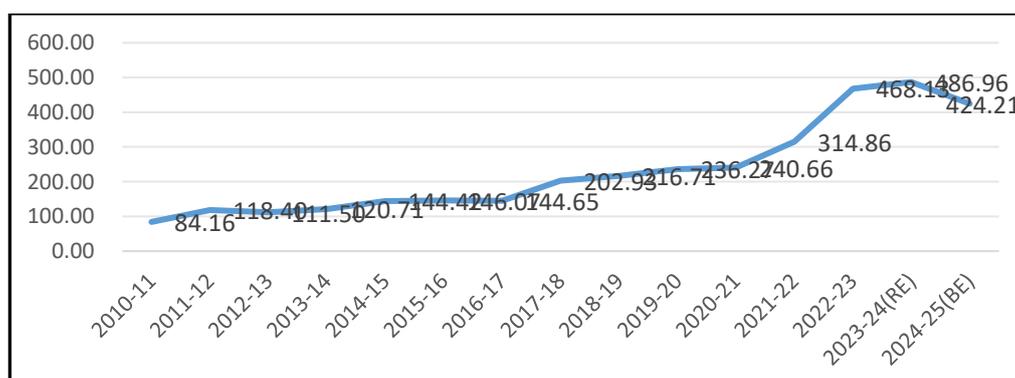
Table 10.3 shows the breakdown of the state’s investment in SPSUs during this period.

Table 10.3: Sectorial Investment of the State in SPSUs (in ₹ Cr).

Sector	Welfare of SCs/STs/OBCs	Dairy Development	Co-operation	Village & Small Industries	Industries	Non-Ferrous Mining and Metallurgical Industries	Road Transport Services	Tourism	Civil Supplies	Total
2010-11	13.31	1.04	8.81	16.14	2.19	2.49	28.25	11.31	0.61	84.16
2011-12	19.12	2.32	8.85	16.55	27.52	2.53	32.13	8.92	0.44	118.40
2012-13	19.99	2.99	11.07	15.91	6.23	3.15	35.84	15.86	0.47	111.50
2013-14	25.99	1.74	10.96	19.36	6.97	3.58	39.65	11.97	0.49	120.71
2014-15	27.31	3.73	9.81	19.39	16.70	3.78	44.38	18.69	0.62	144.42
2015-16	30.92	5.43	11.49	22.24	7.02	3.70	43.13	21.33	0.81	146.07
2016-17	29.11	0.93	13.66	22.48	4.50	4.56	49.94	18.52	0.96	144.65
2017-18	34.92	0.78	15.39	59.87	4.75	4.96	57.67	23.44	1.14	202.93
2018-19	69.61	0.52	16.68	23.74	7.74	6.33	62.93	26.94	2.22	216.71
2019-20	58.89	0.33	16.98	36.88	4.23	6.52	78.14	32.18	2.13	236.27
2020-21	73.29	12.33	15.44	35.77	6.15	5.45	63.84	26.68	1.71	240.66
2021-22	113.35	14.17	16.84	44.84	8.36	6.25	71.66	37.21	2.18	314.86
2022-23	233.83	13.57	20.58	52.88	14.77	7.27	74.36	48.17	2.70	468.13
2023-24(RE)	245.77	20.87	25.93	55.16	10.84	7.29	77.89	39.84	3.36	486.96
2024-25(BE)	96.48	9.00	37.19	82.76	26.01	8.45	93.04	67.66	3.62	424.21

Source: Budget Papers, Government of Sikkim 2024.

Fig 10.1: Financing pattern of SPSUs in Sikkim (in ₹ Cr).



Source: Budget Papers, Government of Sikkim 2024.

10.4 Total income from the SPSUs

The state makes a decent amount of money from its State Public Sector Undertakings (SPSUs), both in terms of revenue and capital. Here's a breakdown of the total income.

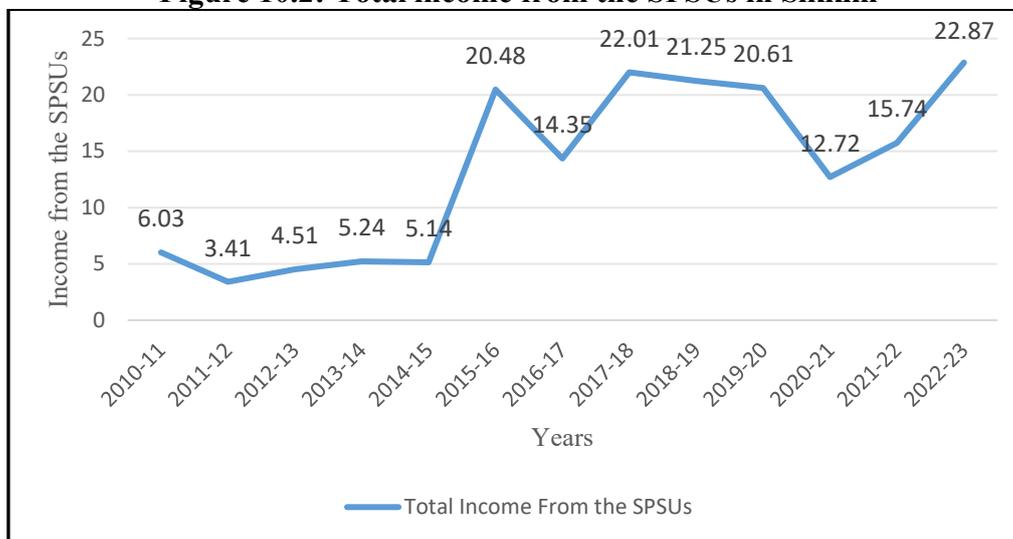
Table 10.4 Sectarian Total income from SPSUs in Sikkim (in ₹ Cr).

Sector	Dividends and Profits from SPSUs	Welfare of SCs/STs/OBCs	Food, Storage & Warehousing	Cooperation	Village & Small Industries	Tourism	Total
2010-11	2.37	0.44	0.11	0.04	0.07	3.00	6.03
2011-12	0.00	1.30	0.16	0.00	0.10	1.84	3.41
2012-13	1.53	0.70	0.08	0.00	0.06	2.13	4.51
2013-14	0.55	1.86	0.09	0.02	0.08	2.65	5.24
2014-15	0.87	1.40	0.08	0.02	0.13	2.64	5.14
2015-16	12.70	3.67	0.07	0.01	0.07	3.96	20.48
2016-17	2.01	6.64	0.12	0.05	0.12	5.42	14.35
2017-18	2.92	13.56	0.10	0.11	0.19	5.14	22.01
2018-19	4.38	10.30	0.10	0.10	0.22	6.16	21.25
2019-20	3.21	5.22	0.19	0.08	0.24	11.67	20.61
2020-21	2.78	6.19	0.15	0.04	0.12	3.44	12.72
2021-22	1.45	9.35	0.57	0.06	0.19	4.12	15.74
2022-23	4.1186	8.3456	0.2189	0.0704	0.2495	9.8696	22.87

Source: Budget Papers, Government of Sikkim

The accompanying graph illustrates the income trend of State Public Sector Undertakings (SPSUs) over the specified period. A sharp increase in income was observed between 2012 and 2015, followed by a decline. Subsequently, income began to rise rapidly again from 2017 to 2018, before experiencing a gradual decrease culminating in a sudden drop in 2020-21(Fig 10.2).

Figure 10.2: Total income from the SPSUs in Sikkim



Source: Budget Papers, Government of Sikkim 2024.

10.5 Policy of Government of Sikkim on Privatization and Disinvestment

The **Government of Sikkim's policy on privatization and disinvestment** refers to the state's approach to reducing its stake in public sector enterprises (PSEs) by selling or transferring ownership to the private sector. Privatization and disinvestment policies are typically adopted by governments to improve efficiency, reduce fiscal burdens, or promote private investment in key sectors (Bhattraï & Rai, 2020).

10.5.1 Rationale

- I. The Government of Sikkim generally acknowledges the necessity of restructuring State Public Sector Undertakings (SPSUs) in light of economic liberalization, which is fostering private sector growth.
- II. Decisions about restructuring SPSUs will be made individually, based on specific circumstances.
- III. The workforce in the SPSUs will be adjusted through a Voluntary Retirement Scheme (VRS).
- IV. The social impact of restructuring will be carefully considered when determining which SPSUs to keep under government management.

10.5.2 Objectives

1. The policy aims to streamline state-owned enterprises by adopting private sector practices and

reducing bureaucratic hurdles. This is intended to enhance the competitiveness of these enterprises.

2. Many state-owned enterprises are struggling with inefficiencies, leading to financial losses. By divesting from these nonperforming businesses, the government aims to reduce the financial burden on taxpayers.
3. By divesting from state-owned enterprises, the government can focus on its core responsibilities, leading to improved governance and efficient resource allocation.
4. The policy aims to foster sustainable development by ensuring that the privatization of state-owned enterprises benefits the state's economy and society.
5. The government hopes to attract private investment and management expertise to modernize operations and improve service delivery.

10.5.3 Preconditions and Criteria

The Sikkim government aims to ensure that the disinvestment process doesn't lead to the unfair transfer of state assets. They also want to avoid creating private monopolies (Sharma, 2018).

Here's a breakdown of their criteria for disinvestment/privatization

1. **Consistent Loss:** Public sector units that have been incurring losses for the past three years are potential candidates for disinvestment or privatization.
2. **Dividend Default:** Units that haven't paid dividends to the state government for the past three years are also being considered.
3. **Low Return:** Businesses with a return on investment lower than the prime lending rate of nationalized banks may be on the disinvestment list.

10.6 Reform Status of the SPSUs in Sikkim

Table 10.5: Government Investment and Reforms of SPSUs in Sikkim

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	2021-22
2.	Sikkim Mining Corporation	6.12	Equity share	2006-07
3.	State Trading Corporation of Sikkim	1.61	Equity share	2021-22
4.	Sikkim Time Corporation	13.72	Equity share	2011-12
5.	Sikkim Industrial Development and Investment Corporation	17.14	Equity share	2022-23
6.	Sikkim Livestock Development Corporation	0.22	Equity share	Closed

7.	Sikkim Livestock Development Processing	0.69	Equity share	2013-14
8.	Sikkim Tourism Development Corporation	6.46	Equity share	2016-17
9.	Sikkim Power Development Corporation	74.84	Equity share	2020-21
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	2.43	Equity share	Info Not available
15.	Sikkim Flour Mills Ltd.	2.65	Equity share	1994-95(Privatized)
16.	Cold Storage	0.28	Equity share	(Privatized)
17.	Indian Telephone Industries	0.26	Equity share	Non-Existing
18.	Ginger Processing Plant	0.01	Equity share	Non-Existing
19.	Investment in B.O.G Ltd	0.14	Equity share	Non-Existing
20.	Chandmari Workshop & Automobiles Ltd.	0.30	Equity share	1994-95 (Closed)
21.	Sikkim Precision Industries Ltd.	4.30	Equity share	2010-11
22.	Sikkim Himalayan Orchid Ltd.	0.16	Equity share	Information not available
23.	Sikkim Handloom & Handicraft	0.92	Equity share	2014-15
24.	Sikkim Flora Ltd.	0.15	Equity share	Information not available
25.	State Bank of India	0.003	Equity share	Information not available
26.	Sikkim Consumers'Co-operative Society	0.99	Equity share	2011-12
27.	Multi-purpose Co-operative Society	1.14	Equity share	2011-12
28.	Investment in State Co-operative Bank (SISCO)	9.36	Equity share	2011-12
29.	Sikkim Dairy Co-operative Society (Sikkim Milk Union)	0.03	Equity share	2021-22
30.	Joint Ventures	0.51	Equity share	Information Not available
31.	Wood Working Centre, Singtam	0.01	Equity share	Closed
32.	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 & State Finance Audit Report for the year ended in 31 March 2023

10.7 Findings

- ❖ The financial burden on the state government due to SPSUs, particularly those incurring losses, has been significant.
- ❖ SPSUs play a crucial role in providing essential services and employment opportunities, especially in rural areas. Their performance and sustainability impact the overall socio-economic development of Sikkim.
- ❖ Developing long-term strategic plans can help SPSUs align their operations with the state's development goals.
- ❖ The policy on privatization and disinvestment aims to reduce the government's financial burden, attract private investment, and improve service delivery.

10.8 Conclusion

The State has made significant progress in streamlining its investments in State Public Sector Undertakings (SPSUs). It has shut down enterprises that have consistently incurred losses or have not paid dividends to the state for the past three years. Additionally, the State has worked to lower its overall investment in these SPSUs, easing the financial strain on the budget. The chapter highlights the state's significant financial investment in SPSUs. While some have shown positive financial performance, others have faced challenges, including losses and financial instability. The Government of Sikkim has recognized the need for reform and restructuring of SPSUs. The policy on privatization and disinvestment aims to improve efficiency, reduce financial burdens, and attract private sector participation. The Government of Sikkim has recognized the need for reform and restructuring of SPSUs. The policy on privatization and disinvestment aims to improve efficiency, reduce financial burdens, and attract private sector participation.

10.9 Recommendations

- ❖ Regular and transparent performance monitoring and evaluation of SPSUs are essential to identify areas for improvement and ensure accountability.
- ❖ Encouraging SPSUs to actively engage in corporate social responsibility (CSR) initiatives can contribute to community development and social welfare.
- ❖ Strengthening the financial viability of SPSUs through improved operational efficiency, cost-effectiveness, and innovative revenue generation models is crucial.

CHAPTER - 11
IMPACT OF THE POWER SECTOR REFORMS ON THE
FISCAL HEALTH OF THE STATE

11.1 Introduction

Sikkim's electricity journey began modestly in 1927 with a small hydroelectric project near Gangtok. However, until the 1950s, power supply was limited and managed by a few individuals. To meet growing demand, diesel power plants were introduced in the 1950s and 1960s. By the late 1970s, electricity demand had increased significantly, necessitating expansion of the power grid. Sikkim recognized its substantial hydroelectric potential, estimated to be around 8,000 MW peak and 3,000 MW steady (Subrata, 2013).

To harness this potential, the state embarked on an ambitious hydro-power development plan. Numerous projects, including the 1,200 MW Teesta-III project, were planned or under construction, often in partnership with private investors. As of 2013, Sikkim had installed hydroelectric capacity of 75.27 MW, with a total generation capacity of 206.48 mw. The state's major rivers, the Teesta and the Rangeet, with their numerous tributaries, offer significant opportunities for hydropower generation (Dukpa et.al,2018).

Despite its significant hydro-power potential, Sikkim currently faces a power deficit. The state's peak demand is 96 mw, while its current generation capacity is only 38.2 mw. Of this, 32.2 mw is generated through hydro-power plants, which are heavily reliant on water flow and see a significant reduction in output (up to 50%) during the winter months. This power deficit is a major constraint on Sikkim's development, particularly industrial growth. However, the state's liberalized power policy offers opportunities to attract private investment and harness its untapped hydro-power potential. With an estimated peak capacity of 8,000 mw and a firm base of 3,000 mw, Sikkim has the potential to become a major player in hydro-power generation (Arora,2009).

Table 11.1: Electricity Generation in Sikkim.

SL.no	General Station (Under Operation)	Installed Capacity(mw)	Gross Generation(MU)
1	Lower Lahyap (HEP)	12.00	24.195
2	Jali Power House (JPH)	2.00	3.163
3	Rimbi Micro Hydel I	0.60	0.165
4	Rimbi Stage II	1.00	0.145
5	Rongnichu	2.50	0.854
6	Mayongchu HEP	4.00	6.589

7	Lachung Micro Hydel	0.20	1.025
8	KalezKhola HEP	2.00	0.76
9	Rabomchu	3.00	3.522
10	Diesel Power stations, Gangtok	4.00	0.153
11	DPH, LLHP,Ranipool	1.00	0.001
12	Rangit HEP	60.00	30.00

Source: *The Census Report of Sikkim, 2011.*

As per the SFRBM Act, the State Government was to eliminate Revenue Deficit by 2011-12 and maintain Revenue Surplus thereafter and reduce Fiscal Deficit to three per cent of the estimated GSDP. Further, Government of Sikkim amended (June 2010) the state FRBM Act as per the recommendations of the FC-XV. According to the amendments, the fiscal deficit was pegged at four per cent of GSDP for the year 2021-22, 3.5 per cent for 2022-23, and maintain at three per cent in 2023-24 and thereafter. An annual additional borrowing space of 0.5 per cent of GSDP was allowed for the period 2021-22 to 2024-25 based on certain performance criteria in the power sector. The additional borrowing by the state was placed beyond the FRBM Act limit relating to the fiscal deficit. During 2022-23, the contribution of power sector SPSEs to the GSDP was 8.37 percent. The thrust of SPSEs investment was mainly on power sector SPSEs which had received as much as 90.93 per cent (₹ 15,386.37 crore) of total investment of ₹ 16,921.45 crore as on 31 March 2023. The State Government's share was 0.49 per cent (₹ 82.65 crore) of total investment of ₹ 16,921.45 crore (Finance Department, GOS 2024).

The power sector reforms in Sikkim have had a positive impact on the state's fiscal health in a number of ways, including revenue generation Sikkim has been able to trade a significant portion of its power, which has opened up a new avenue for revenue generation (Government of Sikkim Report, 2023). The state can also generate revenue from the sale of free power. Improved revenue to GSDP in 2024-25, the aggregate revenue receipts as a percentage of GSDP is projected to improve to 20.45%, up from 18.95% in 2022-23. Increased own tax revenue The rise in own tax revenue relative to GSDP is projected to increase from 3.50% in 2022-23 to 4.12% in 2024-25(FRED report, 2024).Improved central transfers Central transfers, which include tax devolution and grants, are projected to improve from 13.99% in 2022-23 to 14.57% in 2024-25. The state government has adopted a policy decision to develop the power sector and has made a generous plan outlay towards infrastructure growth(FRED Report, 2024). The state is also developing hydropower projects through private power developers and Central Public Sector Undertakings (CPSUs).

11.2 Power sector Reforms and Its Impacts

The power sector in Sikkim has undergone significant reforms aimed at improving the state's energy infrastructure, enhancing efficiency, and ensuring sustainable development. The reforms focus on strengthening the sector's capacity, diversifying energy sources, and improving the financial health of the state's electricity distribution companies. Key aspects of these reforms include:

1. **Hydro-power Development:** Sikkim has abundant hydropower potential, and the state has been focusing on tapping this resource through a series of reforms and initiatives. The state government has prioritized the development of small, medium, and large hydropower plants. By promoting hydropower generation, Sikkim aims to boost its energy output, contribute to the national grid, and generate revenue.
2. **Privatization and Public-Private Partnerships (PPP):** The state government has encouraged private sector participation in the power sector through Public-Private Partnerships (PPP) for developing power generation, transmission, and distribution infrastructure. The government has signed several agreements with private players to boost investment in hydropower projects, which will ultimately lead to improved service delivery and reduced electricity deficits.
3. **Grid Connectivity and Transmission Infrastructure:** Enhancing grid connectivity has been a priority, with the state focusing on improving transmission lines and reducing technical losses. By connecting to the national grid, Sikkim can both export excess power to other states and import electricity when there is a shortfall. This contributes to the overall stability and sustainability of the power supply.
4. **Renewable Energy and Energy Efficiency:** Sikkim has focused on promoting renewable energy sources, especially solar and wind power. This aligns with national goals for reducing reliance on fossil fuels and promoting clean energy. The state has implemented programs to improve energy efficiency in industries and households, including the distribution of energy-efficient appliances and the promotion of energy-saving technologies.
5. **Reforms in Electricity Distribution:** Sikkim has taken steps to improve the financial health of the state's power distribution companies. This includes measures like

reducing power theft, addressing tariff issues, and improving revenue collection mechanisms. The state has also worked to ensure a more transparent and accountable system of billing and distribution, which is crucial for maintaining financial sustainability.

6. **Financial Support and Incentives:** The state has received financial assistance from the central government under various schemes, such as the Ujwal DISCOM Assurance Yojana (UDAY), aimed at improving the financial condition of distribution companies. This has helped Sikkim restructure its power sector finances and reduce the debt burden on its electricity boards.
7. **Regulatory Reforms:** The establishment of regulatory bodies, such as the Sikkim State Electricity Regulatory Commission (SERC), has helped streamline power sector governance. These bodies are responsible for setting tariffs, addressing consumer grievances, and ensuring transparency in the energy sector. They also play a vital role in promoting competition and protecting consumer interests.

Sikkim’s power sector reforms focus on modernization, privatization, and environmental sustainability. By leveraging its hydropower potential and promoting renewable energy, the state seeks to improve its fiscal health, reduce energy deficits, and contribute to the national power grid while ensuring the sustainability of its energy resources. These reforms aim to improve the financial stability of the state while addressing challenges in energy production, distribution, and consumption.

Table 11.2 Impact of Power Sector on State’s Fiscal Health.

Positive	Negative
The surplus energy generated by the state is sold to other states, which generates significant revenue for the state government. This boosts fiscal health by diversifying the state’s income sources.	While the reforms aim to reduce inefficiencies, the successful implementation of these measures depends on effective governance, which can sometimes be challenging in states with limited administrative capacity. Delays or mismanagement in implementing reforms can lead to slower-than-expected fiscal improvement.

Sikkim has benefited from central government programs like the Ujwal DISCOM Assurance Yojana (UDAY) , which provided financial restructuring for state-run electricity boards. This has reduced the fiscal burden caused by mounting debts and improved the financial condition of electricity distribution companies in the state.	Although initiatives like UDAY have helped restructure debt, the state may still face challenges related to the financing of large infrastructure projects. If power sector reforms do not lead to the anticipated financial improvements or revenue generation, the state could experience an increase in debt, which may negatively impact its fiscal health.
The focus on Public-Private Partnerships (PPP) has attracted investments from private players in power generation and distribution. These investments improve infrastructure, increase efficiency, and create jobs, all of which positively impact the state's fiscal health in the medium to long term.	The initial phase of power sector reforms requires significant capital investment, both in terms of infrastructure development and regulatory overhaul. These investments, while essential for long-term sustainability, have an immediate fiscal impact in terms of budget allocation and borrowing.

Source: Power Department Report, 2023.

11.3 Electricity Consumption

The total electricity consumption of electricity in the State is about 443.82 MU. **Table 11.3** shows a sector wise consumption of electricity in the State where trend is in an increasing order. The Highest consumption of electricity is Industrial consumption.

Table 11.3 Electricity Consumption in Sikkim (in MU).

Category	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Domestic	78.93	74.96	96.74	98.72	107.46	107.94	125.39	135.14	121.77
Commercial	35.33	37.43	39.68	38.38	40.91	42.05	44.02	45.80	34.11
Public Lighting	0.29	0.15	0.26	0.17	0.25	0.34	0.30	0.89	0.34
Temporary Supply	1.36	1.16	2.92	3.38	4.69	2.36	5.17	4.86	3.13

HT Industrial consumers	110.49	126.30	156.16	174.43	197.67	226.64	217.93	272.69	252.46
LT Industrial consumers	1.37	1.34	1.31	4.43	4.89	1.85	5.39	2.60	2.38
Bulk Supply	20.98	23.37	26.40	24.26	24.94	30.17	27.19	33.20	29.63
Total	24875	264.71	323.47	343.67	380.81	411.35	425.49	495.18	443.82

Source: Tariff Order for FY 2022-23, (March 2022 Report), Sikkim State Electricity Regulatory Commission, Gangtok, Sikkim, Energy and Power Department, Government of Sikkim.

Table 11.4 Electricity by Source Type.

Year	Production (in Million Kwh/Annum)	Installed Capacity
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: Tariff Order for FY 2017-18, (March 2017 Report), Sikkim State Electricity Regulatory Commission, Gangtok, Sikkim, Energy and Power Department, Government of Sikkim.

Table 11.5 Hydel Power Generation

Year	Production (in Million Kwh/Annum)	Installed Capacity
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: Tariff Order for FY 2017-18, (March 2017 Report), Sikkim State Electricity Regulatory Commission, Gangtok, Sikkim, Energy and Power Department, Government of Sikkim.

Electricity production in the state has increased, although it experienced a decline during the 2011-12 period before recovering. The state's electricity generation is largely reliant on the National Hydro Power Corporation, which utilizes the local rivers, meaning that production is more influenced by national initiatives than by the state's own economic activities. The state primarily depends on hydro-power, especially harnessing the Teesta River for electricity generation. The National Hydro Power Corporation plays a key role in collaborating with the state to develop hydro-power resources.

11.4 Financial Performance of Power Utility

Table 11.6 represents the financial performance of the power utility in cr. so in general results depict a increase in the revenue, which in turn resulted in a rising revenue surplus. This likely to hint at good economic outlook. The growth in surplus for the upcoming year could allow for increased investment or debt reduction, contributing to long-term financial stability. 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.

Table 11.6 Financial Performance of the Power Utility (in ₹ Cr).

	2015-2016	2016 - 2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024 (BE)	2023-2024RE)
Total Revenue	147.68	170.03	310.25	269.44	256.36	346.04	306.77	402.72	495.27	595.18

Total Expenditure	215.27	212.45	208.09	203.58	282.32	310.84	284.89	402.08	401.82	421.22
Revenue Surplus	-67.59	-42.42	102.16	65.86	-25.96	35.2	21.88	0.64	93.45	173.96

Source: Budget Papers, Government of Sikkim 2024.

Table 11.7 The technical details of power sector (in Rs Cr)

Technical Details of Power Utilities														
ITEMS		Actuals												
		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
1	2	3	4	5	6	7	8	9	10	11				
1	PHYSICAL PARAMETERS													
1.1	INSTALLED CAPACITY(MW):													
A	Hydro	35.7	35.7	35.7	35.7	35.7	35.7	35.7	27.7	27.7	27.7	27.7	27.7	0.00
B	Thermal - Coal Fired	-	-	-	-	-	-	-	-	-	-	-	-	-
C	Gas	-	-	-	-	-	-	-	-	-	-	-	-	-
D	Others(Diesel)	4	4	4	4	4	4	4	4	4	4	4	4	4
	TOTAL (1.1A+1.1B+1.1C+1.1D)	39.7	39.7	39.7	39.7	39.7	39.7	39.7	31.7	31.7	31.7	31.7	31.7	4.00
1.2	ENERGY GENERATED(MKWH)													
A	Hydro	41.51	21.03	4.12	4.7	6.8	11.09	8.14	8.1	8.91	2.71	0.00	0.00	0.00
B	Thermal - Coal Fired	-	-	-	-	-	-	-	-	-	-	-	-	-
C	Gas	-	-	-	-	-	-	-	-	-	-	-	-	-
D	Others(Diesel)	0.15	0.09	0.06	0.1	0.05	0.14	0.02	0.02	0.02	0.04	0.003	1.82	0.03
	TOTAL (1.2A+1.2B+1.2C+1.2D)	41.66	21.12	4.18	4.8	6.85	11.23	8.16	8.12	8.93	2.75	0.00	1.82	0.03
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	0.002	0.00	0.00	0.00
B	Thermal - Coal Fired	-	-	-	-	-	-	-	-	-	-	-	-	-
C	Gas	-	-	-	-	-	-	-	-	-	-	-	-	-
D	Others(Diesel)	0.02	0.01	0	0	0	0	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	0.002	0.00	0.00	0.00

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	8.1	8.91	2.75	0.00	1.82	0.03	0.03
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	465	470	1039.29	1219.86	1216.00	895.50	967.00
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	473.1	478.91	1042.04	1219.86	1217.82	895.53	967.00
1.9	Energy Sold (Mkwh) (Details In Ann. 1)	163	208	196.14	213.42	226.16	245.2	302.31	320	335	867.00	1011.83	936.99	756.96	837.24
1.1	T&D Losses(Mkwh) (1.8-1.9)	234.86	167.78	176.39	188.85	162.63	141.31	163.83	153.1	143.91	175.04	208.03	280.83	138.57	129.79
1.1	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	16.80	17.05	23.06	15.47	13.42
1.1	AT&C Losses (%)	51.96	49.58	45.44	48.1	42.38	37.13	40.89	37	34	37.83	29.88	29.70	29.57	28.08
2	TRANSMISSION NETWORK (CKT) (Please see Note 1 below):														
	133 KV Single Circuit in Km.	60.5	60.5	10	60.5	60.5	60.5	60.5	60.5	60.5	14.80	55.00	68.50	75.40	68.50
	66 KV Double circuit in Km.	25.19	25.19	25.19	25.19	25.19	25.19	25.19	29.19	29.54	29.54	29.54	29.54	29.54	26.20
	66 KV Single circuit in Km.	196.05	196.05	196.05	196.05	196.05	196.05	196.05	200.55	200.55	202.11	387.81	406.91	406.91	378.70
	11 KV / 3 phase	3037	3110	3117	3125	3161	3187	3210	3242	3264	3256.00	3080.83	3080.83	3191.67	3306.16
	11 KV / 2 phase	337	297	305	301	288	296	297	299	302	287.17	287.17	287.17	287.17	211.07
3	DISTRIBUTION NETWORK (CKT) (Please see Note 2 below):														
	LT / 3 phase (.043KV)	2969	2985	3220	3256	3392	3482	4264	4306	4359	3581.37	2859.00	3073.00	3107.48	3316.6
	LT / Single phase (0.23KV)	1979	2037	2059	2076	2095	2118	2150	2171	2192	1301.52	2153.00	2153.00	2153.00	2153
4	RURAL DISTRIBUTIONWORK:														

	Total Length (Ckt)	441 1	458 9	476 7	494 5	512 3	530 1	547 9	565 7	583 5	4336	4511	4703	4734	4923
	Total No. of Transformers	161 9	178 1	185 6	193 4	202 1	224 3	245 7	258 2	281 1	2811	2811	2972	3229	3373
	Total No. of Villages	443	443	443	443	443	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	418	418	418	418	418
	% of Villages Electrified As Per Old Policy of GOI	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	418	418	418	418	418
	% of Villages Electrified As Per New Policy of GOI	94 %	94%	94%	94%	94%	94%								
	% of Households Electrified In Rural Areas	,	85 %	99%	99%	100 %	100 %	100 %							
	Total No. of Rural Consumers Excl. Pump Sets	281 66	281 66	291 34	301 02	310 70	320 38	330 06	339 74	349 42	8558 6	8609 2	9277 8	9716 6	9909 7
5	METERING :														
	% of Metering - 11 Kv Feeders	9%	15 %	16 %	16 %	16 %	17 %	17 %	18 %	20 %	40%	60%	70%	80%	100 %
	% of Consumer Metering	57 %	74 %	74 %	77 %	79 %	83 %	85 %	87 %	90 %	93%	93%	95%	98%	100 %
6	<u>AVG. COST OF POWER RECD./KW HAS STATE'S SHARE Form:</u>														
	Hydro (in Rs./Kwh)	1.8 9	2.4 2	2.2 5	2.5 2	2.3 5	2.0 6	2.4 3	2.2 5	2.3					

Source: Budget Papers, Government of Sikkim

The State has made significant investments in electrifying the entire region, with particularly commendable efforts in rural electrification. A crucial focus has been placed on electricity metering, which plays a vital role in preventing financial losses within the system. The utility increasingly relied on energy purchased from IPPs, which rose from 356.35 MKWH in 2010-11 to 967 MKWH in 2023-24. Transmission and distribution (T&D) losses improved significantly, decreasing from 59.03% in 2010-11 to 13.42% in 2023-24, indicating enhanced efficiency. The distribution network expanded, with rural electrification reaching 100% by 2020-21.

11.7 Major Findings

- ❖ Despite its hydro resources, Sikkim faces a power deficit due to seasonal variations and limited operational capacity. The peak demand (96 mw) exceeds current generation (38.2 mw).
- ❖ Electricity consumption across all sectors, particularly the industrial sector, has been steadily increasing.
- ❖ The power utility in Sikkim has shown positive financial performance with increasing revenue and a rising revenue surplus in recent years. This indicates improved financial management.
- ❖ The power sector reforms in Sikkim have had a positive impact on the state's fiscal health. The reforms have led to increased revenue generation, improved revenue to GSDP, and increased central transfers.
- ❖ The state may still face challenges related to the financing of large infrastructure projects. If power sector reforms do not lead to the anticipated financial improvements or revenue generation, the state could experience an increase in debt, which may negatively impact its fiscal health.

11.8 Conclusion

The state's power generation primarily relies on hydro-power derived from its mountain rivers. Major national power companies have collaborated with the state to produce electricity, allowing the state to meet its consumption needs from this generation. Given that there are no significant heavy industries within the state, overall power consumption remains low. Additionally, the power sector has not experienced significant reforms in recent years. Sikkim's electricity generation is largely dependent on national initiatives and resources, particularly the National Hydro Power Corporation. This reliance on external factors can make the state vulnerable to national policy changes and initiatives. The state's dependence on national resources and seasonal variations in hydro generation contribute to the power deficit. However, the recent financial improvements in the power utility suggest better management and potential for future investments. Power sector reforms have positively influenced Sikkim's fiscal health by increasing revenue generation through power trading and the sale of free power. This has led to an improved revenue-to-GSDP ratio and increased own tax revenue. Additionally, central transfers have improved, further strengthening the state's fiscal position. Sikkim's power sector plays a crucial role in its fiscal health. While the state has benefited from power sector reforms and the financial performance of its power utility, challenges such as the power deficit, dependence on hydro-power, and reliance on national resources need to be addressed

to ensure continued fiscal stability and sustainable development.

11.9 Recommendations

- ❖ Strengthen inter-state grid connections to import power during peak demand and export surplus during off-peak periods, ensuring a stable and reliable power supply.
- ❖ Conduct a comprehensive review of the existing power sector reforms and identify areas for improvement and new initiatives.
- ❖ Invest in research and development of innovative renewable energy technologies, such as advanced hydro-power technologies and grid integration solutions.
- ❖ Integrate environmental sustainability considerations into all power sector development plans, including measures to mitigate environmental impacts and promote renewable energy.

CHAPTER - 12
PERFORMANCE OF THE SIKKIM NATIONALISED
TRANSPORT

12.1 Introduction

Sikkim State Transport (SST) is a vehicular transportation system that was introduced in 1944. In 1955 it was renamed as Sikkim Nationalized Transport (S.N.T) (Sikkim Nationalized Transport.in, assessed on 2024). This transport organization is unique because it is looked after directly by the government department that is the Transport Department, unlike any other state where the transport co-operation is responsible (Das,2019).

The Transport Department in Sikkim plays a vital role in maintaining the economy of the state by connecting the state to the rest of the country (Transport Department, SNT, assessed on 2024). The road is the primary and most available means of communication in Sikkim (Das,2019) due to its landscape. Despite the challenges that occurs due to the location of Sikkim, the department works efficiently and ensures regular reliable service.

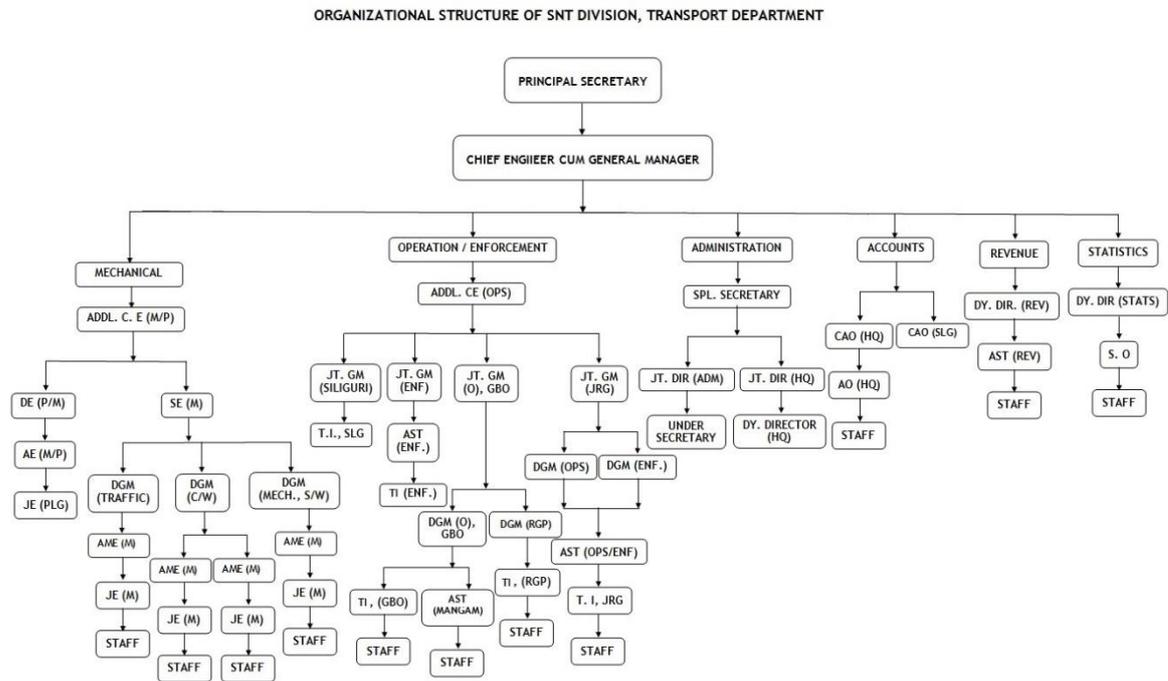
12.2 History of Sikkim's Transport System

Before 1975, S.N.T provided only buses and trucks to the passengers and goods. The private transportation and operation were also regulated under S.N.T (SNT, 2024). After Sikkim's emerge with India in April, 1975, the transport structure began to change which was influenced further by Central Motor Vehicle Act 1988. The dilution of the system was brought by this Act, which allowed the private operator to enter into the system and consequently brought uniformity in system (CAG, 2018). The Transport Department was created after the amalgamation Motor Vehicle Division (MVD) and Sikkim Nationalized Transport (SNT) in the year 2002, with two sector i) MVD sector and ii) SNT sector (SNT,2016). The MVD function as a part of transport division in Sikkim which is also monitored by government of Sikkim.

12.3 About Sikkim Nationalized Transportation

S.N.T is an independent organization which is organized under the Transport Department of the State. 13 depots buses are managed by S.N.T and one of them is located in Siliguri, West Bengal. S.N.T plays a key role in the State's economy as the state heavily depends on road transport for both tourists and good movement. Sikkim's primary line that connects Siliguri to Gangtok (the capital of Sikkim) is the National Highway 31A and 10. Hence these National Highways are crucial (Dutta et.al, 2018)

Figure 12.1: Organizational Structure of S.N.T



Source: Sikkim Nationalized Transport

12.4.1 Fleet Size and Review of Operations of S.N.T

Table 12.1 shows the operational span of S.N.T. According to Table 12.1, Sikkim had a fleet of 33 tankers, 51 buses and 75 buses. It runs over 40 bus routes in the State and one of them is like Sikkim to Siliguri in West Bengal. It has been one of the biggest employers of the State, about 677 people in 2016-17 have been employed, which has increased to 1268 people in 2023-24.

Table 12.1: Operational Span of S.N.T

SI No.	Depot	Bus Operation			Fleet Size		
		Route	Schedule Service	Distance (in Km)	Bus	Trucks	Tankers
1	Gangtok	17	21	1347	36	1	
2	Rangpo	2	3	21	9	49 (Rec Van)	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 (2018)

Similarly, Table 12.2 shows operational stretch of S.N.T over the period starting from 2017-18 to 2023-24. From FY 2017-18, the number of depots and routes remains constant.

According to the latest data the number of scheduled routes is 68, which has increased from 2017-18 when compared to **Table 12.1** and its service span is 8821km in total, which remains the same throughout 2017-18 to 2023-24. Even the fleet size has increased in 2017-18 when compared to last update.

Table 12.2: Operational Stretch of S.N.T (2017-18 to 2023-24)

Year	No. of Depot	Bus Operation			Fleet Size		
		Route	Schedule	Distance (Km)	Buses	Trunks	Tanks
2017-18	4	68	142	8821	122	32	37
2018-19	4	68	142	8821	120	28	37
2019-20	4	68	142	8821	110	27	36
2020-21	4	68	142	8821	115	26	36
2021-22	4	68	142	8821	102	37	38
2022-23	4	68	142	8821	92	31	42
2023-24	4	68	142	8821	90	31	42

Source: Transport Department, SNT, GOS (2024).

However, according to **Table 12.2** the total fleet size has been decreasing over the years. It went down from 122 buses in 2017- 18 to 90 buses in 2023-24 reflecting 26.2% reduction, which suggests some possibility of cost cutting. Fluctuations in the number of trucks and tanks are also seen. Initially the number of tanks remain the stable around 36-38, then slightly increased from 36 to 42 between 2019-20 and 2023-24.

Table 12.3 Fleet- Position of Functional Vehicle (2005-06 to 2023-24)

Year	Buses	Trucks	Tanks	Total
2005-06	86	48	36	170
2006-07	84	55	35	174
2007-08	82	55	34	171
2008-09	86	61	38	185
2009-10	97	68	37	202
2010-11	126	65	33	224
2011-12	97	58	32	187
2012-13	95	57	33	185
2013-14	99	56	34	189
2014-15	85	42	30	157
2015-16	126	42	34	202
2016-17	120	32	34	186
2017-18	122	32	37	191
2018-19	120	28	37	185
2019-20	110	27	36	173
2020-21	115	26	36	177
2021-22	102	37	38	177
2022-23	92	31	42	165
2023-24	90	31	42	163
Mean	101.79	44.79	35.68	182.26
SD	15.06	13.79	2.97	15.38

Source: Transport Department, SNT, GOS (2005-2024)

Table 12.3 shows the fleet position of functional vehicles from 2005-06 to 2023-24. The fleet position of S.N.T, consists of an average of 102, 45 trucks and 36 tanks that sums to 182 functional buses each year. While buses and trunks have gone moderate changes over the years the tanks remain fairly stable. The fleet size reached its height of 244 vehicles in 2010 - 11 and dropped to 157 vehicles in 2014 -15. This reduction may be due to the fact that Sikkim government policy shifted towards private sector participation in S.N.T and also the government focused on cause efficient service delivery. Again, in 2015-16 the fleet size started to increase. as a result, this approach gave broader goals of creating jobs collaboration between private public enterprise and increased revenue

12.4.2 Manpower of SNT

SNT is one of the biggest employers of the state. During 1994-95, the organization had the strength of 1114 employees which also consist of drivers, conductors, mechanics and junior traffic assistants. **Table 12.4** shows No of Manpower of SNT. It is observed from the table that Sikkim has been reducing manpower of SNT with an objective to cut down the cost and increase the efficiency. This happened during period from 2010-11 to 2023-24.

Table 12.4: Manpower of S.N.T

Year	No. of Persons Employed
2010-11	780
2011-12	718
2012-13	701
2013-14	717
2014-15	774
2015-16	723
2016-17	677
2017-18	798
2018-19	981
2019-20	981
2020-21	972
2021-22	1293
2022-23	1032
2023-24	1268
Mean	886.79
SD	198.41

Source: Transport Department, SNT, GOS (2005-2024).

After the introduction of Integrated Driver Management System (IDMS) in 2015 the workforce expanded. This expansion involves recruitment rule and promotion which is referred to as Sikkim Subordinate (SNT Division) Employees Recruitment and Promotion Cadre Rule 2015 (Transport Department, 2016). From 2017-18 to 2023-24 it is observed that no. This

increase in workforce is due to the fact that Sikkim heavily dependent on road-based transportation.

Between 2010-11 to 2023-24, an average of 877 employees were hired by S.N.T. The organization encountered a major shift with standard deviation of 198 which suggest large fluctuations. This variation because manpower reduced from 2010-16, but increased drastically after 2017 due Employee Recruitment and Promotion Cadre Rule of 2015.

12.5 Financial Performance

12.5.1 Revenue and Profit and Loss Performance of S.N.T

A key indicator of an organization's operational effectiveness is its financial performance. It is essential to remember that SNT is a public utility that works as an extension of the government, primarily focusing on welfare goals. **Table 12.5** shows the financial performance of SNT, which shows the revenue and profit performance of SNT. Here revenue receipts consist of revenue from traffic and non-traffic revenue.

Table 12.5: Financial Performance of S.N.T (in ₹Cr)

Year	Revenue Receipts (i+ii)	(i) Traffic	(ii) Non-Traffic	Profit/Loss
2010-11	25.70	8.68	17.02	(-)7.92
2011-12	32.65	9.64	23.01	(-)6.23
2012-13	31.55	8.85	22.70	(-)9.65
2013-14	31.41	10.44	20.97	(-)13.57
2014-15	30.91	10.24	20.67	(-)15.10
2015-16	38.41	10.98	27.43	(-)12.22
2016-17	45.32	11.45	33.87	(-)13.42
2017-18	50.00	15.41	34.59	50.0
2018-19	50.69	14.88	35.82	50.7
2019-20	51.71	12.14	39.57	51.2
2020-21	43.46	8.37	35.09	43.5
2021-22	61.79	14.05	47.74	61.8
2022-23	70.14	21.84	48.30	70.1
2023-24	68.82	20.27	48.56	68.8
Mean	45.18	12.66	32.52	56.59
SD	13.93	4.05	10.48	9.54

Source: Transport Department, SNT, GOS (2024).

From **Table 12.5** it is observed that from 2010-11 to 2022-23, the total revenue receipt has increased steadily with an average of ₹45.18 Cr and standard deviation of ₹13.93 Cr. The figures went of total receipts from ₹25.70 Cr to ₹70.14 Cr except in the year 2021-22 (₹ 43.46Cr) due to factors like pandemic, yet in the subsequent years it recovered strongly. The revenue declined slightly in 2023-24.

Traffic revenue grew slower than non-traffic revenue. The average traffic revenue is ₹12.66 Cr, with a small variability of ₹4.05 Cr. Non-traffic revenue increased on average to ₹32.52 Cr, with a moderate variability of (S.D) ₹10.48 Cr. The traffic revenue increased from

₹8.68 Cr in 2010-11 to ₹21.84 Cr in 2022-23 with modest annual growth which averages to 1%, however it has seen a notable increase post 2021-22.

Non-traffic revenue increased by 11% per year, from ₹17.02 Cr in 2010-11 to ₹48.56 Cr. During 2014-15, S.N.T. was initially operating in loss. Fortunately, the organization began to make a profit in 2017-18, reaching its peak in 2022-2023 (₹70.1 Cr). Non-traffic receipts make up a sizable portion of SNT's revenue growth, highlighting the company's reliance on auxiliary income. Since 2017, the average profit/loss has steadily improved to ₹56.59 Cr (SD: ₹9.54 Cr).

Table 12.6: Surplus Before Tax (in ₹ Cr)

Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Mean
Surplus before Tax (in Cr)	(-)7.52	(-)9.52	(-)28.16	(-)18.90	(-)14.59	(-)30.76	(-)4.51	(-)16.28

Source: Transport Department, SNT, GOS (2024).

Table 12.6 shows surplus before tax (in ₹ Cr). SNT's surplus before taxes, which measures its financial performance, varies significantly over time. This is due to potential operational efficiencies and revenue growth. The organization saw notable peaks in 2019-20 and 2022-23. However, sharp declines in the years that followed, particularly in 2023-24, demonstrate underlying issues. These trends appear to have been influenced by the COVID-19 pandemic in 2020-21, which eventually shifted operating expenses. Despite occasional profit spikes, the average surplus before tax for the period was ₹16.28 Cr, indicating a long-term trend of losses.

12.5.2 Cost Positions of SNT

Table 12.7 (a): Cost Structure of S.N.T

Criterion	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
1. Personnel Cost														
(a) Salary & Wages	21.34	24.2	27.2	28.42	30.63	32.85	34.76	36.99	44.56	61.59	51.80	56.07	59.19	58.58
(b) Other Cost	5.49	6.14	7.13	8.32	9.11	8.47	11.84	10.12	3.90	8.20	N.A.	9.62	3.53	N.A.
2. Material Cost														
(a) Fuel (Diesel)	4.94	4.77	4.87	4.84	4.14	6.3	8.97	8.23	0.85	0.79	0.48	8.91	7.00	10.20
(b) Lubricants	0.11	0.2	0.17	0.2	0.21	0.17	0.23	0.18	0.21	0.26	0.11	0.22	0.39	N.A.
(c) Auto Spare Parts	0.64	0.56	0.74	0.79	0.97	1.1	1.23	0.83	1.34	1.06	0.56	0.87	1.28	3.5
d) Tyres & Tubes	0.3	0.4	0.4	0.48	0.3	0.34	0.44	0.79	0.51	0.64	0.52	0.60	0.89	0.83
(e) Batteries	0.02	0.21	0.03	0.03	0.04	0.06	0.09	0.12	0.41	0.95	0.58	1.00	0.31	N.A.
(f) General Items	0.16	1.7	0.13	1.36	0.15	0.18	0.28	N.A.						
3. Taxes														
(a) M.V.Tax	0.24	0.21	0.21	0.21	0.18	0.22	0.22	0.15	0.25	0.17	0.11	0.28	2.26	2.26
(b) Passenger Tax	N. A	N. A	N. A	N. A	N. A	N. A	N. A	N.A.						
(c) Other Taxes on Buses	0.38	0.303	0.325	0.338	0.292	0.417	0.694	N.A.						
Total Cost	33.62	38.88	41.2	44.99	46.02	50.65	58.76	57.42	52.04	73.65	54.15	77.56	74.85	75.36

Source: Transport Department, SNT, GOS (2024).

Table 12.7 (a): represents the cost structure of SNT. Both personnel and material costs have significantly increased. The personnel cost which are mostly determined by salaries and wages from ₹21.34 crore in 2010–11 to ₹58.58 crore in 2023–24 rose gradually, with the biggest increases occurring between 2018–19 and 2019–20.

The cost of both personnel and materials has gone up dramatically. From ₹21.34 crore in 2010-11 to ₹58.58 crore in 2023-24, the personnel cost which primarily depends on salaries and wage, rose gradually, peaking in 2018–19 and 2019-20. The trend of material cost has been seen to fluctuate; after falling precipitously in 2019-20, it recovered in 2023-2024. The cost of both personnel and materials has gone up dramatically. Additionally, tyres and spare parts grew steadily, with the spare parts reaching ₹3.50 crore in 2023-2024. The average annual cost rose by about 1% due to fuel and personnel costs. With notable increases in 2019-20 and 2021-2022, the total cost of SNT went up from ₹33.62 crore in 2010-11 to ₹75.36 crore in 2023-24. In order to reduce expenses, SNT should focus on improving procurement and energy efficiency to control the cost of fuel and spare parts and complete in data gaps for consistent financial planning.

Table 12.7.(b): Mean and Standard Deviation of Cost Structure

Criterion	Mean	SD
1. Personnel Cost		
(a) Salary & Wages	40.58	13.80
(b) Other Cost	7.66	2.40
2. Material Cost		
(a) Fuel (Diesel)	5.38	3.03
(b) Lubricants	0.20	0.07
(c) Auto Spare Parts	1.11	0.71
d) Tyres & Tubes	0.53	0.19
(e) Batteries	0.30	0.33
(f) General Items	0.57	0.62
3. Taxes		
(a) M.V.Tax	0.50	0.72
(b) Passenger Tax		
(c) Other Taxes on	0.39	0.13
Total Cost	55.65	14.13

Source: Transport Department, SNT, GOS (2024).

The mean and standard deviation of cost structure of S.N.T in **Table 12.7(b)**, reveals major patterns and deviations in costs. Personnel costs vary significantly, with a standard deviation of ₹13.80 crore and an average of ₹40.58 crore. Other personnel costs are more consistent, averaging ₹7.66 crore with a standard deviation of ₹2.40. The average material cost is ₹8.13 crore, with fuel (diesel) accounting for ₹5.38 crore and a high standard deviation of ₹3.03 due to price volatility. Spare parts (₹1.11 crore) and tyres (₹0.53 crore) exhibit significant variability. SNT must stabilize its major cost drivers, particularly fuel and spare parts, as total costs average ₹55.65 crore with a standard deviation of ₹14.13 crore.

12.5.3 Revenue from Passengers

Table 12.8 presents revenue per bus that highlights SNT's performance over the years, with some notable trends and growth rates.

Table12.8: Revenue per Bus

Year	Revenue/Day (₹ in lakh)	Earnings per Km. (₹ in lakh)
2010-11	0.11	21.24
2011-12	0.12	22.76
2012-13	0.12	24.8
2013-14	0.14	27.57
2014-15	0.15	33.55
2015-16	0.15	29.24
2016-17	0.21	34.02
2017-18	4.22	0.17
2018-19	4.08	0.17
2019-20	3.33	0.14
2020-21	2.29	0.09
2021-22	3.85	0.16
2022-23	5.98	0.25
2023-24	5.55	0.23
Mean	2.16	13.89
SD	2.18	14.10

Source: Transport Department, SNT, GOS (2024).

A Significant expansion for the SNT is revealed by the analysis of revenue per day and earnings per kilometer. Revenue per day increased steadily from ₹0.11 lakh in 2010-11 to ₹5.55 lakh in 2023-24. Notable spikes occurred after 2016-17, indicating increased operational efficiency. In contrast, earnings per kilometer experienced steady growth until 2016-17 and declined after which. With a 6% average increase in revenue per passenger and a 5% increase in earnings per kilometer, the overall trend shows effective revenue management, notwithstanding recent fluctuations. Although there are still difficulties in sustaining steady earnings per kilometer after 2017, this suggests generally good performance.

The mean of revenue per day is ₹2.16 lakh with a high standard deviation of ₹2.18 lakh. This implies that daily revenue varies significantly, especially after 2016-17. With a standard deviation of ₹14.10 lakh, the mean of earnings per kilometer are ₹13.89 lakh. This also suggests significant variety in performance over time. Nonetheless, the reduction in revenues per kilometer after 2017 shows how difficult it is to sustain consistent performance. Despite these fluctuations, the overall increased trend in earnings per kilometer and revenue per passenger demonstrates effective revenue management.

12.5.4 Performance of SNT on Basis of Utilization

Table 12.9: Operational Performance of S.N.T

Year	Fleet Utilisation in %	Average buses off-road	Bus Staff Ratio
2010-11	78	23	1:014
2011-12	94	6	1:75
2012-13	94	6	1:74
2013-14	97	3	1:77
2014-15	76	20	1:86
2015-16	83	22	1:61
2016-17	84	19	1:51
2017-18	81	21	1:7
2018-19	92	10	1:8
2019-20	90	10	1:9
2020-21	89	12	1:8
2021-22	91	10	3:38
2022-23	89	10	5:56
2023-24	90	9	1:14
Mean	87.71	12.93	20:11
SD	6.10	6.44	04:27

Source: Transport Department, SNT, GOS (2024).

From **Table 12.9** it is observed that over the years, SNT's operational efficiency has demonstrated notable improvements in the ratio of transportation to staff, fleet utilization, and buses off-road. Fleet utilization has remained strong with a high of 97% in 2013–14 and 90% in 2023–24, indicating effective fleet use. The average fleet utilization is 87.71%, with a standard deviation of 6.10%, showing relatively consistent performance throughout time despite relatively small fluctuations.

Due to improved maintenance and fewer downtimes, that are now only 9 buses off-road, down from 23 in 2010–11. With a standard deviation of 6.44, The average buses off-road is 12.93, indicating a moderate amount of variability in downtime, as there are fewer buses off-road in recent years than in earlier years. Despite the bus staff ratio initially improved to 1:51 in 2016–17, it increased to 1:14 in 2023–24, demonstrating that there may have been more staff members per bus, perhaps as a result of increased operational demands. The mean bus staff ratio is 20:11, with a standard deviation of 4:27, indicating some variance in staffing levels over the years. While there has been a fluctuation in the bus staff ratio, SNT has generally improved its fleet utilization and downtime reduction.

12.5.5 Staff Productivity

Table 12.10: Staff Productivity of S.N.T

Year	Bus Staff Ratio
2010-11	1:014
2011-12	1:75
2012-13	1:74
2013-14	1:77
2014-15	1:86
2015-16	1:61
2016-17	1:51
2017-18	1:7
2018-19	1:8
2019-20	1:9
2020-21	1:8
2021-22	3:38
2022-23	5:56
2023-24	1:14

Source: Transport Department, SNT, GOS (2024).

It is observed from Table 12.10 SNT has achieved significant increases in staff productivity by successfully controlling its bus staff ratio. From 1:0135 in 2010–11 to 1:14 in 2023–24, the ratio has decreased, indicating that the business has reduced employees while maintaining or improving operations. High staff productivity was evident in 2016–17, with a particularly low bus staff ratio of 1:51. this trend generally shows that SNT has successfully managed staff productivity. The increases in the bus staff ratio in 2021–2022 and 2022–2023 are most likely due to changes in service demands or operational adjustments. Over the years, SNT has done a respectable job of raising worker productivity.

12.6 Major Findings

- ❖ The transport structure in Sikkim began to change which was influenced further by Central Motor Vehicle Act 1988.
- ❖ SNT is one of the biggest employers of the State, about 677 people in 2016-17 have been employed, which has increased to 1268 people in 2023-24.
- ❖ SNT is the biggest organization does the major public transport in the state.
- ❖ The total fleet size has been decreasing over the years 2005-2024. It went down from 122 buses in 2017-18 to 90 buses in 2023-24 reflecting 26.2% reduction, which suggests some possibility of cost cutting.
- ❖ The fleet position of S.N.T, consists of an average of 102, 45 trucks and 36 tanks that

sums to 182 functional buses each year. While buses and trunks have gone moderate changes over the years the tanks remain fairly stable.

- ❖ After the introduction of Integrated Driver Management System (IDMS) in 2015 the workforce expanded, from 2017-18 (798) to 2023-24 (1268).
- ❖ Between 2010-11 to 2023-24, an average of 877 employees were hired by S.N.T. The organization encountered a major shift with standard deviation of 198 which suggest large fluctuations.
- ❖ From 2010-11 to 2022-23, the total revenue receipt of SNT has increased steadily, Traffic revenue showed a slower growth compared to non-traffic revenue. A substantial share of SNT 's revenue growth is driven by non-traffic receipt.
- ❖ SNT saw notable peak of surplus before tax in 2019-20 and 2022-23. However, the sharp declines in other years, particularly in 2023–24, suggest underlying challenges. These trends seem to have been impacted the COVID-19 pandemic in 2020–21 that eventually shifted operating expenses.
- ❖ Both personnel and material costs have significantly increased in SNT. Additionally, tyres and spare parts grew steadily, with the spare parts reaching ₹3.50 crore in 2023-2024. The average annual cost rose by about 1% due to fuel and personnel costs.
- ❖ The total cost of SNT went up from ₹33.62 crore in 2010-11 to ₹75.36 crore in 2023-24.
- ❖ Revenue per day increased steadily from ₹0.11 lakh in 2010-11 to ₹5.55 lakh in 2023-24. Notable spikes occurred after 2016-17, indicating increased operational efficiency. In contrast, earnings per kilometer experienced steady growth until 2016-17 and declined after which.
- ❖ Despite these fluctuations, the overall increased trend in earnings per kilometer and revenue per passenger demonstrates effective revenue management.
- ❖ It is observed that over the years, SNT's operational efficiency has demonstrated notable improvements in the ratio of transportation to staff, fleet utilization, and buses off-road.
- ❖ From 1:0135 in 2010–11 to 1:14 in 2023–24, the bus staff ratio has decreased, indicating that the business has reduced employees while maintaining or improving operations.

12.7 Conclusion

Since 1975 Sikkim Nationalized Transport has evolved. This organization has expanded its workforce from 677 in 2016-17 to 1268 in 2023-24. This expansion was driven by initiatives like the Integrated Driver Management System (IDMS) in 2015. On the other hand, its fleet size declined by 26.2% from 122 buses in 2017-18 to 90 buses in 2023-24. This indicates that SNT has focused on cost control. Revenue receipts have grown steadily over the year. While major non traffic income has been the primary source of revenue receipts. The trend of Surplus before taxes has seen various fluctuation over the period of analysis. Both personnel and material costs have significantly increased in SNT over period. After 2016-17 earnings per kilometer has decreased and on the other hand, daily revenue increased dramatically. SNT's revenue and productivity has increased over the year (2010-11 to 2023-24) are commendable yet fleet efficiency and continue to be major challenge for long -term, sustainable growth.

12.8 Recommendations

- ❖ SNT authority can upgrade the fleet by investing in modern green transportation, this will reduce the cost and improve performance.
- ❖ Authority can also focus on providing training to staff on modern transport and management to improve the performance of the department
- ❖ The organization may enhance revenue by giving unused properties in rent and allocate staff in such a way that will reduce the cost and perform it efficiently.
- ❖ SNT can enhance performance by expanding online ticket options and maintaining the portal for future updates.
- ❖ For customer service SNT can introduce packages that offers loyalty or discount to its regular customer.
- ❖ Government of Sikkim can introduce schemes that encouraging partnership with the tourism sector. This will help both sectors grow in the long run and will be substantiable

CHAPTER- 13
ANALYSIS OF CONTINGENT LIABILITY

13.1 Introduction

State governments, facing limited borrowing capacity and persistent revenue deficits, have been compelled to create capital savings to achieve budget balance (Thorat, 2004). Consequently, investments made by these governments often suffer under the pressure of strict budget constraints. To address this challenge, state governments have turned to issuing guarantees for public sector companies or cooperative societies, which play a vital role in developing critical infrastructure and social services (Mishra, 2007). These guarantees, known as contingent liabilities, pose a risk: if they are called upon due to a default by the company or cooperative, they could significantly disrupt the fiscal stability of the budget.

13.2 Debt and Liabilities

The Article 293 of the Constitution of India grants state governments the authority to borrow against the security of the Consolidated Fund of the State, subject to any limits that may be established by the State Legislature from time to time (Vaidya, 2011). Table 13.1 shows the details of public debt and other liabilities of the state. The results depict public debt and other liabilities of the Government jumped from 28.92 per cent of GSDP at the end of 2021-22 to 29.69 per cent of GSDP at the end of 2022-23.

Table 13.1 Total Liabilities and Percentage to GSDP (in ₹ Cr).

Year	Public Debt	% to GSDP	Public Account	% to GSDP	Total Liabilities	% to GSDP
2018-19	4986.29	17.55	1348.77	4.74	6335.05	22.30
2019-20	5405.71	17.19	1994.95	6.34	7400.66	23.53
2020-21	6890.69	20.86	2168.15	6.56	9058.84	27.43
2021-22	8654.13	23.04	2208.81	5.88	10862.94	28.92
2022-23	10523.2	24.61	2173.61	5.08	12696.89	29.69

Note: (*) Excludes Advances, Suspense and Miscellaneous and Remittance balances.
Source: CAG Report, 2023.

13.3 Contingent Liabilities

Contingent liabilities can be categorized as explicit or implicit. Explicit guarantees are formal contractual obligations of the government, established by specific laws or contracts (Mishra, 2007). For example, acting as a guarantor for a loan taken by a cooperative society from the KVIC is an explicit guarantee. In contrast, implicit guarantees often reflect moral

obligations and are not necessarily outlined in any formal contract. An example of this is public works initiated by the government in response to natural disasters.

Besides raising loans directly, state governments also provide guarantees for loans taken by government companies and corporations from financial institutions to fund various plans and programs. These guarantees are typically recorded outside the state budget (Sen & Dash, 2013). The Sikkim Ceiling on Government Guarantees Act of 2000, which took effect on December 16, 2000, stipulates that the total outstanding government guarantees on April 1 of any year must not exceed three times the state's tax revenue receipts from the second preceding year. The total guarantees (principal plus interest) outstanding as on 01 April 2022 was ₹ 4,107.03 crore, which exceeded the prescribed limit of thrice the total Tax Receipts (₹ 970.41 crore) of 2019-20.

Table 13.2 Guarantee Amount (in ₹Cr)

Year	Maximum amount guaranteed	Ceiling Applicable to Outstanding Amount (Criteria)	Outstanding Amount of Guarantees (Including Interest) at Beginning of Year
2017-18	648.71	1,700.46	441.49
2018-19	3,849.19	1,957.68	425.45
2019-20	3,941.97	2,064.99	3,455.04
2020-21	4,527.71	2,678.76	3,749.32
2021-22	4,668.47	2,911.23	4,107.03

Source: CAG report, 2023.

Table 13.3 reflects the outstanding contingent liability to total revenue ratio. The State has shown an 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 shows 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.

Table 13.3 Outstanding Contingent Liability to Total Revenue Ratio

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Contingent Fund (net)	0.00	-0.31	0.31	0.00	0.00	0.00	0.00
Revenue Receipts	3784.29	4610.29	5212.79	5920.36	4841.27	5607.82	7080.72
Contingent Liability to Total Revenue Percentage	0	-0.00672	0.0059	0	0	0	0

Source: Budget Papers, Government of Sikkim 2024.

13.4 Major Findings

- ❖ The Sikkim Ceiling on Government Guarantees Act-2000 effectively limits the amount of government guarantees that can be issued.
- ❖ Sikkim's approach to contingent liabilities has helped to maintain a strong financial position and minimize the potential negative impacts of guarantees on the state's budget.

13.5 Conclusion

The management of contingent liabilities is crucial for the fiscal health of state governments in India. While guarantees play a vital role in supporting economic development, they introduce potential risks. The case of Sikkim demonstrates the importance of proactive measures, such as the Sikkim Ceiling on Government Guarantees Act-2000, in mitigating these risks. State governments, struggling with limited resources, have resorted to issuing guarantees to support public sector companies and cooperatives. State governments in India have the power to borrow funds against the security of their Consolidated Fund, as per Article 293 of the Constitution. 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. By adopting a responsible and proactive approach to managing contingent liabilities, state governments can effectively support economic growth while safeguarding their fiscal stability.

13.6 Recommendations

- ❖ Develop a comprehensive and centralized database of all government guarantees and other contingent liabilities.
- ❖ Mandate regular reporting of contingent liabilities by state governments to a central authority (e.g., the Finance Commission or a dedicated agency).
- ❖ Enhance transparency by publicly disclosing information on contingent liabilities, including the nature, amount, and potential risks associated with each guarantee.
- ❖ Consider establishing independent fiscal councils to provide objective assessments of state governments' fiscal health and the potential impact of contingent liabilities.

CHAPTER - 14
ANALYSIS OF STATE SUBSIDIES OF SIKKIM

14.1 Introduction

The literature on economics lacks a universal definition of subsidies varying in definitions, due to which there is a need for different analytical approaches (Wisemen,1981) also agreed by Roa and Mundle, (1991). Subsidies make up a considerable portion of the cake in government spending and are advocated when the social benefits of certain services like education, health- care, sanitation, and environment protection, exceed the private benefits received by the individual consumer. The primary effect of subsidies is to lower the market prices of subsidized good and services, as the government absorbs the parts of cost and it also addresses the market failure (Comptroller and Audit General of India, 2001).

The budgetary subsidies are those which are determined by examining how much the government spends on providing the necessary services versus how much its collects from its users of those services (Roa and Mundle, 1992). According to IMF, (2024) subsidies can be divided into explicit and implicit categories. Explicit subsidies refer to the financial cost of providing a fuel that surpasses the price the user pays. In contrast, implicit subsidies measure the gap between the full social cost of the fuel and the price paid by the user of the said subsidy, excluding any explicit subsidies. They are an essential part of the government budget, and the state of Sikkim is no exception in this regard. As mentioned before there are two types of subsidies: explicit and implicit. In Sikkim, explicit subsidies are allocated to three main sectors: agriculture, to support agricultural marketing; food civil supply and consumer affairs; and medical and public health services (Dutta,2018).

14.1: Explicit subsidies for different purposes

Table 14.1 shows the amount explicit for different sector of Sikkim. From 2010-11 to 2018-19 (BE) the government have given importances to cooperation of agriculture marketing, medical and public health: and food supply and consumer affair. During these 9 years the total subsidies provided in the sector of food civil supply and consumer affair are higher than the rest of the two sector the explicit subsidies provided during these 9 years have change significantly the trend of the subsidies are such that in the middle of this period it declined and at the last few years they showed upward rising trend. Similarly, the total subsidies showed the same trend. The food civil supply and consumer affair the subsidies rose to ₹2475 crore in 2014-15 and declined in 2018-19 (BE) to just ₹778 crore the medical subsidies showed the same trend rising to ₹771 crore in 2016-17 and then declining to ₹696 crore in 2018-19 (BE).

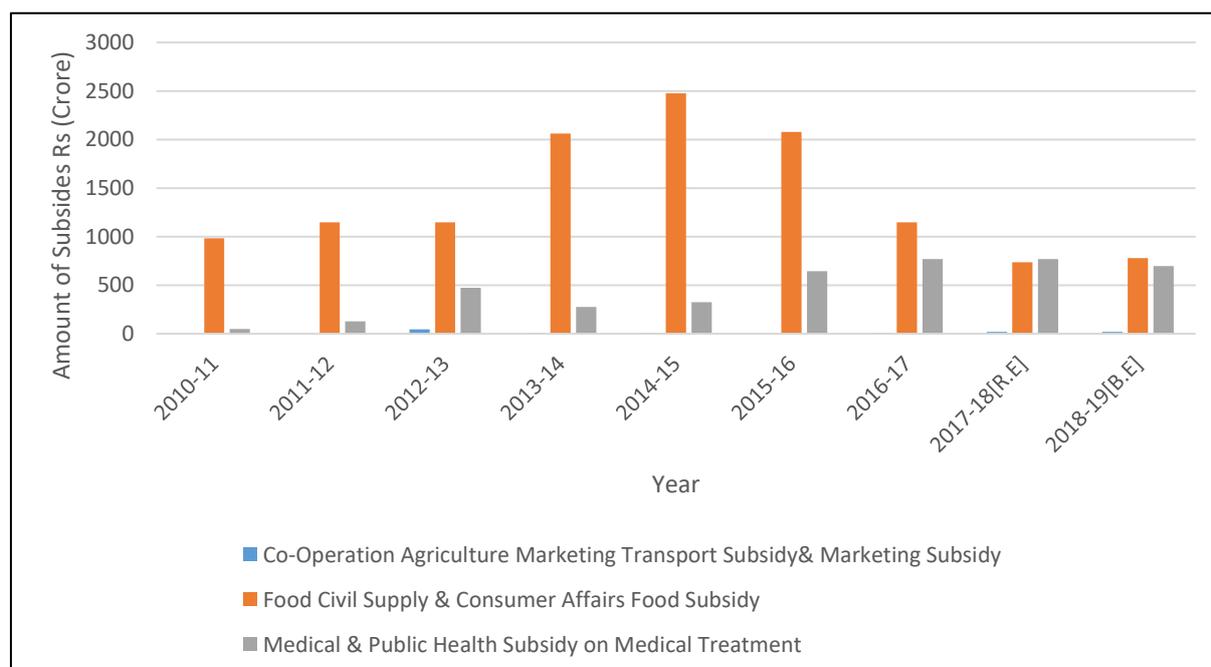
Amongst these explicit subsidies given to different sector, the subsidies for agriculture marketing are lowest. **Figure 14.1** is a visual representation of **Table 14.1**. moreover, there are no implicit subsidy reported during for these periods.

Table 14.1: Explicit Subsidies for Different Purposes

Explicit Subsidies (₹ Cr)				
Year	<i>Co-Operation Agriculture Marketing</i>	<i>Food Civil Supply & Consumer Affairs</i>	<i>Medical & Public Health</i>	Total
	<i>Transport Subsidy & Marketing Subsidy</i>	<i>Food Subsidy</i>	<i>Subsidy on Medical Treatment</i>	
2010-11	—	982.00	50.00	1032
2011-12	—	1147.00	127.00	1274
2012-13	44.99	1149.00	475.00	1668.99
2013-14	8.0	2061.00	275.00	2344
2014-15	9.31	2475.00	325.00	2809.31
2015-16	—	2077.00	646.00	2723
2016-17	10.17	1149.00	771.00	1930.17
2017-18[R.E]	20.0	738.00	771.00	1529
2018-19[B.E] ⁷	20.0	778.00	696.00	1494

Source: Budget Papers, Government of Sikkim (2010-11 to 2018-19[B.E]).

Figure 14.1: Explicit Subsidies



Source: Budget Papers, Government of Sikkim.

⁷ Data are updated till 2018-19[B.E]

14.2 Percentage of Subsidies Provided to Different Sectors

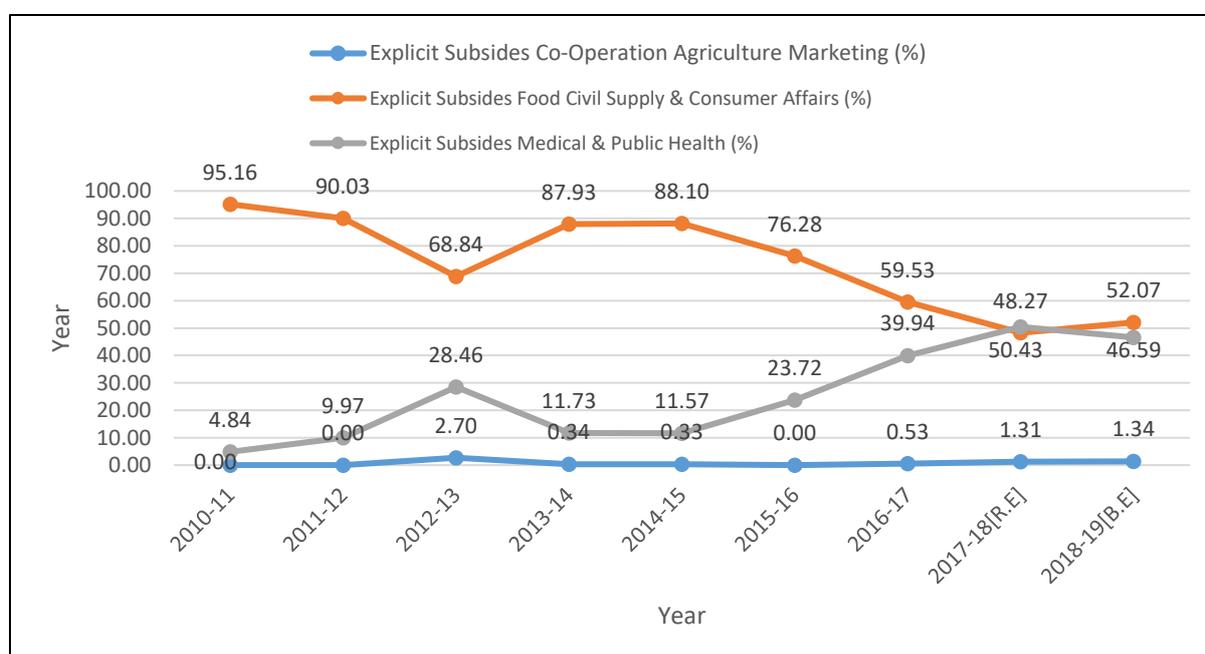
Table 14.2 shows the percentage of subsidies of different sectors in the total subsidies. It is seen that the highest percentage of subsidy was provided to Food Civil Supply and the lowest to Agricultural Marketing. It should be noted that the Sikkim Government did not provide any implicit subsidy to the sectors. As a result, the percentage of explicit subsidies given are the same as the percentage of subsidy provided to these sectors in total subsidies. This is also shown in **Figure 14.2**

Table 14.2: Percentage of Subsidies of Different Components in Total Subsidy

Year	Explicit Subsidies		
	Co-Operation Agriculture Marketing (%)	Food Civil Supply & Consumer Affairs (%)	Medical & Public Health (%)
2010-11	0.00	95.16	4.84
2011-12	0.00	90.03	9.97
2012-13	2.70	68.84	28.46
2013-14	0.34	87.93	11.73
2014-15	0.33	88.10	11.57
2015-16	0.00	76.28	23.72
2016-17	0.53	59.53	39.94
2017-18[R.E]	1.31	48.27	50.43
2018-19[B.E]	1.34	52.07	46.59

Source: Budget Paper, GOS 2024.

Figure 14.2: Percentage of Different Components of Explicit Subsidy in Total Subsidy



Source: Budget Papers, Government of Sikkim 2024.

14.2 Subsidy Administrated Under Direct Benefit Transfer

The introduction of Direct Benefit Transfer (DBT) system in India was to tackle challenges such as poor target, leakages and inefficiency of welfare programs that normally aims to protect the poor (DESME, GOS assessed on 2024). DBT is a process by which government welfare subsidies are transferred to beneficiaries specially those citizens that are under Below Poverty Line in a more accurate way, so that, it reduces fraud. Subsidies are given to beneficiaries on the Aadar link accounts (Ali,2024).

DBT was launched in India on 1st January 2013 which was initially monitored by planning Commission of India however in June 2013, its responsibility moved under the Department of Expenditure and later to Cabinet Secretariat on 14th September 2015. In February 2015, Electronic Payment Guidelines recommended that all the departments, ministries and associate institutions were to utilize an electronic payment system for all the schemes that directly transferring funds to beneficiaries. Jan Dhan Bank accounts, mobile phones such as Jam and Aadhar Card are key in enablers of DBT. DBT works with the vision of “Maximum Governance Minimum Government’ (DBT Bharat, assessed on 2024).

According to DBT Bharat, when it comes to DBT transaction, Sikkim ranks 25th in all India for the financial year 2024-25. Besides subsidies, it also covers honorariums for ASHA (Accredited Social Health Activist) and Anganwadi Workers. To ensure that benefits reach to right people, Aadhar card is used to access state government services in Sikkim as per Notification No. 29/Home/2011 dated March 30, 2011. This managed by The Department of Economics, Statistics, Monitoring & Evaluation (DESME) in Sikkim. (DESME,2024)

Table 14.3 State Wise Beneficiary Details

Sl. No	State	Total No. of Beneficiary	Total No. of Beneficiary with Aadhar No	Total No. of Beneficiary with Mobile No	Total No. of Fund Transferred
1	Arunachal Pradesh	322988	322988	287882	340634000
2	Assam	7231462	7224383	6191879	8207805400
3	Manipur	507661	501224	505916	1068249250
4	Meghalaya	574115	574059	541847	871204000
5	Mizoram	549745	520141	431150	609532000
6	Nagaland	689985	682485	647205	926430000
7	Sikkim	133866	133719	92805	135021927
8	Tripura	982029	942856	849679	1064290323

Source: (DBT)Ministry of Agriculture & Farmers Welfare, GOI 2024-25

From the **Table 14.3** it is clear that when compared to other 7 Northeastern States, Sikkim has the lowest to no of beneficiaries (133866) under DBT (Agriculture) for the financial year 2024-25. While Assam has relatively high number of total beneficiaries. Similarly, Sikkim ranks last and falls just below Arunachal Pradesh when it comes total no of beneficiary with Aadhar No and Mobile No. Where as Assam is in leading in all the categories.

Table 14.4: Explicit Subsidy Administered Through DBT (in ₹ Lakh)

Year	Co-operation Agriculture Marketing	Food Subsidies For welfare of SC, ST and OBC	Subsidies on Sale of Rice	Pradhan Mantri FME	Total
2016-17	10.17	-	208.36	-	218.53
2017-18	2.50	-	208.36	-	210.86
2018-19	19.46	-	243.98	-	263.44
2019-20	-	-	-	-	-
2020-21	-	-	277.64	-	277.64
2021-22	10.00	-	249.51	3.89	263.40
2022-23	-	-	406.00	12.77	418.77
2023-24 (RE)	25.00	-	260.80	-	285.80
2024-25 (BE)	25.00	-	152.08	51.00	228.08

Source: Budget Papers, Government of Sikkim 2024.

Note: - indicates that Data is not available.

Table 14.4 shows the explicit subsidy administered through direct benefit transfer.

It is observed that the largest subsidies were given to the area on sale of rice was ₹406.00 lakh in 2022-23. In Sikkim, a significant part of DBT has been the rice sales subsidies. Only this area has been consistent. The allocation of subsidies has varied in area of Co-operation Agriculture Marketing, which significantly increase in 2018-19 (and thereafter no subsidies were allocated) and with a budgeted amount of ₹25 lakh for 2023-24 and 2024-25. Pradhan Mantri FME was funded only in 2021-22, 2022-23 and it is expected to be funded around ₹51 lakh for the 2024-25. No food Subsidies for SC, ST and OBC welfare were allocated from 2016-17 to 2024-25(B.E). 2022-23 observed the largest total explicit subsidies that administered through DBT, however no explicit subsidies for co-operation agriculture marketing and food subsidies for welfare of SC, ST and OBC in this year.

Table 14.5 shows Implicit Subsidies administered through DBT. The CM's startup scheme received DBT subsidies was ₹62.95 lakh in 2017-18, which increased to ₹4081.25 lakh in following year, but none thereafter. The Skilled Youth Startup scheme received DBT subsidies only from 2021-22. Similarly, electricity subsidy to rural domestic which is administered through other than DBT received from only 2021-22.

Table 14.5 (a): Implicit Subsidy Administered Through DBT (in ₹ Lakh)

Year	Those being administered through DBT		Other than those administered through DBT	Total
	CM's Startup	Skilled Youth Startup Scheme	Electricity Subsidy to Rural Domestic	
2016-17	-	-	-	-
2017-18	62.95	-	-	-
2018-19	4081.25	-	-	-
2019-20	-	-	-	-
2020-21	-	-	-	-
2021-22	-	474.80	274.00	748.80
2022-23	-	775.38	699.00	1,474.38
2023-24 (RE)	-	886.77	2862.00	3,748.77
2024-25 (BE)	-	500.00	818.00	1,318.00

Source: Budget Papers, Government of Sikkim 2024.

Note: - indicates that Data is not available.

In the year 2023-24 the total implicit subsidies were at peak (₹3,748.77 lakh), where the Electricity Subsidy to Rural Domestic scheme alone received ₹2,862.00 lakh and Skilled Youth Startup scheme. For 2024-25, a slight decrease is projected with total implicit subsidies estimated at ₹1,318.00 lakh.

Table 14.5 (b): Total Subsidy Administered Through DBT (in ₹ Lakh)

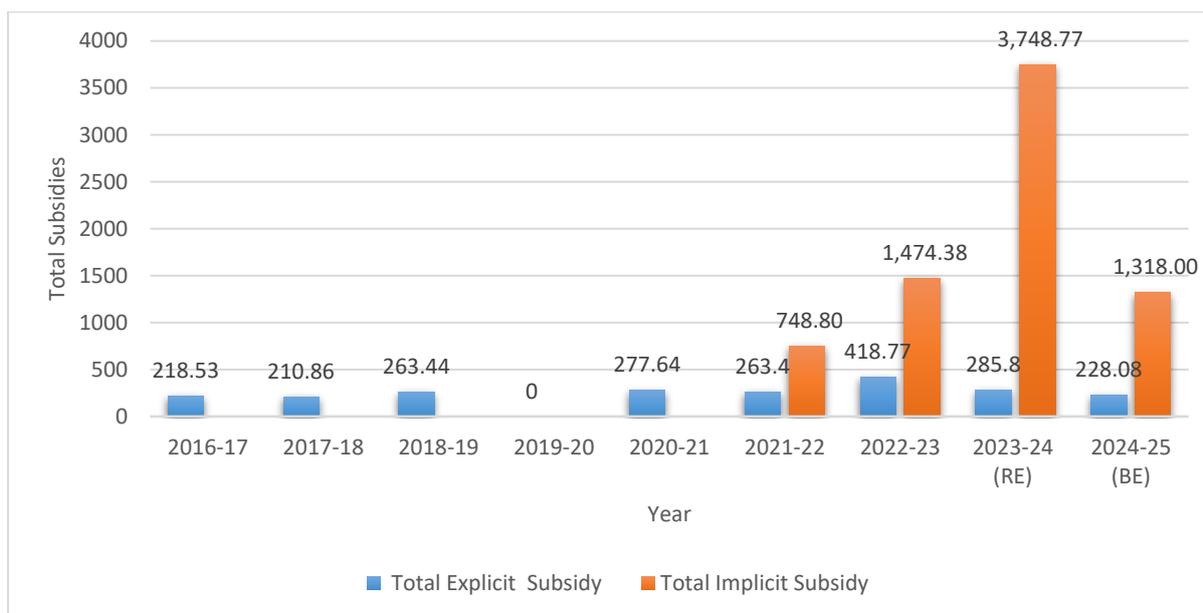
Year	Total Explicit Subsidy	Total Implicit Subsidy	Total Subsidy
2016-17	218.53	-	218.53
2017-18	210.86	-	210.86
2018-19	263.44	-	263.44
2019-20	-	-	0
2020-21	277.64	-	277.64
2021-22	263.4	748.80	1012.2
2022-23	418.77	1,474.38	1893.15
2023-24 (RE)	285.8	3,748.77	4034.57
2024-25 (BE)	228.08	1,318.00	1546.08

Source: Budget Papers, Government of Sikkim 2024.

Note: - indicates that Data is not available.

From the **Table 14.6** shows total subsidy which consist total explicit subsidy and total implicit subsidy. For the initially period i.e from 2016-17 to 2020-21 Sikkim had no implicit subsidies under DBT, however from 2021-22 to 2024-25 (B.E) government provided implicit subsidies. Initially the implicit subsidy was ₹748.80 lakh in 2021-22 which increased to ₹1318 lakh in 2023-24, as result the total subsidy from ₹1012.2 lakh to ₹4034.57.

Figure 14.3: Total Subsidy Administered Through DBT (in ₹ Lakh)



Source: Budget Papers, Government of Sikkim 2024.

Note: - indicates that Data is not available.

In 2019-20, no subsidies were recorded, resulting in a total of ₹0. It is anticipated that both explicit and implicit subsidies will decrease to ₹228.08 lakh and ₹1,318.00 lakh, respectively, during 2024–25 (BE), which makes a total of ₹1,546.08 lakh. Whereas total explicit subsidy has been consistency throughout the period of analysis expect during 2022-23 it reached a high of ₹418.77 lakh. **Figure 14.3** is the visual representation of **Table 14.5 (b)**.

14.3 Major Finding

- ❖ The Govt of Sikkim has given more emphasis to Food Civil Supply and Consumer Affairs while providing these subsidies.
- ❖ The subsidies provided to Food Civil Supply and Consumer are greater than the other two sectors.
- ❖ From 2010-11 to 2018-19 (R.E) the explicit subsidies have significantly changed in all sectors.
- ❖ The percentage of subsidy in total subsidy is the same as the percentage of explicit subsidy.
- ❖ There are no implicit subsidies provided by the Government during this time.
- ❖ As per DBT Bharat, for FY2024-25, Sikkim Ranks 25th in India with 17.85 lakh + no of transactions
- ❖ Besides subsidies, DBT also gives honorariums for ASHA and Anganwadi Workers in Sikkim.
- ❖ Among 8 northeast States Sikkim has the lowest number of beneficiaries. In Sikkim, the most consistent area where explicit subsidies through DBT is given is Sales on Rice, which

saw a peak of ₹406 lakh in 2022-23.

- ❖ There been fluctuations in explicit subsidies for co-operation Agriculture Marketing given through DBT, and it peaked in 2018-19, but discontinued thereafter. However, in FY 2023-24 and 2024-25 it is budgeted to be ₹25 lakh.
- ❖ The Pradhan Mantri FME Funding (explicit subsidies) were only allotted for 2021–2022 and 2022–2023. It is expected to be ₹51 lakh for 2024-25. For the welfare of SC, ST, and OBC, no specific food subsidies were provided between 2016–17 and 2024–25 (B.E.) Despite the absence of funds for food subsidies for welfare or agriculture marketing in 2022–2023, the highest total explicit subsidies through DBT occurred in that year.
- ❖ The areas of implicit subsidies administrated through DBT are CM’s Startup Scheme and Youth Skilled Startup Scheme. CM's Startup Scheme received ₹62.95 lakh in the year 2017-18 and this rose substantially to ₹4081.25 in the 2018-19 but none thereafter. On the other hand, DBT implicit subsidies were available only from 2021-22 and reached its peak in 2023-24.
- ❖ Non -DBT subsidies like Electricity Subsidy to Rural Domestic received subsidies only from 2021-22. 2023 -24 received the vast majority of implicit subsidies that totaled to ₹2862.00 lakh. The peak period for the total implicit subsidies was 2023-24 (₹3,748.77 lakh) where the Electricity Subsidy to Rural Domestic program received the majority share. It is estimated that the total amount of Implicit subsidies to drop to ₹1,318.00 lakh in 2024-25 from ₹3,748.77 lakh.
- ❖ From 2016-17 to 2020-21 Sikkim had no implicit subsidies under DBT, it only started from 2021-22. Initially the implicit subsidy was ₹748.80 lakh in 2021-22 which increased to ₹1318 lakh in 2023-24, as result the total subsidy from ₹1012.2 lakh to ₹4034.57. in this year (peak year)
- ❖ In 2019-20, no subsidies were recorded, resulting in a total of ₹0. Since both implicit and explicit subsidies are expected to decrease in the FY 2024-25, the total subsidy under DBT is also predicted to decline for the same year.

14.4 Conclusion

Subsidies of Sikkim are well maintained by the government. The subsidies provided to Food Civil Supply and Consumer are greater than the other two sectors. The state has large explicit subsidies in Food Civil Supply and low explicit subsidies in agriculture. There are no

implicit subsidies provided by the Government during this time.

Direct Benefit Transfer was introduced on 1st January,2013 to tackle the problem of inefficiency of the welfare scheme. Sikkim's subsidy under DBT shows significant distinctions with a low number of beneficiaries ranking 25th in all India base and last among 8 North-eastern States. Sikkim provides the largest subsidies on sale of rice (explicit under DBT) and to rural electricity subsidy (implicit, on-DBT) with peaks in 2018-19 and 2023-24 respectively. For FY 2019-20 no subsidies under DBT were recorded. Implicit (DBT) subsidies were only from 2021-22 and reached peak in 2023-24 along with total subsidy reaching to new height. However, both implicit and explicit are expected to decline in 2024-25 as a result the total subsidy is estimated to decrease as well.

14.5 Recommendations

- ❖ The government should expand DBT coverage to include more beneficiaries in Sikkim as Sikkim ranks last when comes to beneficiaries among the 8 Northeastern States
- ❖ Government should create an awareness program that can effectively educate rural populations about DBT.
- ❖ The government should consider alternative support systems for beneficiaries as subsidies are forecasted to decline.
- ❖ Sikkim should focus more to improve agriculture subsidies by allocating more funds to support farmers with seeds, fertilizer and modern technology and give more subsidies to transportation department as the whole economy of Sikkim relies on it.
- ❖ Government should emphasize more on using technology like mobile apps or portals to track the subsidy delivery

CHAPTER - 15
OUTCOME EVALUATIONS OF STATE FINANCE

15.1 Introduction

The state intends to utilize the 15th Finance Commission to safeguard, restore, and conserve cultural properties in line with the 2016 Culture Policy of Sikkim. Additionally, it has proposed the establishment of a corpus fund of Rs. 20 crores for these initiative (Dutta et.al, 2020). The 15th Finance Commission advised providing grants to Rural Local Bodies (RLBs) and Panchayat Raj Institutions (PRIs) for the upcoming five years. It highlighted drinking water supply and sanitation as key national priority areas for RLBs. The Commission was tasked with recommending the vertical distribution of taxes and establishing the formula for the allocation of shared taxes and grant-in-aid to the States. The Commission focuses on addressing priority areas such as infrastructure development, social services, and cultural preservation, ensuring sustainable development and effective governance in the state (Rai,2018). The primary purpose of the 15th Finance Commission in Sikkim is to evaluate the state's financial needs and recommend the distribution of central funds.

15.2 Recommendations of 15th Finance Commission

Major recommendations of 15th Finance Commission are as follows:

- ❖ Cultural properties- The state proposed to set up a corpus fund of Rs. 20 crores for the activities of Preservation, Conservation, and Restoration of Cultural Properties.
- ❖ State Financial Commission Cell-The commission suggested the setting up of a permanent State Financial Commission Cell within the Ministry of Finance to ensure that the recommendations are taken up and implemented.
- ❖ Revenue deficit grants-The commission stated that Sikkim shall not be extended any revenue deficit grants in the financial year 2024-25 and 2025-26.
- ❖ Demographic performance-The commission incentivized the states for checking the growth rate of the population, based on the 2011 census.
- ❖ State Share in Divisible Pool- The Sikkim government suggested that the states' share in the overall divisible pool of taxes should be raised to 50%¹. This is more than the general recommendation of 41% for every state.
- ❖ Devolution of funds concerning local bodies- The Commission suggested that funds be devolved for every tier of local bodies in Sikkim. This includes panchayats, municipalities and district councils and aims at ensuring local governance systems have sufficient funds.

- ❖ **Enhancing the Panchayati Raj System-** The Commission took note of the commendable achievements of the Panchayati Raj system in Sikkim; hence, further improvement was proposed. This entails the enabling of local areas to provide services effectively and utilize available resources optimally.
- ❖ **Water Supply and Sanitation-** The Commission classified water supply and sanitation as core areas of national importance, which are especially significant in enhancing the welfare's of the people in the rural settings. The recommendations include ways to ensure that water resources are managed sustainably and the sanitation conditions in Sikkim are improved.
- ❖ **Socio-Economic Development-** The Commission stressed the need for appropriate socio-economic development in Sikkim. Such strategies include development of agriculture, tourism and small scale industries to create jobs and boost the economy of the state.
- ❖ **Fiscal Management-** The Commission proposed a number of initiatives that are aimed at improving fiscal management in Sikkim, among them enhanced revenue generation and other concerns such as managing expenditures more effectively.

15.3 Compression of the 15th FC recommendation with the achievements of the State

Sikkim's GDP is not directly comparable to larger states due to its smaller size and unique economic structure (Singha, 2024). However, in terms of GDP per capita, Sikkim ranks among the top states in India, often sharing a similar economic standing with states like Goa and Delhi (Basnet& Mahapatra, 2024). Being a hilly terrain 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 in table 15.1.

Table 15.1: Comparison of the 15th FC recommendations with the Achievements of Sikkim.

Recommendations	Achievements
<p>Cultural properties: The state proposed to set up a corpus fund of Rs. 20 crores for the activities of Preservation, Conservation, and Restoration of Cultural Properties</p>	<p>The 15th Finance Commission did not specifically allocate funds for this purpose, but it did provide grants to local bodies, which could potentially be used for cultural heritage projects. Additionally, the Commission emphasized the importance of effective resource utilization and institutional capacity building, which could indirectly benefit cultural heritage conservation efforts.</p>
<p>State Financial Commission Cell:The commission suggested the setting up of a permanent State Financial Commission Cell within the Ministry of Finance to ensure that the recommendations are taken up and implemented.</p>	<p>This Recommendation was accepted by the Government.</p>
<p>Demographic performance: The commission incentive the states for checking the growth rate of the population, based on the 2011 census</p>	<p>Sikkim has indirectly benefited from the 15th Finance Commission's incentive for states with lower population growth rates. The Commission allocated funds based on various criteria, including demographic performance. States with lower fertility rates received higher allocations. While Sikkim may not have directly received a specific incentive for its demographic performance, it has benefited from the overall allocation formula</p>

<p>State Share in Divisible Pool: The Sikkim government suggested that the states' share in the overall divisible pool of taxes should be raised to 50%. This is more than the general recommendation of 41% for every state.</p>	<p>The Commission recommended a 41% share for all states, which was a slight decrease from the previous 42% share recommended by the 15th Finance Commission.</p>
<p>Devolution of funds concerning local bodies: The Commission suggested that funds be devolved for every tier of local bodies in Sikkim. This includes panchayats, municipalities and district councils and aims at ensuring local governance systems have sufficient funds</p>	<p>The State has accepted it.</p>
<p>Enhancing the Panchayati Raj System: The Commission took note of the commendable achievements of the Panchayati Raj system in Sikkim; hence, further improvement was proposed. This entails the enabling of local areas to provide services effectively and utilize available resources optimally.</p>	<p>The State has accepted it.</p>
<p>Water Supply and Sanitation: The Commission classified water supply and sanitation as core areas of national importance, which are especially significant in enhancing the welfare's of the people in the rural settings. The recommendations include ways to ensure that water resources are managed sustainably and the sanitation conditions in Sikkim are improved</p>	<p>The Commission has classified water supply and sanitation as core areas of national importance, especially for rural areas. Sikkim has received significant funds from the Commission to improve water supply and sanitation infrastructure in rural areas.</p>

<p>Socio-Economic Development: The Commission stressed the need for appropriate socio-economic development in Sikkim. Such strategies include development of agriculture, tourism and small scale industries to create jobs and boost the economy of the state.</p>	<p>The state has achieved this recommendation. The Commission has emphasized requirement for socio-economic development in the state.</p>
<p>Fiscal Management: The Commission proposed a number of initiatives that are aimed at improving fiscal management in Sikkim, among them enhanced revenue generation and other concerns such as managing expenditures more effectively</p>	<p>The state has accepted these recommendations.</p>

Source :15th FC of Sikkim.

15.4 Findings

- ❖ Establishing a Rs. 20 crore funds to safeguard, restore, and conserve cultural properties.
- ❖ Setting up a permanent cell within the Ministry of Finance to ensure recommendations are implemented.
- ❖ Significant investments in road infrastructure, particularly in border areas and remote regions, have improved connectivity and facilitated economic growth.

15.5 Conclusion

Sikkim, a small Himalayan state, has successfully leveraged the recommendations of the 15th Finance Commission to bolster its development trajectory. The state's unique geographical features and special constitutional status under Article 371(A) have played a crucial role in shaping its development priorities.

15.6 Recommendations

- ❖ Provide capacity building programs for panchayat, municipalities, and district councils to improve their administrative and financial management capabilities.
- ❖ Foster collaboration between local bodies and state government departments to ensure

efficient service delivery and resource utilization.

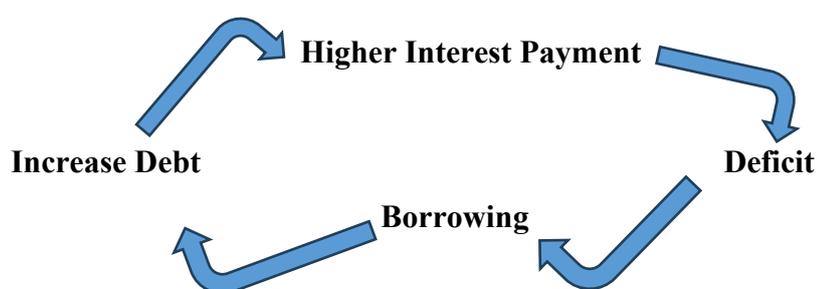
- ❖ Allocate sufficient resources towards upgrading sanitation facilities in rural areas, focusing on proper waste disposal and sewage management.

CHAPTER – 16
DETERMINATION OF A SUSTAINABLE DEBT ROAD MAP
FOR SIKKIM

16.1. Introduction

Debt sustainability can be defined as the debt that is owned by the government authorities. The Government borrows funds for various development programs if the authority pays back its debt on time without going into bankruptcy, the economy is said to be debt-sustainable (IMF,2020) if not then it is fiscal unsustainability which has adverse consequences (IMF,2014) as shown in **Figure 16.1**.

Figure: 16.1 Vicious Circle of Fiscal Unsustainability



Source: IMF,2014

Debt sustainability analysis is used by two major institutions IMF and World Bank to guide the borrowing decisions of developing countries so that they can meet a balance between financial needs and repayment of it for long-term financial sustainability (World Bank,2024).

To maintain long-term macro stability where public welfare is at an optimal level the fiscal and monetary policies should coordinate with each other (Chugufov et.al, 2021) therefore the government must limit its spending and increase its revenue. This limitation can be met by the government either by defaulting on the payment or monetizing debt. A stable debt level allows the economy to meet its fiscal obligation, which helps to maintain economic growth. The finance commission takes the sustainability of debt as an important issue. A revenue deficit in the current year is created by the high amount of debt stock which creates pressure on the interest payments (Dutta,2018).

Following are our main observations about the various indicators of debt sustainability in Chapter 7

- ❖ Sikkim failed to satisfy the standard for the ratio of total debt to GSDP ratio, which should decline over time. However, this ratio has increased in 13 of 15 years over the period of analysis. This ratio has been increasing since 13th FC period and it is anticipated to increase continuously until 2024-25(B.E). This shows that the government is in a debt trap where the deficits are increasing as well.
- ❖ Another indicator that falls short of sustainability definition is interest burden defined which is again defined by interest payment to the GSDP ratio. This ratio should decline

over time. In 10 years of 15 years has not declined over time, rather from 2018-19 to 2024-25 (B.E) has been rising continuously. This implies that debt has grown more rapidly than the growth of the economy. These are the consequences of the pressure of the COVID-19 pandemic which has disrupted the growth of the economy

- ❖ Although, the ratio of total debt is continuously increasing, it is observed that over the span of 15 years, the nominal growth rate of GSDP (Y) is greater than the rate of public debt (D), suggesting that government fiscal policies may not be sustainable.
- ❖ The maximum number of breaches has occurred in the 2019-20 as shown by **Table 7.13**. In this year fiscal deficit was ₹ 2081.18 Cr reaching to a new high 10.67 % to GSDP showing that the grants from central government have declined as a result the debt level has risen thereby increasing the budget deficits. This shows that Sikkim is dealing with situation called fiscal unsustainable.

The present chapter attempts 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 2025-30 is referred to as the BAU forecast. The BAU debt forecast is termed as F0 in this chapter.

Next, the study has 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 2010-11 to 2023-24 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 Under F0

The analysis of time series data captures and examines the dynamics of data. These dynamics take out the information about the data so they forecast the future values. Forecasting a time series data is not concerned with the structuring of models, it examines the interrelationships that exist over time (Asterious and Hall, 2006)

- a) To forecast the fiscal variable from 2024-25(B.E) and 2029-30, we consider the baseline year as 2024-25. F0 has been created using the 2024-25(B.E) value of budget estimate for tax revenue, non-tax revenue, revenue expenditure and capital expenditure as baseline figures.
- b) In order to forecast, the study analyzes the key components from 2010-11 to 2023-24 (B.E) in such a way, where Own Tax Revenue grows at 1.4 %, Own Non-Tax Revenue at 9%.Revenue-Expenditure is 1.3%, Revenue Receipts at 2.6% and Capital Expenditure at 2.5%.
- c) We need the forecasted value of four components to estimate the value of revenue receipt from the baseline.
 1. Own Tax Revenue.
 2. Own Non-Tax Revenue
 3. Shared Tax from the Centre
 4. Grants from the Centre

The value of first two variable are estimated on their respective growth rate and the latter two are estimated according to Finance Commission recommendations.

- d) It should be kept in mind that at the time of forecast, decision regrading to horizontal and vertical devolution and Grants in aids taken by the upcoming FC periods are not known. The analyses take the trend based on growth rate to estimate values. Forecast of these values could be error some owing to potential limitations
- e) The Total Expenditure under F0 are forecasted using the values estimated value of revenue expenditure and Capital Expenditure.

Table 16.1: Revenue Deficits under F0

Year	Own Tax Rev	Own Non-Tax Rev	Share Tax	Grants	Revenue Receipt	Revenue Exp	Revenue Deficit	RD as% GSDP
2024-25(B.E)	2163.54	926.97	4839.17	2819.44	10749.12	10249.79	-499.33	-2.08
2025-26	1843.15	1090.254	4649.47	2099.86	9682.742	9447.41	-235.332	-0.74
2026-27	1960.03	1149.293	4950.27	2145.11	10204.715	9988.95	-215.765	-0.66
2027-28	2076.91	1208.332	5251.0	2190.37	10726.688	10530.49	-196.198	-0.58
2028-29	2193.79	1267.371	5551.87	2235.62	11248.661	11072.03	-176.631	-0.50
2029-30	2310.67	1326.41	5852.67	2280.88	11770.634	11613.57	-157.064	-0.43
2030-31	2427.55	1385.449	6153.47	2326.13	12292.607	12155.11	-137.497	-0.37

Source Budget paper, GOS 2024 & Own Calculation

Table 16.1 shows the revenue deficit under F0 and **Table 16.2** shows the fiscal deficit under F0. **Figure 16.2** visually represents the Trend line of Revenue Deficit and Fiscal Deficit as the Percentage of GSDP. **From Table 16.1 and Table 16.2** the receipts and expenditure are expected to decline in 2025-26 and then are estimated to improve gradually. In the year 2024-25 the receipts exceed the expenditure that result to negative revenue deficits, where the ratio GSDP was at -2.08% suggesting a stricter govt control over expenditure. It is also observed that the own tax revenue shows a steady growth which is expected to rise from ₹ 2163.54Cr in 2024 - 25 to ₹ 2427.54 Cr in 2030-31.

This indicates that there shall be improvement in tax collection. Similarly, non-tax revenue shows consistent growth which is expected to reach ₹1385.44 by 2030-31. Both shares tax and grants increase but at slower rate. The slow growth rate in grants suggest that either there will be reduction in dependency on higher authorities or conservative projections for external funding. So, revenue receipts are expected to grow steadily due to consistent growth that aligns with upward trend in both tax and non-tax revenue. Therefore, the revenue deficit falls significantly from -₹499.33Cr in 2024-2025 to -₹137.497Cr in 2030-2031 as a consequence. From -2.08% in 2024-25 to -0.37% in 2030-31 as a percentage of GSDP, the revenue deficit shows improvement in fiscal health. Nevertheless, the revenue receipts are still negative, indicating that expenses are still higher than revenues.

The revenue expenditure is also expected to grow over the timeline however expenditure rises at slow space compared to revenue receipt this shows an improvement in fiscal management and efficiency in resource allocation. On the other hand in **Table 16.2**, it is observed that capital expenditure is increasing steadily signifying that the government will be investing on infrastructure and long-term development as a result the total expenditure that

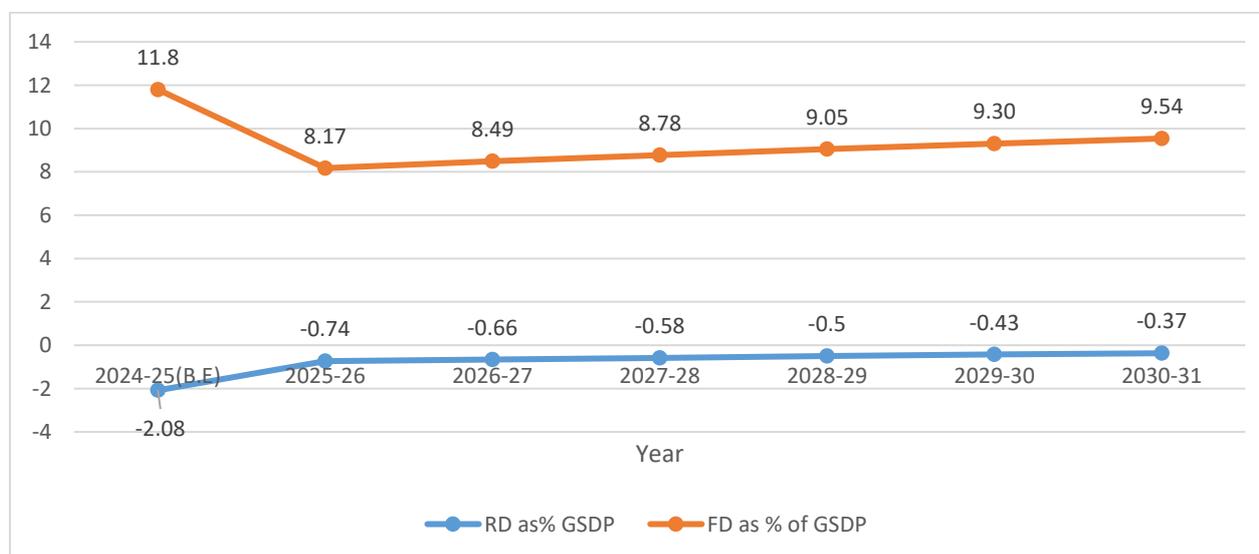
combines both revenue and capital expenditure shows clear upward trend, which shows a growing fiscal burden on government. By 2030-31, the fiscal deficit is predicted to increase to ₹3559.17Cr in absolute terms. An essential indicator of fiscal sustainability is the fiscal deficit as a percentage of GSDP. From 11.8% in 2024 to 25 to 9.54% in 2030- 31, this ratio declines, indicating that government borrowing is increasing at the slowest rate relative to overall economic growth.(The ratio drops sharply from 11.8% in 2024-25 to 8.17% in 2025-26) Overall government seems to be focusing on capital investment for future growth but rising fiscal deficit and revenue deficit shows that t the government may encounter difficulties in the near future if it fails to control debt and interest payments. Government must therefore exercise caution to avoid falling into a debt trap.

Table 16.2: Fiscal Deficits Under F0

Year	Revenue Receipt	Revenue Exp	Revenue Deficit	Capital Exp	Total Exp	Fiscal Deficit	FD as % of GSDP
2024-25(B.E)	10749.12	10249.79	-499.33	3339.31	13589.1	2839.98	11.8
2025-26	9682.742	9447.41	-235.332	2821.766	12269.18	2586.43	8.17
2026-27	10204.715	9988.95	-215.765	2996.746	12985.70	2780.98	8.49
2027-28	10726.688	10530.49	-196.198	3171.726	13702.22	2975.53	8.78
2028-29	11248.661	11072.03	-176.631	3346.706	14418.74	3170.08	9.05
2029-30	11770.634	11613.57	-157.064	3521.686	15135.26	3364.62	9.30
2030-31	12292.607	12155.11	-137.497	3696.666	15851.78	3559.17	9.54

Source Budget paper, GOS 2024 & Own Calculation.

Figure 16.2: Trend Line of Revenue Deficit and Fiscal Deficit as A Percentage Of GSDP, F0 Scenario



Source Budget paper, GOS 2024.

16.3 Methodology and Forecast Under F1.

F1 methodology introduces GST at 14% to linear forecasted value under F0 methodology. This implementation has the ability to profoundly change the trajectory. This assumption of GST will enhance the efficiency of revenue collection while adding buoyancy that had been missing in past data. It should be kept in mind that the constitution ensures the states 14% of GST (PRS,2020-21). Therefore, F1 methodology would change its own tax upwardly by 14%. According to consequences of GSTs implementation F1 forecast have been developed.

Table 16.3: Revenue Deficits Under F1

Year	Own Tax Rev	Own Non-Tax Rev	Share Tax	Grants	Revenue Receipt	Revenue Exp	Revenue Deficit	RD as% GSDP
2024-25(B.E)	2163.54	926.97	4839.17	2819.44	10749.12	10249.79	-499.33	-2.08
2025-26	2101.19	1090.254	4649.47	2099.86	9940.774	9447.41	-493.364	-1.56
2026-27	2234.43	1149.293	4950.27	2145.11	10479.103	9988.95	-490.153	-1.50
2027-28	2367.68	1208.332	5251	2190.37	11017.382	10530.49	-486.892	-1.44
2028-29	2500.92	1267.371	5551.87	2235.62	11555.781	11072.03	-483.751	-1.38
2029-30	2634.16	1326.41	5852.67	2280.88	12094.12	11613.57	-480.55	-1.33
2030-31	2767.41	1385.449	6153.47	2326.13	12632.459	12155.11	-477.349	-1.28

Source Budget paper, GOS 2024 & Own Calculation.

From the **Table 16.3** it is observed that the year 2024 -25 is estimated to have a negative revenue deficit which is a result of revenue exceed expenditure. Where the ratio of revenue deficit to GSDP is expected to be -2.08% in this year. Revenue receipts, which are fueled by both tax and non-tax revenue, are anticipated to increase gradually from year to year.

The revenue deficit is expected to decrease marginally, from -₹499.3Cr in 2024-25 to -₹477.35Cr in 2030-31. However, it is still negative. The revenue deficit to GSDP ratio is projected to fall over time, suggesting improved fiscal health. However, the government has to continue efforts to eliminate the deficit for long-term fiscal sustainability. Furthermore, this suggests that the GDP will grow at a significantly faster rate than the revenue deficit, which will lower the deficit to GDP ratio and strengthen the nation's fiscal position. When operating expenses exceed revenue, this indicates constant financial strain.

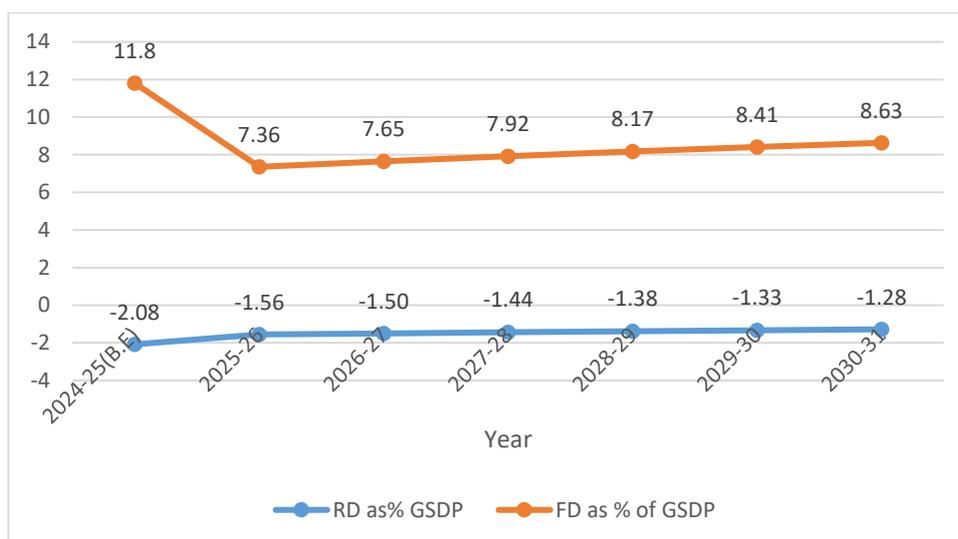
Table 16.4: Fiscal Deficits Under F1

Year	Revenue Receipt	Revenue Exp	Revenue Deficit	Capital Exp	Total Exp	Fiscal Deficit	FD as % of GSDP
2024-25(B.E)	10749.12	10249.79	-499.33	3339.31	13589.1	2839.98	11.8
2025-26	9940.774	9447.41	-493.36	2821.766	12269.18	2328.406	7.36
2026-27	10479.1	9988.95	-490.15	2996.746	12985.7	2506.6	7.65
2027-28	11017.38	10530.49	-486.89	3171.726	13702.22	2684.838	7.92
2028-29	11555.78	11072.03	-483.75	3346.706	14418.74	2862.959	8.17
2029-30	12094.12	11613.57	-480.55	3521.686	15135.26	3041.14	8.41
2030-31	12632.46	12155.11	-477.35	3696.666	15851.78	3219.32	8.63

Source Budget paper, GOS 2024 & Own Calculation.

From **Table 16.4** it is observed that from the year 2025-26 to 2030-31 the fiscal deficit present mix scenarios. Initially the fiscal deficit declining from ₹2839.98 Cr (11.8% of GSDP) in 2024-25 to ₹1351.13 Cr (5.13% of GSDP) in 2025-26, the fiscal deficit shows improvement. However, it is anticipated to reach ₹3219.32Cr by 2030-31, where spending is predicted to exceed revenue, indicating an increased need for borrowing. Over seven years, the fiscal deficit ratio to GSDP is expected to decrease from 11.8% to 8.63% by 2030-31. The decrease in the fiscal deficit as a percentage of GSDP indicates that, while the government's borrowing is increasing in absolute terms, it is doing so at a slower rate than overall economic growth. This could indicate that the economy is growing at a sufficient rate to absorb the increased borrowing without jeopardizing fiscal stability. A fiscal deficit as the percentage of GSDP consistently above 6% of GSDP could lead to more borrowing and debt related issue. Fiscal Deficit as the percentage of GSDP measures the government's overall borrowing. Although the ratio of fiscal Deficit to GSDP expected is declining, yet it is still greater than FRBM recommended limitation of 3%. (Note that this ratio is slightly smaller than in **Table 16.2** due to introduction of 14% GST that changed the own tax upwardly by 14%) The **Figure 16.3** is visual representation of the **Table 16.3** and **Table 16.4**

Figure: 16.3: Trend lines of Revenue Deficit and Fiscal Deficit as a Percentage of GSDP, F1 Scenario



Source Budget paper, GOS 2024 & Own Calculation.

16.3 Sensitivity Analysis for F1

This section the sensitivity analysis is carried out for the forecasted value under F1 methodology. This will assist in process to identify the reduction in revenue and fiscal deficit that can rise from following situations

F1-S1: GST rising at 15% (Growth from 14% GST)

F1-S2: Non-Tax Revenue at 8% (Growth under F1 9%)

F1-S3: Revenue Expenditure at 7% (Growth under F1 1.3%)

Table 16.5: Sensitivity Analysis for Revenue Deficit

Year	F0 Baseline	F1-GST	F1 - S1 - GST Grown at 15 %	F1 - S2 - Non-Tax Rev grown at 8 %	F1 - S13- Rev Exp grown at 7 %
2025-26	-0.74	-1.56	-1.62	-1.53	0.24
2026-27	-0.66	-1.50	-1.52	-1.47	0.34
2027-28	-0.58	-1.44	-1.50	-1.41	0.44
2028-29	-0.50	-1.38	-1.44	-1.35	0.53
2029-30	-0.43	-1.33	-1.39	-1.30	0.62
2030-31	-0.37	-1.28	-1.35	-1.24	0.70

Source Budget paper, GOS 2024 & Own Calculation

From the **Table 16.5** it is observed when GST growth rate increases from 14% to 15 where 14% GST is constitutionally assured. The revenue deficit to GSDP ratio improve steadily from -1.62% in 2025-26 to -1.35 in 2030- 31. This is due to positive impact of GST revenue growth which reduces the revenue deficit. This also indicates that revenue receipts exceed expenditure. Though revenue deficit is improving, it still remains negative which shows

revenue receipts are still insufficient to cover revenue expenditure. This also indicates that Sikkim relies on borrowing to fund current expenditure which may be unsustainable in the long run. While higher GST growth helps to reduce the deficit, the improvement is still modest when compared to the baseline. This emphasizes the limitations of relying just on GST for fiscal correction, as structural imbalances between revenue and expenditure still exist.

When non tax revenue is assumed to grow at 8% the revenue deficit as percentage of GSDP shows a consistent decline -1.53% in 2025-26 to - 1.25% in 2030-31. This is mainly due to enhancement of non-tax revenue which is narrowing the gap between revenue receipt and expenditure. This indicates that a rise in non-tax revenue growth has positive effects on deficit. This scenario though shows progress, the deficit suggest Sikkim will be maintaining its FRBM targets, moving towards sustainability of debt. The most impactful scenario involves when revenue expenditure grows at 7%. This is the most impactful outcome where there is no revenue deficit. The revenue deficit as the percentage GSDP shifts to positive indicating revenue surplus that is predicted to reach 0.70% by 2030-31. This also aligns with the goals of the FRBM Act, which seeks to balance budgets and maintain fiscal health. as a consequence, Sikkim should stay on this path in order to meet its fiscal targets, reduce borrowing, and improve the overall financial health of the economy.

From the **Table 16.6**, it can be perceived that under the assumption of 15% annual GST growth, the fiscal deficit as a percentage of GSDP is expected to grow gradually from 5.6% in 2025- 26 to 6.42% in 2030-31. This indicates that the government would borrow more under this scenario which may lead to higher levels over time. Under FRBM Act the fiscal deficit targets are set to 3% of GSDP, so given projections exceed the limitation of FRBM targets. This rise concerned about fiscal sustainability. If this ratio deficit remains above FRBM targets this will definitely lead economy to a state of higher interest burden and also reduce flexibility to response to economic emergencies in future. fiscal deficit-to-GSDP ratio rises from 5.16% in 2025-26 to 6.42% in 2030-31. The fiscal deficit remains positive, indicating that the state must continue to work on reducing it further through a combination of revenue growth and spending controls in order to achieve long-term fiscal sustainability.

Table 16.6: Sensitivity Analysis for Fiscal Deficit

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 %
2025-26	8.17	7.36	5.16	5.26	9.52
2026-27	8.49	7.65	5.47	5.58	9.64
2027-28	8.78	7.92	5.74	5.87	9.76
2028-29	9.05	8.17	5.99	6.12	9.86
2029-30	9.30	8.41	6.22	6.36	9.95
2030-31	9.54	8.63	6.42	6.57	10.03

Source: Budget paper, GOS 2024 & Own Calculation

The sensitivity analysis for fiscal deficit under the assumption that non-tax revenue grows at 8% shows that the fiscal deficit to GSDP ratio gradually increases from 5.26% in 2025 - 26 to 6.57% in 2030-31. This signifies that though non tax revenue improves; the fiscal deficit would still rise over the years exceed the targets of FRBM Act. Under this assumption, it is observed a higher level of deficit compared to previous scenario. Hence this suggest that even if non tax revenue grows, the ratio would still may deteriorate which indicates that Sikkim would ultimately enter a situation of Fiscal unsustainability in long run. The situation is expected worsen if revenue expenditure grows at 7%. The ratio of fiscal deficit to GSDP is expected increase from 9.52% in 2025-26 to 10.03% in 2030-31. This ratio is far more excess than the limitation set by FRBM Act which mandates a fiscal deficit of 3% of GSDP.

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 to 8 %	F1 - S13- Rev Exp grown at 7 %
2025-26	17.15	16.33	16.27	16.26	18.13
2026-27	25.04	23.42	23.30	23.47	30.00
2027-28	32.99	30.56	30.38	30.63	35.89
2028-29	40.97	37.74	27.51	37.84	44.82
2029-30	48.99	44.97	44.68	45.09	53.78
2030-31	57.05	52.24	51.89	52.39	62.77

Source: Budget paper, GOS 2024 & Own Calculation

The **Table 16.7** shows a different debt stock that could be held by Sikkim Government in different scenarios. It is observed that the debt to GSDP ratio would rise under all the scenarios suggesting that that situation would become unsustainable for all the situations if the government feels to manage the fiscal deficit. The reduction in fiscal deficit is must however government should maintain in such a way, so that the economy would not lack crucial developmental project.

16.4 Debt Road Map for the State Under the BAU Model

Business as Usual is a situation where a particular pattern and a procedure are followed without remarkable change or intervention by any external factors. It calculates a situation that comes next to no new measures to improve the situation (Fei and Qing, 2012). The Fiscal Responsibility and Budget Management recommends that 3 %of fiscus deficit and death to GST ratio at 2% to the state. Supposedly if the state exceeds the fiscal deficit limitation of 3% of GSDP and remaining revenue was allocated to capital expenditure, what would be the state debt road map is seen in this section.

Here it is assumed that GSDP grows at current price this shows accurately reflect the real change in earning growth hence we consider the nominal growth rate at 2024-25 baseline which allows us to predict a debt road map that offers the sufficient flexibility. **Table 16.8** depicts the BAU situation at the current growth rate.

Table 16.8: Debt Position for the Period of 2024-25 to 2030-31 at BAU Position

Year	Total Debt stock	Debt /GSDP
2024-25(B.E)	18711.17	35.60
2025-26	16064.17	30.81
2026-27	17128.07	30.94
2027-28	18191.97	31.05
2028-29	19255.87	31.15
2029-30	20319.77	31.25
2030-31	21383.67	31.33

Source: Budget paper, GOS 2024 & Own Calculation

From the **Table 16.8** the total debt stock held by the state is projected to be ₹18711.17 crores in 2024-25 and is projected to increase over the next 6 years. It initially declines from ₹18711.17Cr in 2024-25 to ₹16064.17 Cr this indicates Sikkim is trying to improving its debt management. After 2025-26, the total debt stock starts to increase and it reaches ₹21383.67Cr by 2030-31. The debt to GSDP ratio is expected drop to 30.81 % in 2025-26 and then slowly increase steadily until it reaches 31.31% in 2030-31. It remains stable at 30%. The debt GSDP ratio is lower than the ratio that is recommended by FRMB Act which is 35.66% for 2025-26 . This indicates along with borrowing more to finance expenditure Sikkim would also try to maintain a stable burden compared to its economic output. The Sikkim government should carefully control it for long run sustainability

16.4.1 Impact on Debt Road Map If the Fiscal Deficit Grows at 3 Percent of GSDP

In this section the debt road map for the period 2024 -25 to 2029- 30 is modeled on the estimated 3% growth rate of GSDP at current price. The debt road plan at 3% of GSDP is

shown in **Table 6.9** where the growth rate of debt stock remains the same as previous table. The debt to GSDP ratio declines only by a few decimal points compared to **Table 16.8**

Table 16.9: Debt Position for the Period of 2024-2031 If GSDP Grows at 3 Percent

Year	Total Debt stock	Debt /GSDP
2024-25(B.E)	18711.17	34.57
2025-26	16064.17	29.91
2026-27	17128.07	30.04
2027-28	18191.97	30.15
2028-29	19255.87	30.25
2029-30	20319.77	30.34
2030-31	21383.67	30.42

Source: Budget paper, GOS 2024 & Own Calculation

For the baseline year 2024-25 [B.E] the debt to GSDP ratio is 34.57% which is close to as rolling target of FRBM 34.38% (refer to **Table 8.4**) indicating Sikkim is expected to follow the guidelines of FRBM Act where public debt remains sustainable and does not over burden in the economy showing fiscal discipline . The Debt to GSDP ratio remains stable around 29.99% throughout from 2025-26 to 2030-31.

Now if the total that stock is estimated to grow at 3% along with GSDP the results are shown in **Table 16.10**

Table 16.10 Debt Position for the Period of 2024-2031 if Fiscal Deficits Grows at 3 Percent of GSDP

Year	Total Debt stock	Debt /GSDP
2024-25(B.E)	19272.51	36.67
2025-26	16546.10	31.73
2026-27	17641.91	31.86
2027-28	18737.73	31.98
2028-29	19833.55	32.09
2029-30	20929.36	32.18
2030-31	22025.18	32.27

Source: Budget paper, GOS 2024 & Own Calculation

In this case the Debt to GSDP ratio i.e. fiscal deficit shows result as in the **Table 16.10**. The Debt to GSDP ratio is 36.67% the baseline year in 2024 - 25 [B.E] which is slightly higher than the rolling target of 34.36 %. This ratio is expected to rise every year, when compared to **Table 16.8**. hence the govt should restrict some amount of borrowing. However, the debt - GSDP is expected to drop in coming years, with a bit fluctuation here and then. From 2025-26 to 2030-31 this ratio is expected to be stable around 31%-32% which lower than the rolling targets of FRBM Act for baseline year indicating there would be improvement in fiscal stability and government would maintain the budget while making sure it has adequate funds for

investments. However, if these ratios fall too low could have negative consequences. Hence, policymaker must take into account the economic context even as they work to ensure long term fiscal sustainability via the FRBM targets

It is observed that the state should focus in managing the internal debt. In chapter 8 it is estimated that the Capex to GSDP ratio in the baseline year 13.8% which shows that a significant portion of Sikkim’s economic output is estimated to be channel into capital expenditure for developmental projects. However, the sustainability of debt relies on the government ability to allocate the resources in an efficient way

16.5 Impact on Debt Road Map if The Fiscal Deficit Grows at 2 Percent of GSDP

In this section we assume that the fiscal deficit growth rate is 2% of GSDP. This assumption helps to understand the situation where fiscal pressure is reduced. To project the debt stock for the period of analysis, we use the debt stock of the base year.

Table 16.11: Debt Position for the Period of 2024-2031 if Fiscal Deficits grows at 2 Percent of GSDP

Year	Total Debt stock	Debt /GSDP
2024-25(B.E)	19085.39	36.32
2025-26	16385.45	31.42
2026-27	17470.63	31.55
2027-28	18555.81	31.67
2028-29	19640.99	31.78
2029-30	20726.17	31.88
2030-31	21811.34	31.96

Source: Budget paper, GOS 2024 & Own Calculation

From the **Table 16.11** it is observed that if fiscal deficit grows at 2%, the Debt to GSDP ratio is expected to be 36.32% in the baseline year, after which it is expected to drop and be constant at 31% for next 6 years and is estimated to be 31.96% in the 2029-30. The ratio is a bit higher than the ratio target by the FRBM Act for the baseline year. Indicating that government would more to sustainable fiscal position where the State witness a situation of improved debt sustainability. Additionally, meeting or being below the FRBM targets shows government’s commitment to maintain fiscal responsibility and has followed a successful implemented policies to keep debt level under control. However, if the ratio falls too low, it could suggest that the government is underusing its borrowing capacity, potentially stifling necessary investment in growth-promoting areas. In essence, a debt-to-GSDP ratio lower than the FRBM target indicates a strong fiscal position, which benefits the country's economic stability, growth prospects, and ability to weather financial challenges. However, it is critical that the government maintains a balance between debt management and adequate national growth and development funding.

16.6 Major Findings

- ❖ Out of 15 years in 13 years, Sikkim failed to satisfy the declining total debt to GSDP ratio, this ratio has been increasing since mid-way of 13th FC period.
- ❖ The debt burden has grown rapidly in Sikkim.
- ❖ Forecast under F0 methodology shows Sikkim fiscal indicator shows an improvement vertically introduction of revenue deficit and a slower growth rate of Fiscal deficit related to GSDP. This is driven by a steady growth in both tax and non-tax revenue.
- ❖ The improvement in revenue deficit is such that it declines from -₹499.33 Cr to -₹137.497 Cr. The fiscal deficit as a percentage of GDSP also decreased from 2024-25 to 2030-31, indicating that while government borrowing has increased, but at a slower rate compared to GDSP growth.
- ❖ Despite this improvement the negative revenue deficit is still persistent along with increase in fiscal deficit in absolute which is predicted to reach ₹35559.17Cr by 2030-31. Also, the fiscal deficit and GSDP ratio fails to meet the FRBM recommendation.
- ❖ With the introduction of GST, it can be observed that revenue receipts are projected to increase from 2024-25 to 2030-31. As a result, there is a gradual improvement in revenue deficit. Revenue deficit is expected to reduce from -₹ 499.3Cr in 2024 - 25 to -₹ 477.35 Cr in 2030 - 31. Hence the revenue deficit to GSDP ratio is also anticipated to decline over the time. This signifies a better fiscal management and economic growth.
- ❖ However, a negative revenue deficit persists throughout the forecast period indicating operation expenses continuous to exceed revenue which could leads to outgoing fiscal strain.
- ❖ Using F1 methodology is predicted that between 2024 - 25 and 2025 - 26 the fiscal deficit would improve as a result the fiscal deficit as a percentage of GSDP would drop from 11.8% in 2024 - 25 to 5.3% in 2025 - 26. However, the fiscal deficit in absolute term is expected to rise in the following year from 2026 to 2031 indicating that the expenditure exceeds revenue
- ❖ Despite these increases, the fiscal deficit to GSDP ratio is expected to decline from 11.8% in 2024-2025 to 8.63% in 2030-2031, However, this ratio is still higher than the FRBM targets
- ❖ Under the different sensitivity scenario, the ratio between revenue deficit to GSDP improves over the period of forecast. The most impactful situation is under the assumption of revenue expenditure growing at 7%, which results to 0.70% of revenue surplus by 2030-31 this

shows a sound financial structure that alliance with the target of FRBM Act.

- ❖ The fiscal deficit to GSDP ratio first Sikkim under different scenarios of sensitivity increases over the forecast period. This ratio exceeds the limits set by FRBM Act (3% of GSDP). Increasing fiscal deficit signals high risk of higher interest burden which reduce fiscal flexibility to address future economic crisis and indicates that economy would move towards a situation of Fiscal unsustainability in long run.
- ❖ The debt stock to GSDP ratio under BAU shows a decline trend, but the ratio is expected to be below than FRBM recommendation. This is mainly because Total debt stock is estimated to increase from 2024-25 to 2030-31
- ❖ Under the situation where fiscal deficit grows at 3 % and 2% of GSDP, the total debt to GSDP shows a declining trend over next 6 year, the ratio lies below the target rolling of FRBM for the baseline year.
- ❖ However, if the ratio falls too low, it could suggest that the government is underusing its borrowing capacity, potentially stifling necessary investment in growth-promoting areas. In essence, a debt-to-GSDP ratio lower than the FRBM target indicates a strong fiscal position, which benefits the country's economic stability, growth prospects, and ability to weather financial challenges. However, it is critical that the government maintains a balance between debt management and adequate national growth and development funding.

16.7 Conclusion

The financial status of Sikkim highlights a number of important concerned about its trend and overall fiscal health. The total debt stock to GSDP ratio has been rising since the middle of 13th FC failing to meet targets in 13 out of 15 years. This signifies that an increasing that debt burden prevails in Sikkim. On forecasted. it is anticipated that both tax and non-tax revenue would cause the revenue deficit to improve from -₹499.33 Cr in 2024 - 25 to - ₹137.49 Cr in 2030-31. However, it would be still negative. On the other hand, fiscal deficit as a percentage of GSDP are also expected to decline from 11. 8% in 2024 to 25 to 8.63% in 2030 - 31 which is a good sign for the economy, but these ratio remains still above the FRBM recommendation levels as the deficit in absolute term continues to grow. The introduction of GST to forecast has a positive impact on revenue receipts which also enhances revenue deficit management, however the fiscal deficit under this methodology also remains above the FRBM recommendation. The sensitivity analysis shows scenarios in which a revenue surplus would be achieve by 2030-31 under the assumption of revenue expenditure grows at 7% but the fiscal

deficit ratio under this analysis is often anticipated to exceed FRBM rolling target. This rise concerns about sustainability and fiscal health of Sikkim. Under a Business-as-Usual scenario even though the total debt stock increases, the ratio between debt to GSDP shows a declining trend that lies below the FRMB rolling targets this signifies a potential of underutilization borrowing capacity and challenges in investment that promotes growth. Additionally, meeting or falling short of the FRBM targets shows the government's dedication to upholding fiscal responsibility and its successful implementation of policies to control the level of debt. The government might be underusing its borrowing power if the ratio drops too low, which might hinder essential investment in sectors that spur economic growth.

16.8 Recommendations

- ❖ Government should undertake reforms to bring fiscal deficit and GSDP ratio within FRBM recommendation that ensure long term fiscal sustainability.
- ❖ Government can boost revenue generation by expanding types of tax collections in efficient way and making the most of GST to bring more money for the government.
- ❖ the government can regulate its expenditure by keeping revenue expenditure growth under the control idly within 7% threshold to achieve a revenue surplus by 2030-31.
- ❖ The government can improve transparency and governance by conducting periodic review of fiscal performance and adjustment that address various challenges in several sector
- ❖ Government should not neglected investment in sector which helps in economic growth while maintaining the FRBM targets.

CHAPTER-17
FINDINGS & CONCLUSION

17.1 Findings

- ❖ Sikkim has demonstrated consistent economic growth, focusing on high-value sectors like organic farming, tourism, and industrial development (e.g., through initiatives like SIDICO).
- ❖ Sikkim has maintained a positive revenue surplus in recent years, largely supported by central government grants, which have been increasing significantly since 2010-11.
- ❖ Local governance, through Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs), has empowered communities, but there are financial sustainability issues, leading to heavy reliance on state and central grants.
- ❖ Sikkim has streamlined its public sector enterprises, shutting down loss-making enterprises and reducing overall investments, thereby easing the financial burden on the state budget.
- ❖ The state has effectively managed contingent liabilities through the Sikkim Ceiling on Government Guarantees Act, ensuring that the issuance of guarantees is kept within sustainable limits.
- ❖ The state's unique constitutional status under Article 371(A) and the recommendations of the 15th Finance Commission have been instrumental in shaping its development priorities, leading to improvements in rural education, healthcare, and infrastructure.
- ❖ The capital receipts, mainly from borrowings, showed cyclical growth patterns, with volatility in the 13th and 14th FC periods, but a recovery in the 15th FC period. This increase in capital receipts, however, raises concerns about Sikkim's growing reliance on debt for financing its expenditure.
- ❖ The state's tax buoyancy improved with a strong responsiveness to income fluctuations, particularly through its own taxes (corporation tax, land revenue, stamps, etc.), but it has faced challenges in increasing the efficiency of VAT and other non-tax revenues.
- ❖ Cost recovery in both social and economic services remain low, suggesting a substantial level of subsidization by the government.
- ❖ Revenue receipts showed notable growth, particularly during the 15th Finance Commission (FC) period, driven by improved own tax collections (e.g., income and corporate taxes, state excise).
- ❖ The state has faced an increasing burden of interest payments, which in some years (especially post-COVID-19) exceeded 9% of revenue expenditure. This rising cost of

servicing debt has put pressure on the fiscal space available for other developmental expenditures.

- ❖ Despite fluctuations in the fiscal deficit, Sikkim recorded positive revenue surpluses in several years, notably in 2017-18, which were largely driven by central transfers.
- ❖ The peak demand for power (96 MW) exceeds the state's current power generation capacity (38.2 MW), contributing to periodic power shortages.
- ❖ The state's reliance on central government grants and revenue sharing can limit its fiscal autonomy. Diversification of revenue sources and improved tax collection efficiency are necessary to reduce this dependence.
- ❖ Toll receipts and dividends from PSUs have been volatile, impacting the state budget.
- ❖ The transport structure in Sikkim began to change which was influenced further by Central Motor Vehicle Act 1988
- ❖ SNT is one of the biggest employers of the State, between 2010-11 to 2023-24, an average of 877 employees were hired by S.N.T After the introduction of Integrated Driver Management System (IDMS) in 2015 the workforce expanded, from 2017-18 (798) to 2023-24 (1268).
- ❖ From 2010-11 to 2022-23, the total revenue receipt of SNT has increased steadily, Traffic revenue showed a slower growth compared to non-traffic revenue. A substantial share of SNT 's revenue growth is driven by non-traffic receipt.
- ❖ Both personnel and material costs have significantly increased in SNT.
- ❖ Revenue per day increased steadily from ₹0.11 lakh in 2010-11 to ₹5.55 lakh in 2023-24. In contrast, earnings per kilometer experienced steady growth until 2016-17 and declined after which.
- ❖ Despite these fluctuations, both demonstrates an effective revenue management.
- ❖ From 1:014 in 2010–11 to 1:14 in 2023–24, the bus staff ratio has decreased, indicating that the business has reduced employees while maintaining or improving operations.
- ❖ Sikkim gives more subsidies to foot civil supply and consumer affairs compared to two major sector such as cooperation agriculture marketing and medical and public health
- ❖ From 2010 -11 to 2018 -19 the subsidies have changed in all the sector. The percentage of subsidy have changed in all sector.
- ❖ The procedure is of subsidy in total subsidy is same as percentage of explicit subsidy it should be noted that no implicit subsidies are provided by government during this time.
- ❖ Besides subsidies, DBT also gives honorariums for ASHA and Anganwadi Workers in Sikkim.

- ❖ Sikkim has the fewest benefits out of the eight northeastern states. In Sikkim, the most consistent sector where explicit subsidies are supplied through DBT is Sales on Rice, with a peak of ₹406 lakh in 2022-23.
- ❖ Sikkim's explicit and implicit subsidies vary. Explicit subsidies for Cooperation Agriculture Marketing were at its peak in 2018-19 and ₹25 lakh is being allocated for 2023–2025. Only 2021–23 received the Pradhan Mantri FME money, which was expected to reach ₹51 lakh in 2024-2025.
- ❖ The implicit DBT subsidies, including the Electricity Subsidy for Rural Domestic, reached their high in 2023-2024. However, subsidies are likely to be significantly decreased between 2024 and 2025.
- ❖ or the welfare of SC, ST, and OBC, no specific food subsidies were provided between 2016–17 and 2024–25
- ❖ Sikkim has failed to satisfy the decline total that to GSDP ratio. The debt burden in Sikkim has grown rapidly since midway of 13 finance commission period.
- ❖ Under F0 methodology the Sikkim fiscal indicator shows an improvement vertically This is driven by a steady growth in both tax and non-tax revenue.
- ❖ The improvement in revenue deficit is such that it declines from -₹499.33 Cr to -₹137.497 Cr.
- ❖ The fiscal deficit as a percentage of GDSP also decreased, but fails to meet the FRBM recommendation.
- ❖ With the introduction of GST, it can be observed that revenue receipts are projected to increase from 2024-25 to 2030-31. As a result, there is a gradual improvement in revenue deficit. Hence the revenue deficit to GSDP ratio is also anticipated to decline over the time. On the other hand, the fiscal deficit to GSDP ratio is expected to decline from 11.8% in 2024-2025 to 8.63% in 2030-2031, However, this ratio is still higher than the FRBM targets
- ❖ Under the different sensitivity scenario, the ratio between revenue deficit to GSDP improves over the period of forecast. The most impactful situation is under the assumption of revenue expenditure growing at 7%, which results to 0.70% of revenue surplus by 2030-31 this shows a sound financial structure that alliance with the target of FRBM Act.
- ❖ The fiscal deficit to GSDP ratio first Sikkim under different scenarios of sensitivity increases over the forecast period. This ratio exceeds the limits set by FRBM Act (3% of GSDP).
- ❖ The debt stock to GSDP ratio under BAU shows a decline trend, but the ratio is expected

to be below than FRBM recommendation. This is mainly because Total debt stock is estimated to increase from 2024-25 to 2030-31

- ❖ Under the situation where fiscal deficit grows at 3 % and 2% of GSDP, the total debt to GSDP shows a declining trend over next 6 year, the ratio lies below the target rolling of FRBM for the baseline year.

17.2 Conclusion

Sikkim, a small but strategically significant state in the Himalayan region, has experienced notable progress across various dimensions of economic, fiscal, and human development. While it faces challenges due to its limited geographical size and population, its unique geographical features, governance model, and targeted policy interventions have enabled it to achieve steady growth in certain sectors, especially in areas like organic farming, tourism, and education. Sikkim has made commendable progress in areas like education, health, and infrastructure despite its limited size and resources.

The state's focus on organic farming, tourism, and industrial expansion, combined with the increasing role of the service sector, has facilitated economic growth. However, its reliance on central grants and the volatility of revenue sources remains key concerns. While the state has experienced periods of revenue surpluses, the increasing fiscal deficit, particularly in the 14th and 15th Finance Commission periods, signals potential long-term financial challenges. The state's growing reliance on borrowing and external funding, if not managed prudently, could affect its fiscal sustainability.

The fiscal situation of Sikkim from 2010 to 2025 reveals a complex interplay of revenue management, debt dynamics, and expenditure trends. The state's finances have shown both progress and challenges as it navigates fiscal discipline under the **Fiscal Responsibility and Budget Management (FRBM) Act**, amid fluctuating economic conditions and substantial infrastructure investments. The state's revenue structure has largely depended on central transfers, with modest growth in its own tax revenue. Although this dependence remains high, efforts to diversify revenue sources, particularly through better management of taxes and strategic capital expenditures, are evident. While the state's fiscal deficit has increased in recent years, there are signs of recovery, particularly in capital outlays and the tax system. The fiscal deficit is expected to remain elevated in 2024-2025, but a downward trend is anticipated in the following years.

Management have improved during the cause of time the mounting gap and the interest rate shows the need for a consistent and close financial supervision. Sikkim has been dealing

with the condition called fiscal unsustainability that are clearly evidence by analysis made in chapter 7 where the interest burden and debt to GSDP ratio has been growing continuously.

Sikkim's public debt trajectory reflects a growing reliance on internal borrowings, although the diversification of debt sources, including provident funds and other interest-bearing obligations, shows a shift in borrowing strategy. The rising debt burden, along with increasing interest payments, highlights the need for careful fiscal management to ensure sustainability. The **MTFP 2024-25** underscores the need for balanced resource allocation and targeted fiscal reductions. Overall, while Sikkim has made progress in stabilizing its finances, challenges remain in managing its debt, improving revenue collection, and sustaining fiscal health. The state's long-term financial stability will depend on strengthening its tax base, controlling debt growth, and maintaining fiscal discipline, particularly in light of its increasing reliance on capital receipts and external borrowings.

Sikkim's commitment to decentralization through the devolution of powers to local bodies has empowered communities and improved governance at the grassroots level. However, gaps in revenue generation at the local level continue to pose challenges to the financial independence of local bodies. The state has made significant strides in reducing the financial burden of loss-making public sector undertakings (PSUs) and has improved its management of the power sector. However, issues related to power generation deficits and infrastructure challenges remain. The state's dependence on national resources and seasonal variations in hydro generation contribute to the power deficit. The state has effectively leveraged the recommendations of the 15th Finance Commission to prioritize investments in key areas, such as rural development, healthcare, and infrastructure, enhancing the overall quality of life for its citizens. The state's unique geographical features and special constitutional status under Article 371(A) have played a crucial role in shaping its development priorities.

Sikkim has also a unique transport organization which is called Sikkim Nationalized Transport (SNT). Since 1975, Sikkim Nationalized Transport SNT has dramatically increased its workforce, thanks in part to the implementation of the Integrated Driver Management System (IDMS) in 2015. SNT maintained its cost-containment strategy despite a decline in fleet size, with steady revenue growth coming from non-traffic revenue. After 2016–17, earnings per kilometre decreased while revenue per day increased dramatically, despite rising expenditures. The rise in SNT's revenue and productivity from 2010–11 to 2023–24 is praiseworthy, but fleet efficiency remains a significant obstacle to long-term, sustainable growth.

Similarly, Sikkim's subsidy landscape reveals a well-structured but dynamic system. Food and civil supplies have been the target of explicit subsidies from 2010–11 to 2018–19. The Direct Benefit Transfer (DBT) was implemented in Sikkim on January 1, 2013, has enhanced welfare but still has a poor beneficiary coverage rate, placing Sikkim last in the Northeast and 25th nationwide. The primary subsidies, rice (explicit) and rural power (implicit), peaked in 2018-19 and 2023-24, respectively, while implicit subsidies began in 2021–2022. The whole number of subsidies peaked in 2023–2024 and is anticipated to decline in 2024-25.

The rising debt-to-GDP ratio, which has missed targets for 13 of the out last 15 years, raises questions about Sikkim's financial stability. The revenue deficit is still negative even though it is expected to drop from -₹499.33 crore in 2024-2025 to -₹137.49 crore in 2030-2031. The fiscal deficit, is expected to decrease from 11.8% to 8.63% of GSDP during that time which is still greater than what the FRBM recommendation

Although the GST has raised revenue receipts, there is still a fiscal deficit. According to sensitivity analysis, a revenue surplus could exist by 2030–31 if spending increases moderately, but fiscal deficit ratios could still exceed targets. Underutilized borrowing capacity may prevent growth-promoting investments, even in the face of a declining debt-to-GSDP trend under a "Business as Usual" scenario. This underscores the necessity of balanced fiscal management. As revenue expenditures are expected to increase more quickly than revenue receipts, the adoption of the GST exacerbates the fiscal imbalance and the situation got even worse after the pandemic Covid -19. All shows that government is about to enter debt trap. Despite GSDP growth outpacing public debt.

CHAPTER-18
RECOMMENDATION

18.1 Recommendations

- ❖ Establish joint planning and implementation committees with representatives from local bodies and relevant state government departments.
- ❖ Govt should make a policy that accelerates GSDP growth by more investment in sectors like tourism, infrastructure which gives more returns.
- ❖ Allocate sufficient resources towards upgrading sanitation facilities in rural areas, focusing on proper waste disposal and sewage management.
- ❖ Consider establishing independent fiscal councils to provide objective assessments of state governments' fiscal health and the potential impact of contingent liabilities.
- ❖ Encourage PPPs (Public-Private Partnerships) in infrastructure development and other sectors to attract private investment and generate revenue.
- ❖ Ensure effective implementation of the RTI Act by strengthening the state information commissions and promoting proactive disclosure of information.
- ❖ Establish an independent state audit institution with adequate resources and authority to conduct comprehensive audits of government accounts.
- ❖ Invest in effective marketing and promotional campaigns to attract tourists from domestic and international markets.
- ❖ Ensure that local communities benefit from hydropower projects through employment opportunities, revenue sharing, and social development programs.
- ❖ Develop modern logistics and warehousing facilities to improve the efficiency of trade and commerce.
- ❖ Implement measures to control the growth of the wage bill, such as rationalizing recruitment, implementing performance-based incentives, and exploring alternative delivery models for public services.
- ❖ The government may increase base taxation to improve revenue mobilization. Government should take initiative to diversify revenue streams, this can improve the revenue deficit.
- ❖ Authorities should focus on introducing more policy that reduces interest burden, at the same time increases borrowing that will help the economy grow.
- ❖ The FRBM target and policy should be such that it aligns with State's fiscal need and development.
- ❖ Government should give more emphasize on utilizing IMF's Debt Sustainability Analysis and World Bank's Debt Management Performances Assessment in order to maintain increasing Debt for long-term. This will help the debt to be sustainable.
- ❖ SNT authorities can upgrade the fleet by investing in modern green transportation, this will

reduce the cost and improve performance along with eco-friendly.

- ❖ The government should expand DBT coverage to include more beneficiaries in Sikkim as Sikkim ranks last when comes to beneficiaries among the 8 Northeastern States.
- ❖ Leverage Sikkim's unique tourism potential by developing sustainable tourism infrastructure and promoting high-value tourism products. Explore innovative revenue models such as eco-tourism taxes and entry fees for popular tourist sites.
- ❖ Government should undertake reforms to bring fiscal deficit and GSDP ratio within FRBM recommendation that ensure long term fiscal sustainability.
- ❖ Government can boost revenue generation by expanding types of tax collections in efficient way and making the most of GST to bring more money for the government.
- ❖ The government can regulate its expenditure by keeping revenue expenditure growth under the control idly within 7% threshold to achieve a revenue surplus by 2030-31.
- ❖ The government can improve transparency and governance by conducting periodic review of fiscal performance and adjustment that address various challenges in several sector
- ❖ Government should not neglected investment in sector which helps in economic growth while maintaining the FRBM targets.

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