# Search for Resources in a High Income State:
## A Study of State Finances of Sikkim

No. 170
17-May-16

Pratap Ranjan Jena, Kausik K. Bhadra, Satadru Sikdar

**National Institute of Public Finance and Policy**
**New Delhi**

# *Search for Resources in a High Income State: A Study of State Finances of Sikkim*

**Pratap Ranjan Jena**
**Kausik K. Bhadra**
**Satadru Sikdar**

## Abstract

The paper examines the public financial management (PFM) of Sikkim focusing mainly on resources generation effort and budget management practices. We note that any deviation from the Central transfers creates fiscal stress as the State depends heavily on them to fund vast expanse of social and economic services and infrastructure. The sparse internal resources reduce flexibility to invest in the sectors where the State has inherent advantages. The search for resources to drive the development needs and create higher employment opportunities remain a major drag for the State. The paper looks at the possibilities of strengthening internal resources and improving the efficiency of public spending to ensure value for money. The fiscal stress faced by the State due to decline in Central assistance to the State plan should be considered as an opportunity to make an unbiased assessment of its fiscal capacity and development commitment.

JEL Classification: E62, H50, H61, H70, H71, H72, H76

Keywords: Budget management system, tax effort, public expenditure management, fiscal rules, expenditure restructuring

## Introduction

The state finances of Sikkim is marked by high dependence on Central transfers and a sparse own resource base. On an average, the central transfers constitute little more than three fourths of the total State revenues. Any decline in Central funds, as happened in 2015-16 following the Fourteenth Finance Commission (FFC) recommendations or a delayed release of central funds, a regular occurrence, puts the spending plan off-balance. With limited internal resources, less than a quarter of the total revenues, the State Government does not have effective control to guide its development priorities. The grants component of the central transfers, accounting for half of the total revenues, is mostly tied to several Central programmes. The fund flow under these programs has not shown predictability due to several reasons that also include implementation issues at the State level. This has led to inefficiencies in the budget management process and financing of development projects.

Despite facing issues such as poor connectivity, high cost of infrastructure building and maintenance, difficulties in delivering services to a dispersed segment of population living in hilly areas, and so on, Sikkim has managed to evolve as a progressive State with marked improvements in socio-economic indicators since its integration with India as the 22nd State in 1975. The poverty ratio is much lower (8.19 percent) as compared to an all India average of 21.92 percent in 2011-12. The literacy rate at 81.40 percent in 2011-12 is higher vis-à-vis all states average (73.00 percent). The IMR has also gone down to 24 per 1000 in 2011 as compared to the all-India average of 44. The State has launched several social security schemes and improved its education and health facilities. The funds under Central programmes have played a crucial role in the improvement of human development indicators in the State.

The fundamental challenges that the State of Sikkim confront are not only to address cost disabilities while providing for the public services, but also to find adequate resources to invest in the sectors where the State has inherent advantages and create room for employment. The persistent search for resources to push forward the service delivery remains as ever for the State. Rapid growth during the period 2008-09 to 2010-11, with an abnormal growth of about 89 percent in 2009-10 pushed the nominal GSDP numbers to a very high level, which resulted in high per capita income. The State has the highest per capita income in the country, placed only after Goa (FFC 2015, pp.462). However, the low population (six lakhs as per Census 2011) can be comprehended as the major contributory factor to the high per capita income of the state. However, the own tax revenue and GSDP ratio of the State has not seen perceptible rise to provide flexibility in pursuing the development agenda.

The paper examines the finances of the State Government focusing mainly on issues relating to tax efforts and effective budget management to get value from public spending. The paper also looks at options to provide fiscal flexibility to the state government. The paper is organized as follows. The macroeconomic trends indicating the source of recent GSDP growth is discussed in the Section 2. Section 3 contains fiscal profile of the State, revenue generation efforts, reasons for the low tax-GSDP ratio, and the impact of FFC recommendation. The issues related to efficiency of budget management practices are analyzed in Section 4, which contains scope for increasing resources and expenditure restructuring. Section 5 examines the plan of the State Government to reinforce resource base through hydropower projects. Section 6 concludes the paper.

## 2. Macroeconomic Outlook: Trends in Growth

The composition of GSDP for the State reveals that manufacturing and construction sectors have evolved as major contributors to the growth of the State economy. In 2013-14, about half of the GSDP originated from these two sources (Table 1). Power sector also has emerged as an increasing source of State GSDP riding high on generation of hydroelectricity in newly-commissioned power projects. An increase in production in pharmaceutical industries has predominantly driven the growth of manufacturing sector. The manufacturing sector constituted about one third of the State GSDP in 2013-14. The initial spurt in the growth of power and manufacturing sectors has of late stabilized. Nonetheless, this has established a strong base for the GSDP in Sikkim.

As in Table 1, the year 2009-10 marks a clear shift in the growth path of the GSDP as the growth rate in this year jumped to a high of 73.6 percent (89.9 percent in current prices). The spike in 2009 was mainly due to two factors: one, a revision in methodology for estimating the GVA of the registered manufacturing sector, as used by the CSO that resulted in tremendous growth of contribution to GSDP from the pharmaceuticals; and two, the electricity sector has shown abnormal trend of sectoral contribution starting from 2008-09 owing to operation of Teesta hydroelectric project of NHPC. The nominal growth rate of GSDP continues to be high at about 20 percent during 2010-11 and 2011-12 and 17 to 18 percent after that. The relative share of the overall industry sector has reached at 60 percent in 2013-14. The inter-sectoral composition of GSDP since 2005-06 reveals that the service sector, which accounted for half of the State's GSDP until 2008-09, has declined to about 30 percent in 2013-14. The share of agriculture sector has come down from about 14 percent in 2008-09 to 9.5 percent in 2013-14.

**Table 1:** Composition of Real GSDP (Base: 2004-05 Prices)

(Percent)

| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|---|---|---|---|
| **Agriculture** | **17.6** | **16.6** | **16.1** | **14.4** | **8.6** | **8.3** | **10.4** | **9.9** | **9.5** |
| **Industry** | **29.4** | **29.7** | **30.3** | **35.1** | **55.1** | **59.2** | **59.2** | **59.8** | **60.6** |
| Mining | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| Manufacturing | 3.6 | 3.7 | 3.9 | 3.7 | 28.4 | 37.1 | 38.0 | 35.4 | 33.7 |
| Construction | 19.9 | 19.4 | 18.7 | 15.5 | 9.9 | 9.4 | 10.8 | 13.8 | 16.3 |
| Electricity & Water supply | 5.8 | 6.4 | 7.6 | 15.8 | 16.7 | 12.6 | 10.3 | 10.3 | 10.3 |
| **Services** | **53.0** | **53.7** | **53.6** | **50.5** | **36.2** | **32.4** | **30.4** | **30.3** | **29.9** |
| Transport | 4.2 | 4.4 | 4.6 | 4.5 | 2.9 | 2.8 | 2.9 | 3.1 | 3.1 |
| Trade, Hotel & Restaurant | 4.8 | 4.6 | 4.5 | 4.1 | 2.4 | 2.3 | 2.7 | 2.6 | 2.6 |
| Banking | 3.0 | 3.6 | 4.0 | 3.6 | 2.6 | 2.9 | 2.9 | 3.0 | 3.1 |
| Real Estate | 9.4 | 9.2 | 9.9 | 9.5 | 5.6 | 5.4 | 5.2 | 5.0 | 4.8 |
| Public Administration | 15.1 | 15.5 | 14.8 | 14.1 | 11.7 | 9.8 | 8.9 | 9.2 | 8.7 |
| Other Services | 16.5 | 16.4 | 15.8 | 14.7 | 10.9 | 9.1 | 7.9 | 7.5 | 7.6 |
| **GSDP Growth – Constant Prices** | **9.8** | **6.0** | **7.6** | **16.4** | **73.6** | **8.7** | **10.8** | **7.6** | **7.9** |
| **GSDP Growth – Current Prices** | **14.59** | **8.45** | **15.96** | **28.85** | **89.92** | **20.85** | **20.17** | **17.58** | **18.18** |

***Source***: CSO, Government of India.

The high growth numbers as seen in 2009-10 blocked any possibility of getting revenue deficit grants from the FFC against the usual expectations. Although, the State did not get these grants grant from the Thirteenth Finance Commission (TFC), the Commission rewarded the State with substantial performance grants. The FFC, however, refrained from recommending any state specific grants. While projecting the State finances, the FFC, based on the trend, assumed a growth of 28.05 percent for the year 2014-15 and 24.32 percent for the period of 2015-16 to 2019-20 for Sikkim at current prices. This growth rate, coupled with normative tax buoyancy for Sikkim, led to substantial rise in projected tax realization during the FFC award period, for which the State became ineligible for revenue deficit grant. The State was projected to generate Rs.3039 crores of own tax revenue in the year 2019-20, which seems improbable.

The pattern of growth in the State in recent years suggests that the sectors growing rapidly and contributing to the growth process have not contributed to tax revenue to the same extent. This may not be due to any weakness in the tax policy or tax administration of the State. The generation of revenues from hydroelectricity, though adds to the GSDP numbers, remain outside the State tax system. Similarly, the pharmaceutical industries send their products out of the State through consignment transfer, which does not attract the CST under the existing tax system. Thus, it may not be possible for the State Government to achieve the revenue receipts projected by the FFC in their assessment for the period from 2015-16 to 2019-20.

# 3. Fiscal Profile of the State: Transition to the FFC award Period

## 3.1 Fiscal Overview

It was the recommendations of the TFC, which made adopting the revised roadmap for fiscal consolidation under the Fiscal Responsibility and Budget Management (FRBM) Act[1] as a prime condition to avail state specific grants, which propelled the State to adopt the fiscal rules in 2010-11. Enacting the FRBM Act became important to gain from the state specific grants and the performance grants recommended by the TFC. As Sikkim did not qualify for non-plan revenue deficit grants (NPRD) under TFC, adopting fiscal rules was considered necessary to help the State in strengthening its resource base. As per the TFC's recommendations, Sikkim became eligible to get benefits of debt consolidation facility as per the terms and conditions recommended by the 12th FC. The enactment of fiscal rules was also expected to ensure reduction in the fiscal deficit and achieve sustainable level of debt burden.

Post the adoption of FRBM Act, the State has managed to finance the capital outlay largely from revenue surplus and reduced the fiscal deficit and the debt burden relative to the GSDP. Table 2 provides an overview of the fiscal stance of the state. The fiscal data shows that the State has been maintaining surplus in the revenue account and limit the fiscal deficit to the level prescribed by the State FRBM Act. The revenue surplus increased from 1.89 percent in 2010-11 to 5.04 percent in 2014-15, with more than 7 percent surplus accruing in 2012-13 and 2013-14. The revenue surplus, however, was subdued in 2015-16 RE and 2016-17 BE due to decline in Central grants. Large revenue surplus in the State, like many other special category States, was due to high dependence on Central transfers, all of which are usually booked under revenue receipts. Many of the Central grants are tied grants, proceeds from which are utilized for capital expenditure. The capital expenditure as percentage to GSDP also remains high in the State. The low fiscal deficit during 2012-13 and 2014-15, indicates more of structural problems and inability of the State Government to utilize the Central funds. The unutilized Central funds do not lapse and add to the revenue surplus in the year they were received.

[1] Sikkim had not adopted FRBM Act despite the incentives provided by the by the Twelfth Finance Commission in terms of debt restructuring facilities. The constricting role of fiscal rules and loss of political flexibility might have played a role in this (Schick, 2010).

**Table 2:** Fiscal Profile of Sikkim: An Overview

(Percent to GSDP)

| | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 (RE) | 2016-17 (BE) |
|---|---|---|---|---|---|---|---|---|
| Revenue Receipts | **38.24** | **29.03** | **32.25** | **31.40** | **31.46** | **28.16** | **27.86** | **24.29** |
| **Own Revenue** | 10.94 | 7.04 | 6.04 | 7.04 | 7.16 | 5.86 | 5.49 | 5.01 |
| **Own Tax Revenue** | 3.65 | 3.77 | 3.30 | 4.16 | 4.24 | 3.63 | 3.40 | 3.21 |
| **Own Non-Tax Revenue** | 7.30 | 3.27 | 2.74 | 2.88 | 2.92 | 2.23 | 2.09 | 1.80 |
| Central Transfers | **27.30** | **21.99** | **26.21** | **24.36** | **24.30** | **22.29** | **22.37** | **19.28** |
| **Tax Devolution** | 6.11 | 7.08 | 6.87 | 6.67 | 6.16 | 5.57 | 10.74 | 10.42 |
| **Grants-in-Aid** | 21.19 | 14.91 | 19.34 | 17.69 | 18.13 | 16.72 | 11.63 | 8.86 |
| Revenue Expenditure | **29.82** | **27.15** | **27.28** | **23.94** | **24.44** | **23.12** | **24.76** | **23.00** |
| **Interest Payments** | 2.52 | 2.52 | 2.14 | 1.90 | 1.79 | 1.65 | 1.57 | 1.62 |
| **Pension** | 2.05 | 2.16 | 1.95 | 2.15 | 2.11 | 2.29 | 2.40 | 2.39 |
| Capital Expenditure | **11.17** | **6.15** | **7.47** | **8.08** | **7.44** | **6.93** | **6.42** | **4.29** |
| **Capital Outlay** | 10.57 | 6.09 | 6.91 | 8.04 | 7.37 | 6.76 | 6.26 | 4.21 |
| **Net Lending** | 0.60 | 0.07 | 0.55 | 0.04 | 0.08 | 0.18 | 0.15 | 0.08 |
| Revenue Deficit | **-8.42** | **-1.89** | **-4.97** | **-7.46** | **-7.02** | **-5.04** | **-3.11** | **-1.30** |
| Fiscal Deficit | **2.75** | **4.27** | **2.50** | **0.63** | **0.43** | **1.90** | **3.31** | **3.00** |
| Primary Deficit | **0.24** | **1.75** | **0.35** | **-1.27** | **-1.36** | **0.25** | **1.74** | **1.38** |
| Outstanding Debt | **37.39** | **32.78** | **28.66** | **26.34** | **24.79** | **23.98** | **23.30** | **23.18** |

***Source*** (Basic Data): Finance Accounts and State Budget 2016-17.
***Note:*** The GSDP figures are from CSO and projected following the methodology suggested by the FFC. Negative sign indicates revenue surplus, and vice-versa.

The FRBM Act of the State conformed to the fiscal restructuring path recommended by the TFC, award period of which ended with the fiscal year 2014-15. The fiscal outcomes up to 2014-15 for the State look favorable with a sizable revenue surplus, small fiscal deficit, debt-GSDP ratio below 25 percent. The fiscal stance shows availability of considerable fiscal space to the Government. During the period 2011-12 to 2014-15, the average capital outlay has remained at 7.27 percent of GSDP for the State. Although, this is reasonably high as compared to many other States in India, the capital outlay could have been larger given the fiscal space available to the State Government.

Starting with the fiscal year 2015-16, the first year of the award period of the FFC, the State Government faced several fiscal challenges due to decline in Central Grants. The State Government tried to take advantage of the flexibility provided by the FFC and made a bid to increase the fiscal deficit by 0.25 percent to GSDP to safeguard the capital outlay in 2015-16. However, the revised estimates for the year show that the fiscal deficit has surpassed the 3.25 percent limit, due to unexpected shortfall in revenue. Given that the FRBM Act was not amended and the Central Government had not taken a decision on allowing increment of borrowing limit in line with FFC recommendations for the year 2015-16, the incremental fiscal deficit and the consequent capital outlay could only remain as an accounting exercise, which may not be realised. The budget projection for the year 2016-17 keeps the fiscal deficit at 3 percent of GSDP.

### 3.2 The Changing Regime of Fiscal Transfers and Its Impact on Sikkim

The recommendations of FFC regarding the sharing of Central taxes with States led to a transformation in the fiscal transfer system in India and it assumed significance for smaller States like Sikkim. The Commission considered tax devolution to be the primary route of transfer of resources to States and recommended a rise from 32 percent to 42 percent of the divisible pool, which is the biggest ever increase in vertical tax devolution. It was argued that tax devolution would provide enhanced flexibility in the use of funds as this is the formula-based untied transfers. As the FFC relied on tax devolution to cover the assessed revenue expenditure needs of the States, it took a holistic view of the revenue expenditure needs of States without Plan and Non-Plan distinction. The FFC departed from past practice of awarding specific-purpose grants. The only grants awarded by the Commission were disaster relief grants and grants for local bodies, a statutory requirement.

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

Sikkim faced a precarious situation because of restructuring in Central transfer system. While the State made large gain from increase in overall tax devolution and rise in *inter se* share from 0.239 percent under the TFC to 0.367 percent, the loss of plan grants was significant. While income distance criteria with the largest weight of 50 percent in the FFC's *inter se* determination of the share of taxes to the States gone against the State as it has become the second highest per capita income State in the country, the inclusion of criteria like demographic changes and forest cover helped in increasing the share of the State. However, the closure of the block grant options and delinking of Central schemes has put the State in a rather difficult situation.

Resource transfers under FC tax devolution and block grants, shown in Table 3 reveals that the transfer is less in 2015-16 as compared to the year 2014-15. It may not be logical to compare the FFC transfers with that of the TFC, as TFC provided several grants including the performance grants to the States. The FFC refrained from recommending State specific grants other than disaster relief grants and grants to local bodies. However, the gain from rise in share in central taxes does not compensate the loss of the Central assistance to the State plan, at least in the first year of the award period of the FFC. While the FFC recommended Rs.2129 crores as share in Central Taxes to Sikkim, the Union Budget for 2015-16 provided Rs.1929 crores only. The actual flow however, was much less at Rs.1870 crores. The difference between the year 2014-15 and 2015-16 works out to be about Rs.300 crores. The delinking of some of the Central schemes will further shrink the transfers. For a small area State like Sikkim, these are big amounts.

The two factors that define the FFC transfers to Sikkim might not be realistic. The first is the projection of substantial rise in own tax revenue based on rapid growth of GSDP and assumption of higher tax buoyancy. Given that the growth rate of the State GSDP in recent years has been much lower than 24.32 percent assumed by the FFC and tax buoyancy remaining way below than what was assumed by the Commission, the projected own tax revenue seems unachievable. Second, the flow of tax devolution estimated by the FFC seems doubtful looking at the actual flow in the first year of the award period.

**Table 3:** Resource Transfers to Sikkim: Block Grants and FC Transfers

Rs.Crore

| Particulars | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| **Share of Central Taxes** | 611.65 | 698.48 | 762.62 | 809.33 | 1870.28 |
| **Normal Central Assistance** | 418.99 | 533.80 | 553.58 | 524.17 | |
| **Special Plan Assistance** | 100 | 157.10 | 108.00 | 108.00 | |
| **Special Plan Assistance (PM's Package)** | 200 | 80.00 | 420.00 | 300.00 | |
| **Special Central Assistance** | 200 | 220.53 | 329.47 | 200.00 | |
| **Finance Commission Grants** | | | | | |
| **Improvement of Justice Delivery** | | | 0.56 | 3.61 | |
| **Improvement of Statistical System** | 0.80 | 0.80 | | 2.40 | |
| **Water Sector Management** | | | | | |
| **Maintenance of Roads** | 14.00 | 15.00 | 18.03 | 21.00 | |
| **Environment related Grants** | 5.07 | 10.14 | 7.61 | 10.14 | |
| **Elementary Education** | | 1.00 | | | |
| **Incentive for Issue of UIDs** | | | 0.55 | | |
| **District Innovation Fund** | 2.00 | | | | |
| **State Specific Grants** | 19.65 | 101.07 | 22.54 | 176.03 | |
| **Grants to Local Bodies** | 30.23 | 11.78 | 27.37 | 29.38 | 20.82 |
| **Performance Grants** | 60.00 | 60.00 | 0.03 | 9.15 | |
| **Disaster Relief Fund** | 24.33 | 25.15 | 99.2 | 25.89 | 28.00 |
| TOTAL | **1686.72** | **1914.85** | **2349.56** | **2219.10** | **1919.10** |

***Source***: Government of Sikkim.

The fiscal stress comes out from the element of uncertainty in the flow of funds through tax devolution and loss of assured source of block grants. The record of the State in providing its own share to CSS was dismal in the past. The State also has to provide for projects currently under implementation. The fiscal variables as percentage to GSDP, given in Table 2, show that the Government has reduced the capital expenditure considerably in 2015-16 and 2016-17 (BE) to achieve the FRBM targets. This decline in the provision of capital expenditure raises concerns regarding the ongoing projects. It will be reassuring to hope for rise in the buoyancy of the Central taxes during the next four years and the aggregate tax devolution of Rs.14514 crores estimated by the FFC is realised.

### 3.3 Why has the State failed to raise the Tax-GSDP Ratio?

While the State has witnessed a spectacular growth in GSDP in recent years, the tax revenue has not kept pace with it. Tax-GSDP ratio of Sikkim given by the FFC, remained at about 4 percent, which was one of the lowest among the States leaving States like Arunachal, Manipur, Mizoram and Nagaland (Annexure 1). Since Sikkim was amongst the States with low tax-GSDP ratio, the FFC used a higher tax buoyancy ratio of 1.5 to improve the tax-GSDP ratio. Thus, a tax buoyancy of 1.5 applied on a projected GSDP growing at 24.32 resulted in a tax amount of Rs.3039 crores in the last year of its award period.

The buoyancy coefficients for the State taxes during the period 2004-05 to 2015-16 given in Table 4 reveal that the growth of taxes has fallen behind the growth of GSDP. The buoyancy of own tax revenue at 0.619 implies that if the GSDP grows by 10 percent, the taxes grow by 6 percent, thus pulling down the tax-GSDP ratio. This, however, is based on the assumption that the State income provides an effective base for projecting the tax revenue.

Why high GSDP growth, particularly in manufacturing did not help in improving the tax receipts? First, the pharmaceutical units, production of which contributed to the manufacturing growth, transfer most of their products as stock transfer to the neighbouring State as they have not established warehouses in Sikkim. Total stock transfer during 2012-13 to 2014-15 appears approximately Rs.21237 crores (Annexure 2). A fraction of the production is sold to outsiders in the State, which attracts CST. A small State like Sikkim cannot consume the medicines increasingly. The tax impact of this sector can at best be indirect, through employment and increasing consumption.

Secondly, the production of electricity by the NHPC and the investments in hydroelectric units being built by private companies under PPP arrangement added to the growth of State GSDP. However, as the sale of electricity, for instance by the NHPC project, does not fall within the ambit of States tax system, there is no corresponding growth in revenue collection. The sales tax collection from this sector is related with the works contract arrangement involved during the construction phase. The State gets a share of 12 percent as free power from the production of electricity. This free power is expected to increase the non-tax revenue, if the State becomes able to sell it after meeting the domestic demand.

Thus, two major sources of rise in GSDP viz. pharmaceutical and power - automatically do not contribute to growth of taxes. Nevertheless, the growth in GSDP is a reality, with which the State has to live with and address the fiscal issues innovatively. What is expected is that adequate returns from the PPP projects and employment created in manufacturing sector would provide impetus to rise in trade and business activities in the coming years, which will have a favourable impact on the state's revenue. Raising the tax buoyancy to 1.5, as assumed by the FFC, however, remains a tall order for the state.

**Table 4:** Buoyancy of Taxes: 2004-05 to 2015-16

| | |
|---|---|
| Own Tax Revenues | 0.619 |
| Sales Tax | 0.746 |
| State Excise Duties | 0.676 |
| Motor Vehicle Tax | 0.740 |
| Stamp Duty and Registration Fees | 0.564 |
| Other Taxes | 1.402 |

***Source (Basic Data):*** Finance Accounts and State Budget 2016-17.

## 4. Issues in Budget Management

### 4.1 Large Unspent Amounts

A sound public expenditure management system requires that the budget should be formulated in a realistic manner to minimize the deviations from the projected revenue and expenditure (PEFA, 2011). The ability to raise the projected revenue and implement the budgeted expenditure is an important factor that shows the capacity of the Government to deliver public services as announced in the Government policies. A comparison between budget estimates and fiscal outturns during the period 2011-12 to 2013-14 signifies large deviations between budgeted and actual expenditure, particularly for capital outlay (Table 5). The unspent amount in capital outlay varies between 30 to 40 percent of projected expenditure during this period and in terms of actual amount, this deviation varies between Rs.400 to Rs.600 crores. The lower utilisation was more visible in the productive spending. While lack of resources has been forcing the State Government to cut back on the capital outlay, the inability to spend the voted amount shows the weaknesses prevalent in the budget formulation and program management.

**Table 5:** Deviation between Budgeted and Actual Expenditure

**Percent**

| | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|
| Revenue Expenditure | 5.98 | -11.68 | -6.84 |
| General Services | -1.42 | -5.35 | -4.26 |
| **Interest Payments** | -0.69 | -1.22 | 6.99 |
| **Pension** | 16.41 | -6.04 | -8.09 |
| **Other General Services Excluding Salary** | -8.06 | -6.71 | -6.36 |
| Social Services | 42.18 | -9.92 | 1.07 |
| **Education** | 11.22 | -2.11 | 1.77 |
| **Medical and Public Health** | 11.26 | 1.16 | 7.15 |
| **Other Social Services** | 125.38 | -9.25 | -1.40 |
| Economic Services | -20.34 | -19 | -20.03 |
| Compensation and Assignment to LBs | -4.03 | -54 | -35.75 |
| Capital Expenditure | -39.57 | -42.29 | -30.44 |
| **Capital Outlay** | -41.67 | -42.40 | -30.65 |
| **Net Lending** | 10.19 | -8.37 | -1.47 |

***Source:*** Authors' Computations.

The decline in capital expenditure vis-à-vis the budget estimates, however, may not be all by design to achieve fiscal targets. Inability to spend the money in a fiscal year leads to time overrun and to consequently cost overrun for the programs. The Government will need more resources to complete the projects. Some of the reasons for unspent amount in the State are as follows (Jena and Sikdar, 2013):

a) The failure of the Government to provide the State's share in several CSS projects results in non-receipt of second installments of Central funds. Thus, the planned expenditure does not materialize.
b) Some of the budget heads under capital expenditure indicate that budget estimates were based on Central grants including the CSS, NEC projects, and NLCPR components of DONER. The unpredictability in flow funds continues to be a major problem for these projects for which the actual expenditure falls short of the budget estimates. The allocation of resources at the time of budget formulation is questionable.
c) Failure to provide utilisation certificate in timely manner hampers fund flow under CSS.
d) Delay in project clearance due to several layers of authorities involved in clearing the project proposals, and inefficiency of contractors (cooperative societies at grassroots level) have proved to be hurdles in implementing the projects.
e) Delay in clearance for acquiring forestland, delay in starting of the work, delay in utilization of previous installment are cited in many cases.
f) Land acquisition has remained very complicated issue in water supply and sanitation sector.
g) The capacity of the spending departments conceptualizing the infrastructure projects, executing the projects, and coordinating across departments for project execution needs improvement.

Delayed release of Central funds is another reason for non-utilisation of funds during the fiscal year. Using unspent balance in the next fiscal has become a general budgetary practice in Sikkim as funds don't lapse for many schemes. From Table 6, it is evident that large amount of transfers under Central plan schemes and CSS are received in the last quarter of the fiscal year and a substantial portion of it remains unutilised. Even the transfers in the last month of the fiscal year have been rising. In 2013-14, the unspent balance was Rs.452.64 crores. It is important for the State Government to coordinate with the Central agencies to improve the fund flow mechanism. The unspent balance in a year also fuels the revenue surplus.

**Table 6:** Unspent Balance from Central Plan Schemes and CSS

Rs. Crores

| Scheme Name | Total Receipts | Receipts in March | Receipts during Jan to March | Unspent Balances |
|---|---|---|---|---|
| 2009-10 | | | | |
| **Plan Central Sector** | 682.87 | 35.60 | 207.25 | 157.18 |
| **CSS** | 180.19 | 12.91 | 52.79 | 116.67 |
| Total | **863.06** | **48.51** | **260.04** | **273.85** |
| 2010-11 | | | | |
| **Plan Central Sector** | 832.36 | 110.38 | 252.77 | 194.46 |
| **CSS** | 146.40 | 11.75 | 48.13 | 104.80 |
| Total | **978.76** | **122.13** | **300.90** | **299.26** |
| 2011-12 | | | | |
| **Plan Central Sector** | 1198.52 | 45.46 | 466.35 | 143.58 |
| **CSS** | 165.07 | 14.94 | 48.60 | 71.43 |
| Total | **1363.59** | **60.40** | **514.95** | **215.01** |
| 2012-13 | | | | |
| **Plan Central Sector** | 1362.22 | 112.86 | 441.36 | 273.36 |
| **CSS** | 191.49 | 8.44 | 38.53 | 68.96 |
| Total | **1553.71** | **121.30** | **479.89** | **342.32** |
| 2013-14 | | | | |
| **Plan Central Sector** | 1863.27 | 197.74 | 412.74 | 262.33 |
| **CSS** | 235.75 | 59.99 | 71.42 | 190.31 |
| Total | **2099.02** | **257.73** | **484.16** | **452.64** |

***Source:*** Department of Finance, Government of Sikkim.

### 4.2 Inadequate and Delayed Provision of State's Share for CSS and other Central Schemes

The issue of inadequate provision of State's share to the CSS, NEC and NLCPR schemes has remained a concern in the fiscal management of the State, which is related to the priority of the State Government in the financing of plan schemes. The pattern of financing of plan schemes, given in Table 7, shows that the provision of State's share to various central schemes has declined in 2014-15 as compared to that of 2013-14. The increase in 2015-16 budget was due to a bulk budget provision under the head 'Medical and Public Health'. The increasing own plan spending of the State, which includes salary spending under plan head seems to have received priority over providing funds under state's share. The State's share provided for the NEC and NLCP schemes, for two years 2013-14 and 2014-15, given in Annexure 3 shows that the provisions have been small. The State's share for NEC schemes has fallen from 5.24 percent in 2013-14 to 4.77 percent in 2014-15. Similarly, the reduction in the case of NLCPR was from 5.26 to 1.80 percent.

**Table 7:** Pattern of Plan Financing

Rs. Lakhs

| | 2013-14 | 2014-15 | 2015-16 (BE) |
|---|---|---|---|
| **TFC** | 11136 | 10982 | 2096 |
| **EAP** | 14500 | 4340 | 8624 |
| **NABARD** | 8000 | 10450 | 5000 |
| **ACA/CSS** | 36627 | 106442 | 89569 |
| **SPA** | 52800 | 52409 | 16819 |
| **PRI / ULB** | 79 | 0 | 0 |
| **TSP** | 810 | 380 | 0 |
| **SCSP** | 167.5 | 93.5 | 0 |
| **NEC** | 6966 | 7789 | 7934 |
| **NLCPR** | 6203 | 12012 | 12012 |
| **State's share** | 10549 | 9078 | 11668 |
| **State's own plan spending** | 83712 | 90797 | 114646 |
| Annual Plan | **221000** | **295694** | **256700** |

***Source:*** Planning Department, Government of Sikkim.

## 5. Strengthening Resource Base: Examining the Options

### 5.1 Own Tax Revenue

Own revenue of the State constitutes about 23 percent of total revenue receipts of the State; the remaining comes from Central transfers. This is equally divided between the tax and non-tax revenue receipts. About half the own tax revenue comes from VAT, one fourth from state excise, and the other one forth comes from taxes like motor vehicle, stamps and duties and other smaller taxes. The average growth rate of aggregate own tax revenue during 2004-05 to 2015-16 RE was 15.63 percent while the VAT has grown at 19 percent per annum during the same period.

As the State is small with a population of about six lakhs, propped up, of course, by the consumption of the tourists, growth rate between 15 to 20 percent for own tax revenue seems normal. When a growth rate of 20 percent is used to project the own tax receipts, taking the likely receipts for the year 2015-16 as base, Rs.1023 crores can be expected by the year 2019-20, the terminal year of the FFC. The projection given by the FFC at Rs.3039 is too ambitious. The State government has improved the tax administration by adopting e-payment, which positively affected the tax collection (Government of Sikkim, 2016). The expansion of tax base offers some scope to spruce up the collection.

Increasing tax rate under VAT or for the next important tax, State Excise is not a viable option, as the trade diversion to the neighboring State, which is already high, will increase. The market for some of the Sikkim's produce like IMFL (Indian Made Foreign Liquor), which has a price advantage, will shrink. The State imposes a cess for environment fund on VAT (Value Added Tax), on sale of all non-biodegradable goods at the rate of one percent of the sell price.

There is also a cess on petrol and diesel, called Sikkim Transport Infrastructure Development Fund, though the VAT rates on petrol and diesel are moderately lower. The State also imposes professional tax.

Introduction of GST, may not have significantly contributed to revenues in Sikkim, but it might increase the tax receipt to some extent. The GST without the CST will not create a larger tax base as far as the manufacturing production of the State is concerned, as the tax will be a destination-based one. Whatever small amount of CST, now collected from the pharmaceutical productions when sold to the traders inside the State will go if the CST is removed in the GST regime.

Sikkim, however, does not collect any luxury tax from hotels. This is generally imposed on high-end hotels. The State does not collect this tax to give boost to hotel industry for development of tourism. Although, high-end hotels are less in number in Sikkim, the scope for levying luxury tax should be reexamined in the state, given the existing Government policy and the likely revenue impact.

### 5.2 Non-tax Revenue

Income from State lottery, power sector, road transport, and interest receipts are the main sources of non-tax revenue for the State. However, income from Lottery as a lucrative source of revenue for the State is on the wane due to restriction imposed by other States. The relative share of lottery income (net) in the own non-tax revenue is set to decline from 17.8 percent in 2011-12 to 9.5 percent in 2015-16 (RE). Although government has taken a few initiatives, the revenue collection has not gone up. The income from power sector, which was about Rs.100 crores in 2013-14, is projected to grow to Rs.135 crores in 2015-16. The hydropower projects undertaken in the State are expected to improve contribution from this source in the coming years.

### 5.3 Central Transfers

The dependence of the State on Central transfers has always remained high. Despite gradual rise in tax devolution, delinking of several CSS and the subsuming of block grants for State plan have created fiscal stress for the State. To what extent the devolution will compensate for the loss of Central grants is not very clear. Features like small resource base, cost disability in provision of public services due to difficult hilly terrain, lack of connectivity to improve trade and business and many other disadvantages like natural disasters, always put pressure on State finances of Sikkim. Thus, to deal with these issues, higher Central transfers are very important for the State.

### 5.4 Additional Borrowing Limit

While suggesting anchoring the fiscal deficit at 3 percent of the GSDP, the FFC allowed the States the flexibility of increasing the deficit limit by 0.25 percent if debt-GSDP ratio remains below 25 percent and another 0.25 percent of the interest payment is limited to 10 percent of the revenue receipts in the previous year. If a State satisfies both these conditions and does not have revenue deficit in a year, then the borrowing limit can increase by 0.5 percent of the GSDP. The Government of Sikkim has amended the State FRBM Act in 2016 incorporating these clauses and it is expected that the State would be allowed to avail the additional borrowing facility to improve its resource position.

### 5.5 Expenditure Restructuring to Ease the Stress

The per capita revenue expenditure of the State is one of the highest in the country; at Rs.48315 in 2012-13, it was 11 times higher than that of the State of Bihar, which was at the lowest (Annexure 4). The State has the lowest population in the country at six lakhs, which explains this level of per capita expenditure. It needs to be indicated that the State Government managed to reduce the revenue expenditure from 29.8 percent to GSDP in 2009-10 to 24.4 percent in 2013-14 and projected to remain at same level in 2015-16 (Table 2). Although, the cost disability faced by the State in providing public service pushes the expenditure up, it is important to look at some elements of spending for any possible rationalization.

The committed expenditure, including salary, interest payment, and pension accounted for about 58 percent of revenue expenditure in the year 2015-16. The salary outgo alone constitutes three-fourth of the total committed expenditure. The salary expenditure increased from Rs.1185 crores in 2012-13 to Rs.1350 crores in 2013-14, and further this is budgeted to be Rs.1796 crores in 2015-16. This does not include the spending under muster rolls. Thus, aggregate payment for salary and wages would be higher for the State.

The salary expenditure as percent to the revenue expenditure is given in Annexure 5 for all the State in India during 2011-12 to 2013-14. From this, it is evident that the salary outgo for Sikkim is very high. The salary spending for Sikkim as percent to the revenue expenditure has increased from 46 percent in 2011-12 to 47.5 percent in 2012-13 before coming down to 45 percent in 2013-14. This level of salary outgo is comparable only to a few of the Northeastern States. Given the fiscal stress and resource crunch faced by the State, there is a need to rationalize this level of expenditure. While rationalizing wages and salaries is crucial, it is also important to look at all the spending departments to weed out unproductive expenditures. The need of the hour is to improve the impact, efficiency, and effectiveness of the government spending, which will leave a positive legacy in the long run.

### 5.6 Externally Aided Project for Infrastructure Building

Sikkim has been running several externally aided projects (EAP) in infrastructure sector. The ADB funded South Asian Tourism Infrastructure Development Project (SATIDP) and the Sikkim Biodiversity Conservation and Forest Management Project (SBFP) are important among them. These are extremely concessional in nature. The SATIDP aims at improving connectivity and destination infrastructure in culture based tourism sites. The SBFP focuses on biodiversity conservation and forest management in Sikkim. The importance of EAPs lies in the concessional nature of funding, which reduces the stress on State finances for infrastructure building in focus areas.

The experience from the implementation of EAPs in the State has not been very promising. The funding under these EAP depends on the release of State share in a timely manner through a revolving funding arrangement and simultaneous progress in the work. Delayed release of State share, ineffective operation of the revolving fund facility and lack of effective implementation of the projects has adversely affected the fund flow arrangement. The issues discussed under budget management practice have also been hampering the progress in implementing these projects. It is important for the State to examine the issues in implementation of EAPs to streamline the fund flow to these projects. The State Government should proactively attract EAPs in the infrastructure sector by creating an enabling environment to ease the pressure on the State fiscal situation.

## 6. Hydroelectricity as Source of Income for the State

Sikkim initiated steps to tap hydroelectricity potential from its two Himalayan rivers-Teesta and Rangit, which was considered as an alternative source of revenue for the State. Initially, it was estimated that this low pollution hydroelectricity potential was about 8000 MW earning Rs.1600 crores annually. Given the high demand for power in the country, it was expected that the State would gain considerably from hydropower production. Although, this expectation has been diluted over the years, the hydro projects on Teesta and Rangit still hold hope and expectation.

The State followed a model in which the private companies were allowed to construct power projects from which the State would get a 12 percent free power. This is how the NHPC project provided 12 percent free power to the State, which is accounted for in the non-tax revenue of the State. There are 31 projects, which were initiated in the State, out of which the State is partner in two projects - Teesta Stage-III for 1200 MW and Rangit-IV HEP for 120 MW (Annex 6). In Teesta – III State has an equity participation of 51 percent and in Rangit IV it is 26 percent. Teesta-III is the key project in the grand power plan of the State. There have been delays and cost overruns for this project and the private players were reluctant to invest. However, after the intervention of Central Power Ministry the work has resumed in this project. The State has borrowed from the Power Finance Corporation to meet its equity share in these two projects. It is like a special-vehicle borrowing program, which has remained outside the budget.

The grand hydroelectricity plan has not progressed as it was planned. Out of 31 listed projects, three have been terminated and leaving aside the two projects where Government has equity share, only six projects have made some progress. Rest of the projects has not made any headway since they were commissioned. Some have just completed the feasibility studies. Many of these projects have been commissioned between the periods from 2003 to 2008. Thus over the years the cost overrun has become a huge problem for these projects. The financing of the projects would be considered as hazardous. Even the diluted expectation from hydroelectricity at Rs.900 crores in 2015, the time line gone by, needed most of these projects up and running and providing the free power to the State.

The functioning of Teesta – III will test the resolve of the State and its plan regarding hydropower based resource generation. With production of each of these power projects, the State GSDP will rise and given the slow growth of own tax revenue, the tax-GSDP ratio will go down. Thus, the free power to the extent of 12 percent from the functional power projects is needed to increase the non-tax revenue to improve the aggregate own revenue of the State. Sprucing up of non-tax revenue will also depend on the price at which the State would be able to sell the surplus power. There are several other technical issues involved in the sale of surplus power. These include the effective linkage with the eastern grid, payment requirements to the gird, and optimal power generation by the power project as compared to their initial project estimates. Indeed, the stakes are high for Teesta – III project. The repayments of interest and capital will pose a fiscal risk if the project is not functional and earn enough dividends in addition to the free power to the State.

# 7. Conclusion

The State finances of Sikkim reveal that the State has to live with a paradox of high growth in recent years and low tax-GSDP ratio affecting the revenue generating efforts. Any deviation from the Central transfers makes the State finances edgy. The search for resources to drive the development strategy and create higher employment opportunities remain a major concern for the State. While the human development achievements and reduction in poverty characterise Sikkim's socio-economic progress, the State needs to gain control over its own development agenda. It is important for the State Government to make innovative efforts to strengthen internal resource base and utilize available resources efficiently to create an enabling environment for higher growth and development with equity.

While the State adhered to the fiscal targets under the FRBM Act, the issues related to budget management practices raise questions on efficiency of fiscal management. The State needs to address issues like inability to spend the available resources, lack of predictability in flow of resources, absence of effective evaluation and monitoring, expenditure priorities that adversely affect fund flows to the Government and inability to create an enabling environment for externally aided projects. Strengthening public expenditure management system will be helpful in plummeting the time and cost overrun for the projects.

The fiscal stress faced by the State should be considered as an opportunity to make an unbiased assessment of its fiscal capacity and development commitment. The resource problems arising out of closure of some of the avenues of the Central transfers to the State may not deteriorate absolutely. The tax devolution may increase if the national economy rebounds in the coming years and if tax buoyancy of the Central Government increases. However, there is a need to depart from the complacency and look for options. The hydropower plan to finance the development agenda though looks risky, might take off, and ease the resource position. The fact remains that the internal resource base for the State is narrow and providing public service to the people is costly. Thus, it is important to look for value for money from the spending of the public resources and ensure accountability.

## References

Government of India, 2009. Report of Thirteenth Finance Commission: 2010-2015.

---------, 2015. Report of the Fourteenth Finance Commission: 2015-2020.

Government of Sikkim, 2016. Medium Terms Fiscal Plan for Sikkim: 2016-17.

Jena Pratap Ranjan and Satadru Sikdar, 2013. The Review of Compliance to Sikkim FRBM Act – 2013-14, National Institute of Public Finance and Policy, New Delhi.

PEFA, 2011. Public Financial Management Performance Measurement Framework, PESA Secretariat, Washington D.C.

Schick, Allen, 2010. "Post-Crisis Fiscal Rules: Stabilizing Public Finance while Responding to Economic Aftershocks", *OECD Journal on Budgeting*, Vol 2010/2.

**Annexure 1**

**Own Tax Revenue of States**

Percent to GSDP

| States | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 RE | 2014-15 BE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Andhra Pradesh** | 7.2 | 7.5 | 7.9 | 7.9 | 7.8 | 7.4 | 7.7 | 8.0 | 7.9 | 8.4 | 7.1 |
| **Bihar** | 4.3 | 4.3 | 4.0 | 4.5 | 4.3 | 5.0 | 4.8 | 5.1 | 5.2 | 6.7 | 6.7 |
| **Chhattisgarh** | 6.7 | 7.6 | 7.5 | 7.0 | 6.8 | 7.2 | 7.5 | 8.1 | 8.5 | 8.9 | 8.8 |
| **Goa** | 6.7 | 7.7 | 7.8 | 6.9 | 6.7 | 6.1 | 6.4 | 7.1 | 8.4 | 8.3 | 8.3 |
| **Gujarat** | 6.4 | 6.4 | 6.5 | 6.6 | 6.4 | 6.2 | 7.0 | 7.4 | 8.0 | 7.8 | 7.2 |
| **Haryana** | 7.8 | 8.3 | 8.5 | 7.7 | 6.4 | 5.9 | 6.4 | 6.8 | 6.8 | 6.8 | 6.8 |
| **Jharkhand** | 4.0 | 4.5 | 4.8 | 4.1 | 4.3 | 4.5 | 4.5 | 4.8 | 5.0 | 5.9 | 5.9 |
| **Karnataka** | 9.6 | 9.5 | 10.3 | 9.6 | 8.9 | 9.1 | 9.4 | 10.1 | 10.2 | 10.2 | 10.2 |
| **Kerala** | 7.5 | 7.1 | 7.8 | 7.8 | 7.9 | 7.6 | 8.2 | 8.4 | 8.6 | 8.8 | 9.1 |
| **Madhya Pradesh** | 6.9 | 7.3 | 7.2 | 7.4 | 6.9 | 7.6 | 8.1 | 8.7 | 8.2 | 7.5 | 9.5 |
| **Maharashtra** | 7.4 | 6.9 | 6.9 | 6.9 | 6.9 | 6.9 | 7.2 | 7.3 | 7.4 | 7.2 | 6.9 |
| **Odisha** | 5.4 | 5.9 | 6.0 | 5.3 | 5.4 | 5.5 | 5.7 | 6.3 | 5.9 | 5.9 | 6.1 |
| **Punjab** | 7.2 | 8.3 | 7.1 | 6.5 | 6.4 | 6.1 | 7.4 | 7.3 | 7.9 | 8.3 | 8.0 |
| **Rajasthan** | 6.6 | 6.9 | 6.8 | 6.8 | 6.5 | 6.2 | 6.1 | 6.3 | 6.6 | 6.6 | 7.0 |
| **Tamil Nadu** | 8.8 | 9.0 | 8.9 | 8.4 | 8.4 | 7.6 | 8.2 | 8.9 | 9.6 | 11.2 | 11.0 |
| **Telangana** | | | | | | | | | | | 7.3 |
| **Uttar Pradesh** | 6.0 | 6.4 | 6.8 | 6.5 | 6.4 | 6.5 | 6.9 | 7.7 | 7.6 | 8.1 | 8.5 |
| **West Bengal** | 4.8 | 4.5 | 4.5 | 4.4 | 4.2 | 4.2 | 4.6 | 4.6 | 5.3 | 5.5 | 5.6 |
| **Arunachal Pradesh** | 1.4 | 1.7 | 1.9 | 2.0 | 2.4 | 2.3 | 2.4 | 3.0 | 2.6 | 3.8 | 4.0 |
| **Assam** | 5.1 | 5.4 | 5.4 | 4.7 | 5.1 | 5.2 | 5.3 | 6.1 | 5.8 | 5.6 | 6.3 |
| **Himachal Pradesh** | 5.2 | 5.5 | 5.5 | 5.8 | 5.4 | 5.3 | 6.3 | 6.3 | 6.3 | 5.9 | 5.7 |
| **Jammu & Kashmir** | 4.9 | 5.4 | 5.4 | 6.9 | 6.3 | 6.3 | 6.0 | 7.2 | 7.7 | 7.8 | 8.1 |
| **Manipur** | 1.6 | 1.7 | 2.0 | 2.2 | 2.3 | 2.4 | 2.9 | 3.5 | 2.8 | 3.4 | 3.8 |
| **Meghalaya** | 3.2 | 3.5 | 3.5 | 3.3 | 3.2 | 3.5 | 3.9 | 4.3 | 4.7 | 4.0 | 5.0 |
| **Mizoram** | 1.5 | 1.9 | 2.1 | 2.0 | 2.1 | 2.0 | 2.0 | 2.5 | 2.8 | 2.6 | 2.6 |
| **Nagaland** | 1.3 | 1.6 | 1.6 | 1.6 | 1.7 | 1.7 | 1.9 | 2.3 | 2.3 | 2.4 | 2.5 |
| **Sikkim** | 5.1 | 5.0 | 5.9 | 6.0 | 5.7 | 3.6 | 3.8 | 3.4 | 4.4 | 4.3 | 4.3 |
| **Tripura** | 2.7 | 3.0 | 3.1 | 3.1 | 3.3 | 3.4 | 3.5 | 4.1 | 4.2 | 5.0 | 4.5 |
| **Uttarakhand** | 5.8 | 6.0 | 6.8 | 6.0 | 5.4 | 5.0 | 5.2 | 5.7 | 5.6 | 6.0 | 5.8 |
| All States | **5.6** | **5.7** | **5.9** | **5.7** | **5.7** | **5.6** | **5.9** | **6.2** | **6.4** | **6.6** | **6.5** |

***Source:*** Fourteenth Finance Commission Report

**Annexure 2**

**Statement of Stock Transfers (Tax Free) of Manufactures**

Rs Crores

| Sl. No. | Name of manufacturer | 2012-13 | 2013-14 | 2014-15 | Total |
|---|---|---|---|---|---|
| 1 | Alkem Laboratories Limited | 1,029 | 1,279 | 1,208 | 3,517 |
| 2 | CG Foods India Pvt. Ltd. | 30 | 29 | 27 | 86 |
| 3 | Cipla Limited | 1,033 | 1,085 | 1,085 | 3,203 |
| 4 | Epitome Petrochemical Private Limited | 25 | 6 | 12 | 42 |
| 5 | Epitome Plast-O-Pack Private Limited | 10 | 8 | 9 | 27 |
| 6 | Glenmark Pharmaceuticals Limited | 68 | 321 | 404 | 793 |
| 7 | Godrej Consumer Products Limited | 101 | 99 | 128 | 328 |
| 8 | Indchemie Health Specialties Pvt. Ltd. | 25 | 36 | 46 | 107 |
| 9 | Intas Pharmaceuticals Limited | 0 | 0 | 0 | 0 |
| 10 | Ipca Laboratories Limited | 337 | 482 | 598 | 1,417 |
| 11 | Okasa Pharma Private Limited | 0 | 0 | 0 | 0 |
| 12 | Sun Packmet Pvt. Ltd | 0 | 0 | 0 | 0 |
| 13 | Sun Pharma Laboratories Limited | 1,921 | 2,006 | 2,672 | 6,599 |
| 14 | Torrent Pharmaceuticals Limited | 260 | 339 | 849 | 1,448 |
| 15 | Unichem Laboratories Limited | 174 | 335 | 135 | 645 |
| 16 | Zydus Healthcare | 793 | 556 | 814 | 2,162 |
| 17 | Zydus Wellness- Sikkim | 317 | 224 | 321 | 862 |
| | **Total** | **6,124** | **6,805** | **8,308** | **21,237** |

***Source:*** Department of Commercial Taxes, Government of Sikkim

**Annexure 3**

**Provision of State's Share in NEC and NLCPR Schemes**

Rs. Crores

| Heads | 2013-14 | | | | 2014-15 | | | |
|---|---|---|---|---|---|---|---|---|
| | **NEC Plan** | **NEC State Share** | **NLCPR Plan** | **NLCPR State** | **NEC Plan** | **NEC State Share** | **NLCPR Plan** | **NLCPR State Share** |
| **Agriculture and Allied Activities** | 392.57 | 10 | 0 | 0 | 659 | 40 | 0 | 0 |
| **Rural Development** | 0 | 0 | 620.3 | 50 | 0 | 0 | 600 | 50 |
| **Special Area Programme** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Irrigation and Flood Control** | 169.49 | 50 | 0 | 0 | 261 | 50 | 0 | 0 |
| **Energy** | 1159.94 | 100 | 1860.9 | 100 | 1905 | 100 | 3300 | 0 |
| **Industry and Mineral** | 58.42 | 15 | 0 | 0 | 340 | 15 | 0 | 0 |
| **Transport** | 3194.38 | 100 | 2295.11 | 100 | 1288 | 100 | 3300 | 100 |
| **Science, Technology and Environment** | 182.62 | 20 | 0 | 0 | 390 | 0 | 0 | 0 |
| **General Economic Services** | 159.25 | 20 | 0 | 0 | 315 | 20 | 0 | 0 |
| **Education, Sports, Art and Culture** | 628.76 | 20 | 310.15 | 50 | 775 | 45 | 1200 | 50 |
| **Medical and Public Health** | 398.34 | 30 | 0 | 0 | 830 | 0 | 700 | 0 |
| **Water Supply and Sanitation** | 515.52 | 0 | 992.48 | 0 | 946 | 0 | 2412 | 0 |
| **Housing** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Urban Development** | 106.71 | 0 | 124.06 | 20 | 50 | 0 | 500 | 50 |
| **Information and Publicity** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Development of SCs, STs and OBCs** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Labour & Labour Welfare** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **ITI and Social Security and Social Welfare** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Empowerment of Women and Development of Children** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Nutrition** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total General Services** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Grand Total | **6966** | **365** | **6203** | **320** | **7759** | **370** | **12012** | **250** |
| **Percent of State Share in Plan** | | **5.24** | | **5.16** | | **4.77** | | **2.08** |

***Source:*** Planning Department, Government of Sikkim

**Annexure 4**

**Per capita Revenue Expenditure across States: 2012-13**

| States | Revenue Expenditure (Rs. Crores) | Population (In Crores) | Per capita (In Rupees) |
|---|---|---|---|
| **Sikkim** | 3010 | 0.06 | 48315 |
| **Mizoram** | 4510 | 0.10 | 44086 |
| **Arunachal Pradesh** | 4790 | 0.13 | 37896 |
| **Goa** | 6060 | 0.18 | 32810 |
| **Nagaland** | 5600 | 0.23 | 24454 |
| **Himachal Pradesh** | 16170 | 0.69 | 23455 |
| **Manipur** | 5320 | 0.25 | 21331 |
| **Jammu & Kashmir** | 25120 | 1.20 | 21017 |
| **Andhra Pradesh** | 102700 | 5.01 | 20492 |
| **Meghalaya** | 5000 | 0.27 | 18734 |
| **Kerala** | 53490 | 3.49 | 15308 |
| **Haryana** | 38070 | 2.61 | 14587 |
| **Tamil Nadu** | 97070 | 6.81 | 14253 |
| **Tripura** | 5210 | 0.37 | 14146 |
| **Punjab** | 39460 | 2.82 | 14013 |
| **Uttarakhand** | 13960 | 1.02 | 13731 |
| **Karnataka** | 76290 | 6.04 | 12635 |
| **Maharashtra** | 138740 | 11.51 | 12056 |
| **Gujarat** | 69660 | 6.03 | 11560 |
| **Chhattisgarh** | 26970 | 2.48 | 10885 |
| **Assam** | 29140 | 3.12 | 9350 |
| **Odisha** | 38240 | 4.13 | 9256 |
| **Rajasthan** | 63460 | 6.95 | 9128 |
| **West Bengal** | 82110 | 9.08 | 9043 |
| **Madhya Pradesh** | 62970 | 7.40 | 8507 |
| **Jharkhand** | 23400 | 3.22 | 7276 |
| **Uttar Pradesh** | 140720 | 20.63 | 6821 |
| **Bihar** | 54470 | 9.98 | 5459 |

***Source***: State Finances A Study of Budgets 2012-13, RBI.

**Annexure 5**

**Salary Expenditure as Percent to Revenue Expenditure**

| States | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|
| **Andhra Pradesh** | 29.66 | 25.09 | 29.04 |
| **Bihar** | 26.88 | 25.67 | 29.35 |
| **Chhattisgarh** | 32.88 | 28.51 | 25.74 |
| **Gujarat** | 29.23 | 26.76 | 25.37 |
| **Haryana** | 29.99 | 27.90 | 29.27 |
| **Jharkhand** | 29.82 | 27.56 | 32.08 |
| **Karnataka** | 17.72 | 21.08 | 18.79 |
| **Kerala** | 35.38 | 32.83 | 32.06 |
| **Madhya Pradesh** | 28.64 | 25.76 | 27.85 |
| **Maharashtra** | 37.07 | 38.71 | 39.44 |
| **Orissa** | 31.16 | 30.52 | 30.60 |
| **Punjab** | 37.52 | 43.03 | 46.01 |
| **Rajasthan** | 29.54 | 27.73 | 29.59 |
| **Tamil Nadu** | 31.97 | 28.43 | 29.38 |
| **Uttar Pradesh** | 22.05 | 20.71 | 20.65 |
| **West Bengal** | 36.79 | 34.51 | 33.03 |
| **Arunachal Pradesh** | 46.15 | 46.56 | 47.98 |
| **Assam** | 45.03 | 46.74 | 49.40 |
| **Himachal Pradesh** | 39.28 | 38.90 | 40.51 |
| **Manipur** | 44.31 | 44.39 | 47.56 |
| **Nagaland** | 47.13 | 46.50 | 51.14 |
| **Sikkim** | 45.69 | 47.46 | 44.65 |
| **Tripura** | 48.02 | 47.38 | 55.30 |
| **Uttarakhand** | 46.84 | 48.07 | 49.46 |
| All States | **31.08** | **29.85** | **30.63** |
| Average GCS | **30.03** | **28.71** | **29.37** |
| Average SCS | **44.64** | **45.30** | **47.86** |

***Source:*** State Finances - A Study of Budgets, RBI.

**Annexure 6**

**Status of Hydroelectric Power Projects Allotted to IPPs in the State of Sikkim**

| | Project and Capacity | Starting Date | Implementing Agency | Remarks | State's Equity Contribution (%) |
|---|---|---|---|---|---|
| 1 | Teesta Stage -II 330 MW. Revised capacity 150 MW | 01.03.2006 | Him urja Infra Pvt. Ltd. | Project survey & investigation works not undertaken due to opposition from Lachen Dzumsa. The project has now been revised & approved for implementation under Chungthang GP area only whereby the capacity is reduced to 150 MW. The LoI for the revised capacity has been issued on 17.09.2012 | |
| 2 | Teesta Stage-III 1200 MW | 18.07.2005 | Teesta Urja Ltd.. | Project under construction and cumulative progress of the project till date is 94%. | 51 |
| 3 | Teesta Stage-IV 520 MW | 01.03.2006 | NHPC Ltd. | Yet to start | |
| 4 | Teesta Stage-VI 500 MW | 07.12.2005 | Lanco Energy Pvt. Ltd. | Project works suspended due to funding issues. Cumulative progress of the project till date is around 46%. | |
| 5 | Panan HEP 300 MW | 05.12.2005 | Himagiri Hydro Energy Pvt. Ltd | Only preliminary construction works started due to non-availability of Wild life Board Clearance. | |
| 6 | Rongnichu HEP 96 MW | 01.03.2006 | Madhya Bharat Power Corporation | Project under construction and cumulative progress of the project till date is 30%. | |
| 7 | Sada-Mangder HEP 71MW | 14.11.2003 | Gati Infrastructure Ltd. | Yet to start. | |
| 8 | Bhasmey HEP 51 MW | 14.11.2003 | Gati Infrastructure Ltd. | Under construction and cumulative progress of the project till date is around 28%. | |
| 9 | Rangit-II HEP 66 MW | 08.12.2005 | Sikkim Hydro Ventures Ltd. | Under construction and cumulative progress of the project till date is around 8%. | |
| 10 | Rangit-IV HEP 120 MW | 19.12.2005 | Jal Power Corporation Ltd.. | Project works suspended due to funding issues. Cumulative progress of the project till date is around 45%. | 26 |
| 11 | Dikchu HEP 96 MW | 01.03.2006 | Sneha Kinitic Power Project Ltd. | Project under advance stage of construction. Cumulative progress of the project till date is around 85%. | |

| | | | | | |
|---|---|---|---|---|---|
| **12** | Tashiding HEP 97 MW | 03.09.2008 | Shiga Energy Pvt. Ltd. | Project under construction and cumulative progress of the project till date is around 15 %. | |
| **13** | Kalez Khola-I HEP 27.5 MW | 22.03.2011 | Cosmic Infra Powergen Pvt. Ltd. | Yet to start. | |
| **14** | Kalez Khola-II HEP 54 MW | 25.04.2011 | Pentacle Power Pvt. Ltd | The CWC has undertaken the Survey & Investigation including preparation of DPR. The same is expected to be completed by end of 2015. | |
| **15** | Rahi Khong HEP 25 MW | 29.03.2012 | Sikkim Engineering Pvt. Ltd. | Project under survey & investigation. DPR is under preparation. | |
| **16** | Lachung HEP, 99 MW, North Sikkim | 18.01.2008 | Lachung Power Pvt. Ltd. | Project was terminated as milestones could not be achieved. DPR could not be prepared as survey & investigation of the Project could not be carried out even after 4 years of signing of the MOU/IA due to local resistance. Termination order of the project was challenged by the developer in the High Court of Sikkim. As per the directives of the High Court new time lines has been fixed for construction of this project. | |
| **17** | Bimkyong HEP, 99 MW, North Sikkim | 18.01.2008 | Teesta Power Pvt. Ltd. | Project was terminated as milestones could not be achieved. DPR could not be prepared as survey & investigation of the Project could not be carried out even after 4 years of signing of the MOU/IA due to local resistance. Termination order of the project was challenged by the developer in the High Court of Sikkim. As per the directives of the High Court new time lines has been fixed for construction of this project. | |
| **18** | Bop HEP, 99 MW, North Sikkim | 18.01.2008 | Chungthang Hydro Power Pvt. Ltd. | Project was terminated as milestones could not be achieved. DPR could not be prepared as survey & investigation of the Project could not be carried out even after 4 years of signing of the MOU/IA due to local resistance. Termination order of the project was challenged by the developer in the High Court of Sikkim. As per the directives of the | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | High Court new time lines has been fixed for construction of this project. | |
| **19** | Upper Rolep (Changuchu) HEP 30 MW | 22.09.2012 | Cosmic Infra Powergen Pvt. Ltd. | Yet to start. | |
| **20** | Upper Rolep (Nathangchu) HEP 30 MW | 22.09.2012 | Cosmic Infra Powergen Pvt. Ltd. | Yet to start. | |
| **21** | Rolep HEP 36 MW | Only LoI issued on 31.12.2010 | Velankani Renewable Energy Pvt. Ltd. | Yet to start. | |
| **22** | Ralang HEP 40 MW | Only LoI issued on 31.12.2010 | Velankani Renewable Energy Pvt. Ltd. | Yet to start. | |
| **23** | Chakungchu HEP 50 MW | Only LoI issued on 31.12.2010 | Velankani Renewable Energy Pvt. Ltd. | Yet to start. | |
| **24** | Suntaleytar HEP 40 MW | Only LoI issued on 23.02.2012 | Moser Baer Electric Power Limited | The CWC had undertaken the Survey & Investigation including preparation of DPR. After completion of the detailed survey & investigation works they have submitted the DPR on July 2015. | |
| **25** | Rechu-Meyongchu HEP 25 MW | Only LoI issued on Sept 2012 | Planet Infra Pojects Pvt ltd. | Pre-feasibility studies are being carried out. | |
| **26** | Bakchachu HEP 30 MW | Only LoI issued on 02.06.2012 | Samvijay Power & Allied Industries ltd. | Pre-feasibility studies are being carried out. | |
| **27** | Manul & Mangan HEP 30 MW | Only LoI issued on 22.09.2012 | Higen Power Pvt. Ltd. | Pre-feasibility studies are being carried out. | |
| **28** | Rangit-III HEP 60 MW | | NHPC Limited | Project commissioned | State has only 12% free power share and no equity in this project |
| **29** | Teesta-V HEP 510 MW | | NHPC Limited | Project commissioned | State has only 12% free power share and no equity in this project |
| **30** | Chuzachen HEP 99 MW | | Gati Infrastructure Ltd. | Commissioned on 18.06.2013 | State has only 12% free power share and no equity in this project |
| **31** | Jorethang Loop HEP 96 MW | | DANS Energy Pvt Ltd | Project is commissioned. COD has been declared w.e.f. 25.09.2015 | State has only 12% free power share and no equity in this project |

***Source:*** Energy and Power Department, Government of Sikkim

## MORE FROM THE AUTHORS

- Kausik K. Bhadra, 2015. "Inequality Effects of Fiscal Policy: Analysing the Benefit Incidence on Health Sector in India, No. 158(Dec).
- Jena, Pratap Ranjan, 2013. "Improving Public Financial Management in India: Opportunities to Move Forward", No. 123 (Apr).

## MORE IN THE SERIES

- R. Kavita Rao, Suranjali Tandon, 2016. "Revisiting the Tax Compliance problem using Prospect Theory". No. 169(Apr).
- R. Pandey, G. K. Pasricha, I. Patnaik, A. Shah (2016), Motivations for capital controls and their effectiveness. WP 168 (April)
- Ila Patnaik, Ajay Shah, Nirvikar Singh (2016), Foreign Currency Borrowing by Indian Firms: Towards a New Policy Framework, WP 167(April)

Pratap Ranjan Jena is Associate Professor, National Institute of Public Finance and Policy,

pratap.jena@nipfp.org.in

Kausik K. Bhadra is Project Associate, National Institute of Public Finance and Policy,

kaushik.bhadra@nipfp.org.in

Satadru Sikdar is Research Associate, National Institute of Public Finance and Policy

satadru.sikdar@nipfp.org.in

National Institute of Public Finance and Policy,
18/2, Satsang Vihar Marg,
Special Institutional Area (Near JNU),
New Delhi 110067
Tel. No. 26569303, 26569780, 26569784
Fax: 91-11-26852548
www.nipfp.org.in