GOVERNMENT OF SIKKIM

MEMORANDUM
TO THE
FOURTEENTH FINANCE COMMISSION

VOLUME – I

FINANCE, REVENUE & EXPENDITURE DEPARTMENT

1 Chapter I

1 Introduction

The constitution of Fourteenth Finance Commission, as mandated by the Article 280 of the Constitution, provides an opportunity to the State yet again to reaffirm its faith on the spirit of the fiscal federal system and the Constitutional process governing the country. The Commission will make recommendations regarding the sharing of Union taxes, principles governing Grants-in-aid to the States and transfer of resources to local bodies taking into consideration the terms of references (TOR) provided to it. The State of Sikkim welcomes the Fourteenth Finance Commission and expects that the Commission would design a rational transfer system while taking into consideration the needs of state like Sikkim. Despite the capacity constraints, cost disabilities, and inherent disadvantages posed by a difficult geographical terrain for service delivery constraints, the State has made determined effort to improve the living standard of its people and provide them quality services within the limited resources that was available to it. The outcomes reflect the endeavors, which have been recognized at every level. The State has been very thankful to the previous Finance Commissions for their understanding of the situation of the State and efforts to provide improved level services to the people.

Since its integration with India in 1975, Sikkim has earned the distinction of one of the progressive States with steady rise in socio-economic indicators. During the last 38 years, after joining with India, the State attempted to overcome the disadvantages posed by the geographical and topographical constraints by adopting policies that are sustainable and eco-friendly. Sikkim has carved out a special position as one of the most peaceful States, although it is surrounded by three international borders. The State government has created an enabling environment for different sections of the society, different tribal groups, women, and young people to participate in economic activities and contribute to the development of the State. Rural development has been given primary focus through several policy interventions to improve the rural livelihood and creation of income opportunities. Decentralization of power to rural local bodies has helped the people to collaborate in planning and implementing Government schemes at the grass root level.

However, the obstacles in the form of poor connectivity, fragile terrain prone to natural calamity, high cost of infrastructure building and maintenance, compressed working season due to heavy rainfall, difficulties in service delivery to a dispersed population leaving in hilly areas, and above all lack of employment opportunities put barriers in the development process. Sikkim is the only State in the country, which has not been connected by air and rail networks. The State is entirely dependent on the National Highway (NH 31 A), the only link with the rest of the country. The frequent road disruptions due to natural calamities on this single lane road creates huge problem for transportation of goods resulting in rise in prices of essential goods and high cost of living in the State. This also has adverse revenue implications for the State Government as business in the State suffers due to high transportation costs.

Limited base to generate revenue internally for a small state like Sikkim makes it dependent on Central transfers. On an average, the central transfers constitute little more than three fourths of the total State revenues. A small population, large tract of forest cover (about 84 percent of the total land area), and absence of industrial activity limits the ability of the State Government to expand the tax base. Further, the trade diversion to the neighboring State of West Bengal due to high transport cost affects the revenue collection adversely.

Unlike many other States, Government of Sikkim provides service like transport and power supply, managed by regular department. The cost of provision of these services and maintenance of assets in a difficult terrain and climate condition far outweighs the revenue generated from these. The fiscal space available to the Government considerably shrinks due to these expenditures. While lacking in industrial activity and production, the State has potential to develop sectors like tourism, floriculture, and hydroelectricity and so on. In addition to strengthening the State economy, these activities could also generate revenue for the State. However, considerable funding is required to develop these sectors and create infrastructure. Lack of adequate resources, handicaps the State Government in pursuing these objectives and create necessary infrastructure in these areas.

Disaster struck the State on 18 September 2011 in the form of a devastating earthquake with a magnitude of 6.9 in the Richter scale. The loss of life, buildings, infrastructure, and disruption of economic activities due to the earthquake created irreparable impact on Sikkim. The earthquake, the aftershocks, and the heavy seasonal rains triggered more than 300 landslides, which caused most of the fatalities and damage to infrastructure. The State still has been suffering due to the economic disruption caused by the earthquake. The financial help from the central Government for relief, rehabilitation, and rebuilding efforts was sincerely acknowledged by the State Government. The rebuilding process undertaken by the Government in the form of roads and other infrastructure and provision of earthquake houses to the affected people reflect the commitment of the State Government in proper utilization of central funds. Sikkim continues to be vulnerable to earthquake disaster due to its position in the seismically active region of the Himalayan global seismic belt. Effective disaster management assumes critical importance in this context for which the State needs to be supported.

Sikkim introduced its Panchayati Raj Act in 1993 to conform to the 73rd Constitutional Amendment. The State has also conformed to the 74th Constitutional Amendment Act by bringing in the enabling legislation, The Sikkim Municipalities Act 2007 in March 2007 for setting up of Urban Local Bodies in the state. These Acts empowered the local bodies to have the authority to levy taxes, rates, and fees. The duties cast by the constitution to the State Government namely, periodic holding of local elections, bringing out enabling legislations for the transfer of funds, functions and functionaries, constitution of State Finance Commission has been fully adhered to by the State Government. Sikkim follows a two-tier system of Panchayati Raj with the Zilla Panchayat at the district level and Gram Panchayat at the village level. At present, there are 4 Zilla Panchayats and 176 Gram Panchayats in Sikkim. On the urban local body front, there are 1 Municipal Corporation, 1 Municipal Council and 5 Nagar Panchayats in the State.

The memorandum is organized as follows. Chapter 1 is introductory in nature in which the profile of the State is presented to highlight the disadvantages and cost disabilities faced by the State. This chapter dwells on broad expectations of the State from the Fourteenth Finance Commission with regard to devolution of Central taxes and grants. Chapter 2 presents the macroeconomic feature of the State in which the growth of GSDP and the sector contributions are analyzed. Chapter 3 contains the fiscal profile of the State. Chapter 4 presents the issues relating to devotion of Central tax to the States and expectations and suggestions relating to Sikkim. Chapter 5 contains the State’s suggestions with regard to the Grants-in-aid under

Article 275. The Ecology and Environment concerns and expectations of support from the 14th Finance Commission are elaborated in Chapter 6. Chapter 7 provides the State's Suggestions relating to the Goods and Services Tax. Chapter 8 gives the issues and suggestion of the state with regard to financing Disaster Relief Expenditure. The issues relating to the local bodies in the State and the need for higher devolution of grants for the State is discussed in Chapter 9. A separate volume with detailed analysis and data on functioning and finances of the rural and urban local bodies is submitted to the Commission. Chapter 10 contains the summary of suggestions on devolution of Central taxes and grants with regard to Sikkim. A separate volume on State specific demands for up-gradation grants is submitted to the Commission.

1.1 Sikkim: Geographical Features

Small but beautiful, Sikkim is situated in the Eastern Himalayas spread below the world's third highest mountain Kangchendzonga (8585m) revered by the Sikkimese as their protective deity. The State lies between latitude 27^0 04^1 to 28^0 07^1 and longitude 88^0 00^1 to 88^0 55^1 and in the physiographic zone of Eastern Himalayas. Sikkim is separated by the Singalila range from Nepal in the west, Chola range from Tibet in the northeast and Bhutan in the southeast. The rich biodiversity of the State consists of alpine meadows, rhododendrons, orchids, butterflies, animals, fishes and birds. The lower altitudes are sub-tropical and there are about six hundred orchid varieties, sprays of cardamom fruit orchards and terraced rice fields. All over Sikkim forest and wilderness areas are inhabited by the Snow- Leopard, Ghoral**,** Thar, Yaks, wild Ass, Bharal or Blue Sheep, Shapi and the symbol of Sikkim- the endangered Red Panda. Of the national parks and sanctuaries in Sikkim, the Kanchenjunga National Park is the most renowned. It houses wildlife species like the black bear, red panda and barking deer. The Fambong Lho Wildlife Sanctuary shelters the Himalayan black bear, red panda, civet cat and many varieties of birds and butterflies. The Maenam Wildlife Sanctuary, near Rabongla in South Sikkim, shelters the red panda, leopard cat, civet cat, blood pheasant, black eagle and other animals of the temperate forest. The Singba Rhododendron Sanctuary at Yumthang (North Sikkim), the Keyongsla Alpine Sanctuary, and the Barsey Rhododendron Sanctuary (West District) house some of the most beautiful flowers that make Sikkim unique for its biodiversity.

Table 1
Sikkim: Basic Indicators

	2001	2011
Area (sq. kms.)	7096	7,096
Population	5.41 lakh	6.07 lakh
Urban Population (%)	11.1 %	24.97 %
Rural Population (%)	88.9 %	75.03
Decennial growth rate	32.98 %	12.36 %
Population density (per sq. km)	76	86

Sikkim encompasses the lesser Himalaya, Central Himalaya, and the Tethys Himalaya. It is essentially a mountainous state without much of flat land. The northern portion of the state is deeply cut into steep escarpments, and is not populated. Southern Sikkim is lower, more open, and fairly well cultivated. The many glaciers of Sikkim determine its landscape. The State has number of glaciers having an important role in the formation of its landscape and rivers. Glaciers influence Sikkim's land structure, soil quality, flow of water into the snow-fed rivers, crops, flora and fauna, and also bring about many of the ecological changes that are taking place in this land. Sikkim is a multi-ethnic state. Broadly, the population can be divided into tribal and non-tribal groups. Lepchas, Bhutias, Sherpas, Tamang, and Limboos are categorized as Scheduled Tribes and over 70% population consist of Nepalese.

1.2 Human Resource Development

Sikkim has consistently endeavored to improve the human resource as part of the development strategy of the State. Given the lack of employment avenues in the State both in primary and secondary sectors, human resource development assumes significance. At the same time, it also puts huge pressure on the Government to allocate enough funds to create infrastructure for human and social development. The focus has been to improve access to educational and health facilities. The decentralized planning process and the involvement of the Panchayati Raj Institutions in the management framework of educational and health facilities at local level has added a new dimension to the process of infrastructure building at the grassroots level.

Education in the State has received tremendous boost. With an impressive improvement of literacy rate to 82.2%, the Government of Sikkim seeks ways and means to adopt the larger mission of making Sikkim 100% literate State. However, the higher education and skill development to enable the youth to get employment in various sectors both in Sikkim and in rest of the India requires large resources. With the massive expansion of facilities at lower levels, the numbers qualifying for higher education are rising steadily. There has been growing need for expanding access to higher education, particularly in technical education in the area of IT, tourism, health, horticulture, floriculture, mass media, and management. Quality of human resources, economy, and future prospects of the State depends on quality education in these sectors. The Government has been allocating about 20 per cent of its plan resources on education that includes several incentives in both elementary and higher education. In addition to programmes for skill development, the government has also established large number of livelihood schools to empower the youth to meet the new challenges of the Indian industry and generate employment. While there is one Central University in the State, the Sikkim Manipal University has been contributing to the Government's effort in medical and engineering field. Indeed the State Government needs to be supported in all possible way to improve the educational infrastructure.

There has been substantive improvement in the basic medical health care services, which resulted in higher level of health indicators as compared to the national average. There have been reductions in the rates of infant mortality and in birth and death rates. The life expectancy in the State has also increased. Over 85 percent of the identified habitations have been provided with drinking water. While the State Government has emphasized improving the health infrastructure at rural and district level, there are only two referral hospitals, one Government and another provided by the Manipal Hospital. The State Government has schemes to support patients treated outside the State. The changing nature of health requirements and the pressure on health amenities are the major challenges in the health sector. The mountainous terrain hampers the timely and efficient delivery of health services. The management and maintenance of the already created health infrastructure and deployment of manpower requires large resources. The State government has been making efforts to upgrade health information system, institutionalize monitoring, and evaluation system, which needs support.

Table 2
Sikkim: Human Development Indicators

Literacy	68.81 % (2001)	82.20 % (2011)
Male Literacy	77.38 % (2001)	87.29 % (2011)
Female Literacy	59.63 % (2001)	76.43 % (2011)
Crude Birth Rate	19.9 (2005-06)	17.6 (2010-11)
Maternal Mortality Ratio	N.A.	25 (2011-12)
Infant Mortality Rate	30 (2005-06)	26 (2010-11)
Total Fertility Rate	2.75 (2005-06)	2.0 (2010-11)

1.3 Issues to be considered by the 14th Finance Commission

Normative Assessment should not Overlook Cost Disabilities and Special Circumstances

1. Under the provision of the Article 275 of the Constitution, the Finance Commission has to recommend the principles and amount of grants-in-aid for the states, which are in need of assistance. The assessment of the needs of the States depends upon several factors. While establishing normative principles have remained avowed objective of the Finance commissions in the design of the transfer framework, the norms should be calibrated keeping the special features and requirements of small States like Sikkim.

2. While working out the principles governing the interstate distribution of central taxes and determining the quantum of grants to be devolved to the states, Sikkim should not be treated ‘at par’ with other States in the Indian Union. Sikkim is one of the smallest States in India having difficult geographic characteristics and three international boundaries. From a strategic and national security point of view, the State occupies an important position. The State suffers from lack of proper connectivity with rest of India. Sikkim is the only State in the country not connected by air or rail link. The only lifeline for the State is the National Highway 31 A, which is disrupted due to frequent natural calamities. Given the fact that central resources constitute major source of revenue for the State, a special weightage may be worked out for the State.

3. The high cost of living in the State and cost disabilities for the Government to provide public services due to mountainous terrain of the State should be considered while

determining the grants. The small revenue base of the State limits the ability of the State to provide adequate public services to the people.

4. Although the State has been bestowed with nature's bounties, adequate flow of funds is required to develop them to convert them into source revenue, particularly in tourism sector. The Finance Commission should pay heed to the State's demand for grants to build infrastructure to tap these potentialities and maintain them.

Assessment of the State Finances should not Omit Genuine Expenditures

5. Unlike many other States, the transport and power sectors are managed by the government in Sikkim. Indeed providing power and transport facility to people in sparsely populated far-flung areas in the hills increases the cost tremendously. While the State government has facilitated the private sectors to develop the hydroelectricity sector in the State, which is going to improve the power generation in the country, the provision of electricity to the people of Sikkim remains costly for the State. The receipt from these services and related expenditure forms part of the internal revenue and non-plan expenditure in the consolidated fund of the State. The past two Finance Commissions excluded these two sectors in assessing the requirements of the State. Because of this, the net operation deficit of these sectors has been kept outside the purview of the consideration for inclusion in the non-plan development expenditure. Excluding the net deficit of departmentally managed transport and power sectors does not provide an accurate assessment of requirement of the State.
6. Salary expenditure in another area in which the Assessment by the Commission should consider the actual salary payments of the State Government over the years while projecting during the award period. The 12th FC recommendation limited the salary expenditure of the States to 35 per cent of revenue expenditure net of interest payments and pensions. The 13the FC also recognized this normative ceiling while factoring in the impact of pay revision on salary payments. The State of Sikkim is of the opinion that the 14th FC should assess the non-plan revenue expenditure by taking into account the actual salary payments of the State. For a State like Sikkim with limited resource base, a

normative assessment where a lower ceiling is put on salary payments creates huge problem to meet the non-plan expenditure.

Ecology and Environment Protection: Sikkim has a Special Position in the Country

7. According to the TOR the 14^{th} Finance Commission is required to consider "the need to balance management of ecology, environment, and climate change consistent with sustainable economic development". This was also part of TOR of Twelfth Finance commission. Concerted effort by the State Government has resulted in rise in the forest cover in the State. Sikkim gives utmost emphasis to environment sustainability and protecting rare Himalayan flora and fauna. Creation of sanctuaries, green parks, herbal garden, biodiversity parks, and butterfly parks are instances in this regard. The state has adopted Green mission as the State policy and encouraged the farmers to practice the organic farming. While the State government has been engaged in protecting the Himalayan ecology in the State, there is limit to which the state can do given the size of its resources. Protecting the environment from degradation helps the nation in a big way. Sikkim should be supported for environment protection, which will be beneficial to whole of the nation in long run.

Conditions on Use of Grants Constricts Utilization

8. The conditions laid down by the earlier Finance Commissions for release of grants are found to be stringent. While the government of Sikkim made all efforts to abide by the conditionalities, flexibility should be built into the system to enable the State Government to utilize the funds earmarked for developmental activities.

Review of the State Finances and fiscal Consolidation Roadmap

9. The TOR to the Fourteenth Finance Commission calls upon the Commission to review the state of the finances and the fiscal consolidation roadmap recommended by the Thirteenth Finance Commission. It also requires the Commission to suggest measures to maintain a stable and sustainable fiscal environment consistent with equitable growth. While doing so the Commission should consider and recommend incentives and disincentives for

States for observing the obligations laid down in the Fiscal Responsibility Budget Management Acts.

10. Post FRBM experience in the country reveals that unlike the central Government the State Governments have shown more prudence in managing their finances and adhered to the FRBM targets. Sikkim has abided by the fiscal path drawn by the Thirteenth Finance Commission and achieved the fiscal targets while improving the growth rate. It is important, in this context to point out that the strict adherence to quantitative targets of fiscal deficit has limited the ability of the State Government to provide adequately for maintenance expenditure and expand the capital expenditure to create infrastructure. For a hilly state like Sikkim, deterioration of infrastructure and capital assets has been very high. The State is committed to follow the fiscal reform path to be recommended by the Fourteenth Finance Commission and to bring in any suggested changes in the FRBM Act and MTFP. However, the State is of the opinion that the Commission should relook at the strict fiscal deficit target while suggesting any fiscal restructuring framework. The strict enforcement of fiscal deficit targets by the central Government in determining the borrowing limit restricts the capital expenditure in the State. In addition, we also like to urge that the Finance to provide incentives to the States base on their fiscal performance.

Public Expenditure Management

11. As the 14th FC is going to review the present Public Expenditure Management systems including the budgeting and accounting practices, the State believes that it would help establishing a sound public expenditure management system in the States. The experience with the 13th FC recommendations shows that incentive grants linked with outcomes to improve quality of expenditure without looking at the institutional aspects was very effective. The key features of improving public expenditure management are bringing in multi-year expenditure perspective in planning, establishing output outcome budgeting, strengthening accounting and reporting system, modernizing internal control and audit system, and improving transparency and efficiency in Government operations such as procurement. States like Sikkim do not have resources and expertise to modernizing their public expenditure management system. The 14th Finance Commission should support the

State Government by recommending for technical assistance in the form of grant for comprehensive up gradation of public expenditure management system.

Maintenance Expenditure

12. The 14th FC is required to consider expenditure on non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by March 31, 2015. Due to emphasis on social sector in the plan process, a large portion of plan expenditure has become committed in nature. Particularly in the case of education and health sectors, the salary expenditure constitutes a sizable share of plan expenditure. As the ToR specifies, the Commission is required to consider only the non-salary part of the plan schemes. For a State like Sikkim, where maintaining the existing level of services is huge problem due to limited resources, it will not be fair to leave out the salary component of maintenance expenditure. The State, therefore, urges the Commission to consider the total committed expenditure of completed plan schemes.

13. The ToR asks the Commission to consider plan schemes to be completed by 31 March 2015. However, the 12th Plan is going end on March 31, 2017. Thus if the Commission considers plan schemes only up to 31 march 2015, then it will only capture the committed liability of the state government partially. The State, therefore, urges the Commission to extend this timeline and consider liability because of plan schemes to be completed by March 31, 2017.

Insulating the Pricing of Public Utility Services

14. The 14th FC is required to consider the need for insulating the pricing of public utility service like drinking water, irrigation, power, and public transport from policy fluctuation through statutory provision. Sikkim has already constituted electricity regulatory commissions to regulate the electricity tariff in the State. The State Cabinet approved the proposal seeking approval for revision of tariff for consumption of electricity as per the order of the Sikkim State Electricity Regulatory Commission in 2013. However, insulating the pricing public utilities provided by the state, such as, education, drinking

water, roads, sewage, based on the principle of cost recovery may not possible in Sikkim given the cost involved in providing public services in a difficult hilly terrain and to a small and dispersed population. The State has the responsibility of providing basic services to its people. The pricing of public goods based on commercial principles is not feasible in a State like Sikkim. Besides, the State Government provides electricity and transport services managed by regular Government departments. It will not be possible for the people in Sikkim to pay the full cost of provision of these services. The State Government, therefore, urges the Commission to consider the difficult situation in Sikkim and not press for insulating the pricing of public utilities based on commercial principles.

Expanding Local Bodies and Gram Swaraj Yojana

15. Expanding local governments in the form of Panchayati Raj Institutions and Urban local Bodies in Sikkim has created opportunities for effective local planning and better service delivery. Given the terrain and scope for development prospects at local levels, the State government has brought the 'Gram Swaraj Yojana' to provide the local Governments space to contribute to development activities. The State Government has made remarkable progress in decentralization of power to local bodies. The State Government has adopted a strategy that mixes power decentralization, peoples' involvement and benefit centric activities. The StateGovernment needs to be supported by the Fourteenth Finance commission in its effort to strengthen the 'Gram Swaraj Yojana'.

The Concerns Regarding the Use of 1971 Population in the Devolution Formula

16. Sikkim has special concerns regarding the use of 1971 population as a factor in the devolution formula by successive Finance Commissions. The Finance Commission is required to use the population figures of 1971, as per the TOR, in all cases where population is regarded as a factor for determination of devolution of funds. The State is aware of the rationale for adopting population in the devolution formula as expenditure needs of the States. However, the State is of the opinion that the use of 1971 population figure for determining the devolution is not justified, particularly for Sikkim. The State

suggests that the Commission should use the population figure derived from the latest census in the design of devolution formula. This will help achieving the objective, for which the population factors is used in the devolution formula.

17. Sikkim had not joined the Indian union at the time of 1971 census survey. After joining the Indian Union in 1975, Sikkim's population has grown at a higher rate than the average growth rate of the country as a whole due to the influx of people from other States. The expansion of population in a short period was abnormally high and the 1981 Census reveals that the growth of population over the decade was over 50 per cent (Table 3). Although after 1981, population growth in Sikkim reduced, it remained higher than that of the all India average in next two census surveys. The State Government undertook family planning measures vigorously and improved health infrastructure in the State that helped to reduce the growth rate considerably by 2001. In 2011 census, the decadal growth rate in Sikkim was lower than that of the all India average. Thus adopting 1971 population as an indicator for determining the devolution does not do justice for Sikkim given its history and population trend.

Table 3
Decennial Growth of Population of Sikkim & All – India

Year	Population (In Thousands)	Decennial growth (%)	
		Sikkim	All India
1941	121	10.67	14.22
1951	138	13.34	13.31
1961	162	17.76	21.64
1971	210	29.38	24.80
1981	316	50.77	24.66
1991	406	28.47	23.86
2001	540	32.98	21.34
2011	607	12.36	17.70

18. The Terms of Reference (TOR) for the Fourteenth Finance Commission, however, provides a window of opportunity with regard to use of population parameter. The TOR states that 'In making its recommendations on various matters, the Commission shall generally take the base of population figures as of 1971 in all cases where population is a

factor for determination of devolution of taxes and duties and grants-in-aid. However, the Commission may also take into account the demographic changes that have taken place subsequent to 1971. The Commission may consider using the population figures of 2011 census while designing the devolution instead of the four decades old population figure of 1971 census.

Concluding Remarks

Despite several disadvantages and inherent problems, Sikkim strived to establish itself as one of the most progressive States in the Indian Union. Within its limited resources, the State has been creating infrastructure for social and human development. However, lack of adequate resources limits the ability of the State to exploit its potential to improve the resource base. Being a small State and limited resource base, its dependence on Central resources to undertake developmental activities is large. The State considers the award of the Finance Commissions in the form of tax shares and grants are the most transparent in our fiscal federal structure. The basic fabric of the fiscal federalism in India depends heavily on enabling the disadvantaged States to provide standard public services to their people and improve the economic growth. The State is very hopeful that the Fourteenth Finance Commission would consider the case of Sikkim based on its needs and performance.

2 Chapter II

2.1 Macroeconomic Outlook

The economic growth in Sikkim has picked up in recent years. During the period 2004-05 to 2011-12, the GSDP at constant prices grew at the rate of about 19 per cent. The per capita income also showed about 18 per cent growth rate. The impressive growth of GSDP in recent years was mostly due to higher contributions from power, manufacturing, public administration and banking sectors. The Planning Commission (State Plan Division) while analysing the growth process of the State during the Eleventh Plan indicated that commissioning of power projects, strengthening of small-scale industries and pharmaceutical industries helped the growth process. During the Eleventh Plan period, the GSDP grew at high rate of 22 per cent. The major contribution from power and manufacturing sectors in the recent spurt in growth rate of the State economy needs to be analysed carefully to understand their impact on State revenues.

The year on year growth rate of GSDP and its components presented in Table 4 provides a much clearer picture of the pattern of the growth process in recent years. While growth of national economy reduced to 6.7 per cent in 2008-09, the Sikkimese economy posted a growth rate of 16.38 per cent and 73.61 per cent in 2009-10. The growth rate since then has come down to about 8 per cent in next two years. The spikes in 2008-9 and 2009-10 and 8 per cent growth rate during next two years on such high base influenced the trend growth rate during the period from 2004-05 to 2011-12. Annual growth rates of the components of the GSDP point out that the growth in manufacturing and electricity sectors drove the GSDP growth rate to these heights. The primary sector, mainly the agriculture, grew at a marginally higher rate in these two years before crashing down in 2010-11. The service sector posted a high growth rate of 24.52 per cent in 2009-10, after which it came down to 10.5 per cent. In the service sector, the banking and insurance-posted higher growth rate starting from 2009-10 and public administration posted large growth rate in 2009-10. While both the secondary and service sector improved their growth performance, the major push for high growth came from electricity and manufacturing sectors.

Table 4
Annual Growth of GSDP at Constant Prices

Percent

Sectors	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Agriculture	4.67	**0.22**	4.71	5.40	4.75	2.95	4.79
Forestry & logging	-0.04	-1.08	-2.40	**-5**.27	**-0.74**	1.06	1.17
Fishing	7.14	6.67	**0.00**	**0.00**	5.00	7.14	10.00
Agriculture and Allied	**4.13**	**0.09**	**3.91**	**4.29**	**4.23**	**2.79**	**4.49**
Mining & quarrying	4.34	3.49	6.44	**63.25**	7.65	10.79	12.47
Primary Sector	**4.13**	**0.11**	**3.93**	**4.69**	**4.27**	**2.88**	**4.58**
Manufacturing	2.34	7.80	14.66	9.00	**1251.07**	2.19	4.00
Manu-Registered	2.77	6.68	14.97	13.06	**2408.25**	2.18	3.99
Manu-Unregistered	1.89	8.93	**14.35**	4.93	3.04	2.46	4.48
Construction	13.37	3.73	3.48	**-3.33**	10.79	11.98	12.59
Electricity, gas and Water supply	12.96	18.08	26.72	**141.78**	83.81	13.66	8.78
Secondary Sector	**11.81**	**7.07**	**9.93**	**34.74**	**173.47**	**7.43**	**7.15**
Industry	**11.77**	**7.06**	**9.92**	**34.85**	**172.75**	**7.43**	**7.16**
Transport, storage & communication	**11.52**	**10.94**	**11.96**	**13.93**	**14.36**	**15.08**	**18.44**
Railways	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transport by other means	7.37	4.28	3.11	6.27	**23.17**	7.45	7.79
Storage	2.38	18.34	10.28	8.41	9.98	12.16	12.94
Communication	19.78	22.35	25.08	23.37	5.17	24.50	29.83
Trade, hotels and restaurants	2.32	1.32	5.08	4.89	3.81	2.38	4.04
Banking & Insurance	25.48	28.76	21.11	5.03	24.10	29.52	29.52
Real estate	3.13	3.81	16.42	11.10	2.47	5.43	5.46
Public administration	13.83	8.61	2.59	11.33	43.77	6.70	7.89
Other services	12.70	5.28	3.71	8.22	29.14	13.22	9.33
Tertiary Sector	**10.71**	**7.36**	**7.51**	**9.57**	**24.52**	**10.50**	**10.45**
Services	**10.71**	**7.36**	**7.51**	**9.57**	**24.52**	**10.50**	**10.45**
GSDP	**9.79**	**5.99**	**7.63**	**16.38**	**73.61**	**8.14**	**8.16**
Per Capita Income	**8.45**	**4.53**	**6.53**	**14.81**	**71.59**	**6.90**	**6.93**

Source: State Income Unit, DESM&E**.** Government of Sikkim

There were certain changes in the estimation of sector contributions to the GSDP, particularly the manufacturing sector that resulted in upward revision of the GSDP. The estimates of Annual Survey of Industries (ASI) prepared by NSSO, FOD, Central Ministry and compiled by CSO was adopted by the state government from the year 2009-10 onwards with regard to the manufacturing sector. This was is the time when the several pharmaceutical industries started production in their units in Sikkim. In the ASI estimates, the output that went into the contribution of these industries mainly comprises of ex-factory value of all products and by-products including semi-finished goods manufactured, inputs like fuels, lubricants, electricity, water etc., and material consumed like raw materials components, chemicals, packing materials and stores actually used for the production process. The change in estimation methodology resulted in capturing all the production of the manufacturing sectors, mainly pharmaceutical, that added to the GSDP number of the State.

In the case of electricity, its share started rising after operationalization of Teesta hydroelectric project of NHPC at Singtam. The estimate of Central Non Departmental Commercial Undertakings (**NDCU)** based on the production approach, provides the contribution from the Electricity Sector. The estimates of Gross Value added (GVA) of electricity producing companies, NHPC in Sikkim, is based on the analysis of the annual accounts of NHPC and the quantum of electricity allocated to Sikkim based on the electricity generation data. Thus with the starting of production of electricity by the NHPC unit, the sectoral contribution has increased. While the GSDP of Sikkim increased to the extent of total power generated by the NHPC units, the State gets only 12 per cent of the power generated as free power. The Construction costs in several other hydroelectricity constructed by private companies under IPPs also contributed to the growth rate in GSDP. However, these are yet to become functional. Under the power sharing arrangement, the State will get 12 per cent of total power generated by the units as free power.

The volume of GSDP in respect of public administration and other services sector also shows increase due to revision of pay and payment of arrear to the government employee from the year 2009-10 onwards.

While Sikkim’s economy was a service sector driven economy, since 2009-10 the relative share of secondary sector has increased mostly propelled by manufacturing, construction and power sectors. The inter-sectoral composition of GSDP since 2004-05 shows that the service sector, which accounted for half of the State GSDP until 2008-09, has declined to about 38 per cent in 2011-12. At the same time, the relative share of the secondary sector has grown to about 54 per cent in 2011-12 (Table 5). The share of primary sector has been declining over the years and the share of mining and quarrying activities remained very small.

Table 5

Sectoral Contribution of GSDP of Sikkim at Constant Prices

Percent

Sectors	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Agriculture	16.39	15.62	14.77	14.37	13.02	7.85	7.48	7.24
Forestry & logging	2.15	1.96	1.83	1.66	1.35	0.77	0.72	0.67
Fishing	0.04	0.04	0.04	0.04	0.04	0.02	0.02	0.02
Agriculture and Allied	**18.59**	**17.63**	**16.65**	**16.07**	**14.40**	**8.65**	**8.22**	**7.94**
Mining & quarrying	0.12	0.11	0.11	0.11	0.15	0.10	0.10	0.10
Primary Sector	**18.71**	**17.74**	**16.76**	**16.18**	**14.56**	**8.74**	**8.32**	**8.04**
Manufacturing	3.86	3.60	3.66	3.90	3.65	28.44	26.88	25.84
Manu-Registered	1.94	1.82	1.83	1.95	1.90	27.40	25.89	24.89
Manu-Unregistered	1.92	1.79	1.84	1.95	1.76	1.04	0.99	0.96
Construction	19.23	19.86	19.44	18.69	15.52	9.91	10.26	10.68
Electricity, gas and Water supply	5.62	5.78	6.44	7.59	15.76	16.69	17.54	17.64
Secondary Sector	**28.72**	**29.25**	**29.54**	**30.18**	**34.94**	**55.03**	**54.67**	**54.16**
Industry	**28.84**	**29.36**	**29.65**	**30.29**	**35.09**	**55.13**	**54.77**	**54.26**
Transport, storage & communication	**4.12**	**4.18**	**4.38**	**4.55**	**4.46**	**2.94**	**3.12**	**3.42**
Railways	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transport by other means	2.69	2.63	2.59	2.48	2.26	1.61	1.60	1.59
Storage	0.04	0.03	0.04	0.04	0.04	0.02	0.02	0.02
Communication	1.39	1.52	1.75	2.03	2.16	1.31	1.50	1.81
Trade, hotels and restaurants	5.19	4.84	4.62	4.51	4.07	2.43	2.30	2.22
Banking & Insurance	2.58	2.95	3.59	4.04	3.64	2.60	3.12	3.74
Real estate	9.99	9.38	9.19	9.94	9.49	5.60	5.46	5.32
Public administration	14.60	15.14	15.52	14.79	14.15	11.72	11.56	11.53
Other services	16.09	16.52	16.41	15.81	14.70	10.93	11.45	11.57
Tertiary Sector	**52.58**	**53.01**	**53.70**	**53.64**	**50.51**	**36.22**	**37.01**	**37.80**

Source: State Income Unit, DESM&E, Government of Sikkim

3 Chapter III

3.1 Fiscal Profile of Sikkim

The fiscal trend since 2004-05 presented in Table 6 shows that there has been considerable improvement in the fiscal situation in recent years. The State has been maintaining surplus in the revenue account, which has increased considerably in recent years. The fiscal deficit has been reduced to the level prescribed by the Thirteenth Finance Commission (TFC). The introduction of FRBM Act in 2010-11 provided the rule based fiscal management with defined deficit and debt targets. The post FRBM experience indicates considerable improvement in fiscal situation and containment of fiscal deficit and rise in revenue surplus. The surplus in the revenue account, which was at 11.7 per cent to GSDP in 2008-09, increased to 12.9 per cent in 2012-13, revised estimates. The budget estimates for 2013-14 assumes a revenue account surplus of 9.7 per cent to GSDP. The fiscal deficit has been reduced considerably from 7.2 per cent relative to GSDP in 2008-09 to about 2 per cent in 2011-12 and is projected to remain limited to 3 per cent in the budget estimates for the year 2013-14. The fiscal consolidation will be instrumental for growth in the future years by creating fiscal space for the State Government to allocate resources to the priority areas.

3.2 Fiscal Responsibility and Budget Management Act 2010-11

The Government of Sikkim has enacted fiscal responsibility and budget management act (FRBM) in the fiscal year 2010-11. Introduction of Fiscal Responsibility and Budget Management (FRBM) Act and formulation of a medium term fiscal plan (MTFP) in the state is aimed at designing and implementing a rule based fiscal management system to ensure fiscal stability and sustainability while ensuring efficient provision of public services. The Act envisages a fiscal adjustment path recommended by the Thirteenth Finance Commission (TFC) for Sikkim limiting fiscal deficit at the targeted level to ensure sustainable level of debt, and improving transparency in a medium term framework during 2010-15. The fiscal trend indicates that the State Government complied with the TFC recommendations and its own FRBM targets. The TFC in their fiscal consolidation path for Sikkim has targeted the fiscal deficit to decline and recommended it to be at the level of 3.5 per cent to GSDP in 2011-12 and 2012-13 and further reduce to 3 per cent in 2013-14 and 2014-15.

Table 6

Fiscal Profile of Sikkim: An Overview

(% to GSDP)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (RE)	2013-14 (BE)
Revenues	**58.1**	**54.6**	**55.7**	**59.8**	**54.4**	**38.2**	**30.1**	**34.2**	**43.5**	**41.0**
Own Revenue	13.1	13.1	16.0	16.4	15.2	10.9	7.3	6.4	7.1	7.2
Own Tax Revenues	**6.7**	**7.4**	**8.0**	**7.9**	**6.2**	**3.6**	**3.9**	**3.5**	**4.0**	**4.1**
Own Non-Tax Revenues	**6.4**	**5.7**	**7.9**	**8.5**	**9.1**	**7.3**	**3.4**	**2.9**	**3.2**	**3.1**
Central Transfers	**45.0**	**41.5**	**39.7**	**43.4**	**39.2**	**27.3**	**22.8**	**27.8**	**36.4**	**33.8**
Tax Devolution	6.2	9.1	10.3	13.8	11.3	6.1	7.3	7.3	7.5	8.0
Grants	38.8	32.4	29.4	29.6	28.0	21.2	15.5	20.5	28.9	25.8
Revenue Expenditure	**48.4**	**44.7**	**45.1**	**45.8**	**42.8**	**29.8**	**28.2**	**28.9**	**30.6**	**31.2**
Interest Payment	5.7	5.1	5.3	4.7	4.8	2.5	2.6	2.3	2.2	2.0
Pension	1.8	2.1	2.3	2.0	1.8	2.1	2.2	2.1	2.6	2.7
Capital Expenditure	**20.4**	**17.3**	**15.1**	**16.6**	**18.9**	**11.2**	**6.4**	**7.9**	**16.1**	**12.7**
Capital Outlay	20.3	17.3	15.1	16.6	18.9	10.6	6.3	7.3	16.0	12.6
Net Lending	0.1	0.0	0.0	0.0	0.0	0.6	0.1	0.6	0.0	0.1
Revenue Deficit	**-9.7**	**-9.9**	**-10.6**	**-14.0**	**-11.7**	**-8.4**	**-2.0**	**-5.3**	**-12.9**	**-9.7**
Fiscal Deficit	**10.7**	**7.5**	**4.5**	**2.6**	**7.2**	**2.8**	**4.4**	**2.1**	**3.2**	**3.0**
Primary Deficit	**5.0**	**2.3**	**-0.9**	**-2.1**	**2.5**	**0.2**	**1.8**	**-0.1**	**1.1**	**1.0**
Outstanding Debt	**61.9**	**60.3**	**61.2**	**62.3**	**59.9**	**37.4**	**34.0**	**30.4**	**29.9**	**29.9**

Source (Basic Data): Finance Accounts and State Budget 2013-14
Note: The GSDP figures are from State Income Unit, DESM&E of Government of Sikkim
Negative sign indicates revenue surplus

The fiscal management principles enshrined in the Act call upon the state government to ensure transparency in setting and implementation of fiscal policy, stability, and predictability in policymaking process, improve the management of public finance and ensure intergenerational fairness, and improve efficiency in the design and implementation of fiscal policy related to management of assets and liabilities.

Enacting the FRBM Act was important for Sikkim to ensure fiscal stability and gain from the state specific grants recommended by the TFC. For Sikkim, the state-specific grants and the performance incentive grants, assume significance as regards their quantum and conditionalities. The basic necessary condition to avail these grants is the enactment of FRBM and adherence to the fiscal adjustment path recommend by the TFC for Sikkim. As per TFC's projection, the State did not qualify for Non Plan Revenue Deficit grant (NPRD) and non-availability of NPRD in the last two years of 12th FC's award period appeared to have adversely affected the fiscal balance of the state. It was thus important for the government of Sikkim to make every effort to avail these conditional grants to improve the fiscal position of the State. It needs to be noted here that, while, the State has not received the NPRD, the TFC, in recognition of the effort put by the State in achieving considerable progress in fiscal situation and meeting the challenges like cost disabilities recommended a performance grant as an incentive to continue on its path of fiscal prudence. Enactment of FRBM also enabled the State to avail the benefits of debt consolidation as per the terms and conditions recommended by the 12th Finance commission.

The fiscal policy in the context of FRBM broadly focuses on critical areas like augmentation of revenues, rationalization of expenditure, debt restructuring, and management, and above all strict enforcement of fiscal discipline and accountability. Indeed the fiscal management in terms of expenditure rationalization and revenue generation measures has helped in achieving perceptible improvement in fiscal situation of the State in the past, which has been recognized by the TFC in their report while recommending performance incentive grant for Sikkim.

3.3 Revenue Mobilization

The central transfers that include share in central taxes and grants constitute the major source of revenue for the State Government. On an average the central transfers constitutes little more than there fourth of the total State revenues. The central transfer was 39.2 per cent in 2008-09 relative to GSDP, which declined to 36.4 per cent in 2012-13 (RE), and is budgeted at 33.8 per cent in 2013-14. Own tax and own non–tax revenue are expected to be 4.1 and 3.1 (net of lottery expenditure) percent of GSDP respectively as per the BE of 2013-14. While own revenue to GSDP ratio has declined since 2008-09, the growth of own tax receipt remains healthy (Table 6). The decline in own non-tax revenue related to the GSDP has contributed more to the fall in own revenue to GSDP ratio.

The buoyancy coefficients for the State taxes during the period 2004-05 to 2013-14 given in Table 7 reveal that the growth of taxes has fallen behind the growth of the GSDP. The buoyancy coefficient explains the percentage growth of tax revenue in response to one percentage growth in GSDP. This relationship assumes that the State GSDP is the proxy for tax base. The pattern of growth in the State suggests that the sectors growing rapidly and contributing to growth process have not contributed to tax revenues to the same extent. Particularly the generation of electricity by the hydroelectric sector and production of pharmaceutical industries though contribute to the growth numbers; their revenue impact was not high.

Table 7
Buoyancy of Taxes: 2004-05 to 2012-13

Own Tax Revenues	0.546
Sales Tax	0.687
State Excise Duties	0.672
Motor Vehicle Tax	0.773
Stamp Duty and Registration Fees	0.763
Other Taxes	1.501

Source (Basic Data): Finance Accounts and State Budget 2012-13

In the manufacturing sector the pharmaceutical industries started their production mostly from 2009-10. However, the growth in tax collection did not rise commensurate with the rise in production and consequent rise in GSDP. The pharmaceutical units transfer most of their products as stock transfer to the neighboring State of West Bengal as they have not established warehouses in Sikkim (Table 8). A very small share of total production is sold to outsiders, which attracts CST. In fact, a higher growth was seen in the CST receipts. A small State like Sikkim cannot consume the medicines increasingly. Thus while there is growth in manufacturing sector, it does not result in higher taxes for the State. The tax impact of this sector can at best be indirect, through employment and increasing consumption. The production, which adds to GSDP, does not influence the sales tax/VAT directly due to stock transfer.

Secondly, the production of electricity by the NHPC and the construction cost of other hydroelectric units being built by private companies under IPP arrangement added to the growth of State GSDP. The performance of this sector is computed based on value of the unit of power generated. With commissioning of 510 Mw Teesta (Stage V) power project in April 2008, the income of this section grew rapidly. However, as the sale of electricity is not 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 per cent 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. However, factors like T&D loss and price situation depending upon the market will determine the income from this source. In addition, the State has to incur expenditure in the form of fees to the Eastern grid for managing this power distribution. Thus, two major sources of rise in GSDP automatically do not contribute to growth of taxes. What is expected is that with adequate power availability and employment created in manufacturing sector would provide impetus to rise in trade and business activities in future, which will have a favorable impact on Government revenue.

Table 8
Stock Transfers outside Sikkim

Rs. In Lakh

	2010-11	**2011-12**	**2012-13**
Disposal/sale of output in the manner which are taxable (*local sales and inter-state sales*)	17,686.29	22,248.88	23,713.45
Disposal/sale of output in the manner which are non-taxable (*Stock transfer and export sales*)	259,061.20	398,958.19	444,417.81

The construction sector, mainly due to construction activities in hydro-electricity projects has also witnessed higher growth rate (Chapter-2, Table 4). The expenditure incurred in construction such as purchase of materials, machinery, consumables (fuel), wages, etc. are the measuring units while estimating its contribution to the State GSDP. Tax can be levied only on the value of construction material transferred during execution of work by the contractors.

The local purchases of materials and transferred to the contractors for construction are levied with VAT. However, high value machineries and equipments are purchased outside the State by the companies themselves, which are awarded with the projects and used by the contractors without any cost to them. This cannot be taxed under the works contract. Thus, a major portion of purchases remains outside the tax net.

3.4 Own Revenue Trend

Own revenue receipts grew at healthy rate during the period 2004-05 to 2013-14 (BE), the aggregate growth rate being 14.2 per cent (Table 9). The growth of sales tax was about 18 percent during the period. The State excise duty, motor vehicle tax, and stamps and registration duty also show high growth rate. The taxes aggregated as other taxes, that include land revenue**,** and entertainment tax etc., show higher growth rate except that in 2011-12. However, the share of these taxes was very small in total own tax revenue of the State. The year-on-year growth of individual taxes, however, shows volatility. The sales tax grew at a negative rate in 2011-12. Other taxes like state excise, motor vehicle tax, stamps and registration also grew at a negative rate in 2012-13. The impact of certain structural problems and policy decisions regarding tax rates caused these negative growth in 2011-12 and 2012-13.

Table 9
Growth rate of Own Revenue Components

Percent

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (RE)	2013-14 (B.E)	Growth (04-05 to 13-14
Own Tax Revenues	25.9	17.6	14.2	0.7	12.3	25.0	5.1	26.0	15.0	14.2
Sales Tax	17.6	31.8	8.9	24.4	19.7	17.9	-13.0	64.3	10.3	18.0
State Excise Duties	0.8	1.1	13.9	22.5	23.3	23.3	36.3	-1.3	14.7	16.8
Motor Vehicle Tax	30.9	40.2	4.6	11.6	13.5	35.3	55.3	-9.4	12.0	20.3
Stamp Duty and Registration Fees	59.2	10.9	69.0	2.2	2.9	27.3	45.0	-10.9	7.4	20.3
Other Taxes	41.6	210.7	94.5	29.3	25.5	52.5	-1.1	0.6	36.9	43.8

The sales tax being the major source of own tax revenue, its negative growth in 2011-12 needs an explanation. The causes of downfall in collection of revenue during 2011-12 are broadly two types. At macro level, the global recession was responsible for general decline in demand and supply of goods and services. At micro level, the devastating earthquake that occurred on 18 September 2011 caused downfall in sales tax collection from the hydropower projects, as this was the worst hit sector. During 2011, six mega projects were under construction. The project construction generates revenue in the form of VAT deducted at source from payment made to the works contractors. Although, State VAT does not capture the full amount of works contract as alluded above, these constructions remained a good source for VAT. The construction work stopped totally after the calamity. Second, the consumer market of durable goods also faced a setback during the last two quarters of year owing to the calamity. The difference in collection of revenue from the under construction hydropower projects in the year before and after the calamity is given in Table 10.

Table 10
Impact of Earthquake on Sales Tax

(Rs. In Lakh)

	2010-11	**2011-12**	**2012-13**
Amount received as TDS from hydro power developers	1874.95	845.34	1274.35
Tax paid by dealers involved in sale of automobiles	1523.54	723.19	1209.12

The negative growth in State excise in 2012-13 (RE) was due to a large base in 2011-12. The jump is growth rate of excise duty from 23 per cent in 2010-11 to 36 per cent in 2011-12 was due to change in the pattern of taxation from absolute value to percentage value as per the excise tax policy in 2011. Although, the RE figures shows a decline from Rs.66 croers in 2011-12 to Rs.60 crores in 2012-13, the actual tax collection seems to have been touched Rs.70.50 crores. Thus the actual figures for state excise, which will come along with the budget 2014-15, will be more than that of the previous year. In the case of motor vehicle tax, the rate of tax was increased in 2011 for which the collection was enhanced. However, in a change in tax policy the increase in tax rate was rolled back, for which the actual collection was reduced. Increase in stamps and registration in 2011-12 was due to increase in land transaction, land registration, and mutation. Leasing of land by Industries Department to pharmaceutical companies, hotels, and mortgaging of land was also high during this year. This resulted in a one-time high collection, which could not be sustained in 2012-13.

Composition of own tax revenue is given in Table 11. The sales tax/VAT and State excise are two major sources of own tax revenue for the State. The relative share of the VAT was at 42.3

per cent in 2011-12, the last year for which audited figures are available. It is set to rise to 55 and 53 per cent respectively in 2012-13 (RE) and 2013-14 (BE). The relative share of State excise in total own revenue has remained at about 25 per cent leaving the year 2011-12 when its share jumped to 32.8 per cent. During the same time, the motor vehicle tax has evolved as one of the major state taxes. The trend growth rates of individual tax components explain the change in tax structure in the state. The sales tax, state excise, and motor vehicle tax have shown high growth rates during this period.

Table 11
Composition of Own Tax Revenue

(Per cent)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (RE)	2013-14 (BE)	Growth (04-05 to 13-14)
Own Tax Revenues	100	100	100	100	100	100	100	100	100	100	14.2
Sales Tax	41.2	38.5	43.1	41.1	50.8	54.1	51.1	42.3	55.1	52.9	18.0
State Excise Duties	28.0	22.4	19.2	19.2	23.3	25.6	25.3	32.8	25.7	25.6	16.8
Motor Vehicle Tax	2.8	2.9	3.4	3.1	3.5	3.5	3.8	5.6	4.1	3.9	20.3
Stamp Duty and Registration Fees	1.2	1.5	1.5	2.2	2.2	2.0	2.0	2.8	2.0	1.9	20.3
Other Taxes	2.0	2.2	5.9	10.0	12.9	14.4	17.6	16.5	13.2	15.7	43.8

3.5 Non-tax Revenue Profile

The own non-tax revenue remains an important source of revenue for the State as it constitutes about half of the own revenue receipts. Income from State lottery, power sector, road transport, and interest receipts has been the main source of non-tax revenue (Table 12). The relative share of lottery income (net) shows volatility in terms of its contribution to the own non-tax revenue and set to decline from 17.8 per cent in 2011-12 to 12.6 per cent in 2013-14 (BE). The market for Sikkim lottery has been on a decline due to ban imposed by other State Governments on its operation.

The relative share of income from power sector has increased in recent years showing a peak of 64.2 per cent in 2009-10 as the newly commissioned hydro-project unit of NHPC started giving the State share in the production of electricity. Although the relative share of power sector has gradually declined from 2009-10 high, it remains large at 34.6 per cent in 2013-14 (BE). The hydropower projects being constructed in the State are expected to contribute to the income from this source in the form of 12 per cent of the total power generation as free power to the State in the coming years. The projection of non-tax revenue from the power sector in the award period of the Fourteenth Finance commission keeps this in consideration. The Government had rationalized the power tariff by raising it by 16 % in 2012-13, which helped in improving the income from this source. The share of road transport in own non-tax revenue has been growing over the years. The income from forestry and wild life, though declined in between, seems to have been recovering in the recent years.

Table 12
Composition of States' Own Non-tax Revenues

(Percent)

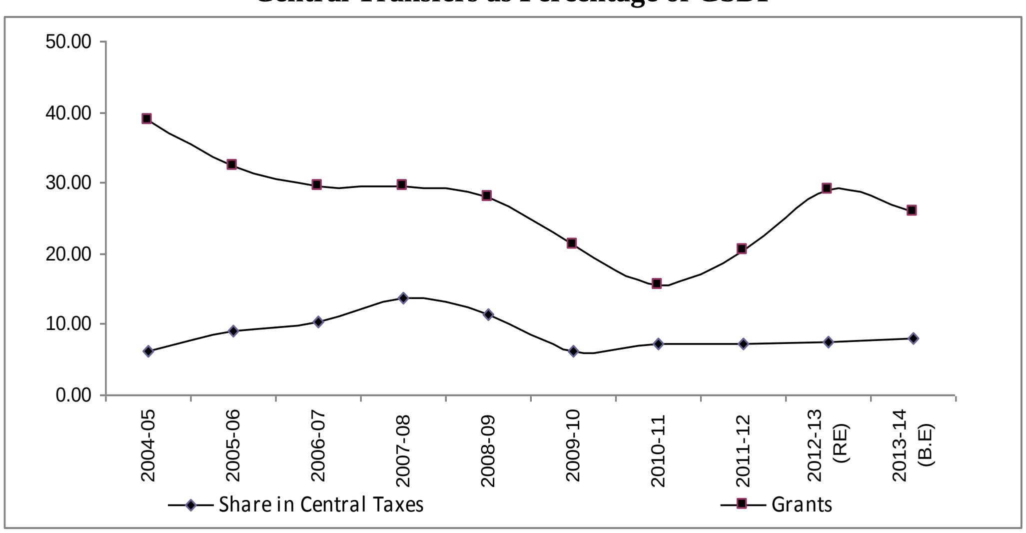
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (RE)	2013-14 (BE)
Own Non-Tax Revenue	100	100	100	100	100	100	100	100	100	100
Interest Receipts	7.2	5.5	3.1	7.1	8.9	9.9	7.2	12.0	7.2	9.1
Dividends and Profits	0.8	1.0	0.4	0.3	0.4	0.1	0.8	0.0	0.1	0.3
Police	3.9	12.4	8.1	6.9	4.0	3.3	9.9	5.3	15.2	15.8
Public Works	2.2	2.7	2.2	2.0	1.7	0.6	1.6	2.2	1.4	1.4
Administrative Services	3.4	2.6	1.5	1.2	0.9	1.0	1.4	2.7	1.3	1.3
Net Lottery Income	28.0	19.5	29.1	14.5	15.0	9.2	16.4	17.8	16.9	12.6
Edu, Sports, Art & Cult.	0.7	0.8	0.6	0.6	0.6	0.4	0.6	0.6	0.4	0.5
Medical and Pub. Health	0.9	0.8	0.3	0.5	0.3	0.2	0.2	0.5	0.4	0.4
Water Sup. and Sanitation	1.0	1.0	1.2	1.0	0.9	0.6	1.2	1.2	1.2	1.2
Urban Development	0.8	0.6	0.4	0.6	0.5	0.7	0.3	0.7	0.3	0.2
Forestry and Wildlife	7.1	8.8	5.5	5.2	3.9	2.0	4.5	5.1	4.6	4.8
Plantations	1.5	1.8	1.1	1.0	0.8	0.4	1.1	1.1	1.1	1.1
Other Rural Dev. Prog.	0.7	1.1	0.6	0.5	0.4	0.6	0.5	0.5	0.4	0.5
Power	19.2	24.6	33.9	46.1	52.9	64.2	40.9	32.7	33.9	34.6
Road Transport	19.3	12.0	8.6	7.4	6.0	4.6	9.3	12.7	10.8	11.3
Tourism	0.7	0.7	0.5	0.6	0.7	0.4	1.3	0.8	1.7	1.8
Others	2.6	4.1	2.7	4.6	1.9	2.0	2.8	4.2	3.1	3.2

Source (Basic Data): Finance Accounts and State Budget 2013-14

3.6 Central Transfers

From the Figure 1 it is evident that the share in central taxes remained at about 8 per cent of GSDP in recent years. Comparatively the Central grants contribute more to the State revenues. The Central grant to the State was further widened due to the recommendations of the TFC relative to various state specific grants and performance incentive grant. Starting from 2011-12, the State has been receiving State specific grants recommended by the TFC such as development of tourism, innovation of suspension foot bridges under North Districts of Sikkim, water security and public health engineering, police training and infrastructure, residential facility for police, border area development, State Capacity Building Institute, and conservation of heritage and culture. The State has also received performance incentive grant for three years from 2010-11 to 2012-13. The State continues to get TFC grants for elementary education, environment related grants including forest, and water sector management, incentive grants to improve quality of public expenditure starting from 2010-11 to 2014-15. The grants for maintenance of roads and bridges, however, started in the year 2011-12. The conditionalities imposed on some of these grants by the TFC have made it very difficult for Sikkim to meet the conditions and get the funds from the Central Government. Particularly the State has faced problems of land acquisition due to forestland clearance to start tourism specific infrastructure building grants like Sky Walk at Bhaley Dhunga. The State also has not received grants for water management due to non-fulfillment of conditions imposed by the 13th FC.

Figure 1
Central Transfers as Percentage of GSDP



3.7 Expenditure Profile

The social sector, particularly education and health in Sikkim, receive special attention in the resource allocation. In order to improve the quality of education and health infrastructure, the State Government has initiated several measures. The expenditure pattern presented in Table 13 reflects these trends over the years. Due to spurt in growth of GSDP in 2009-10, the ratio of expenditure variables with GSDP declined. Thus, the expenditure pattern since 2009-10 will be of interest in the present context. The revenue expenditure, which had declined from 29.8 per cent relative to GSDP in 2009-10 to 28.9 per cent in 2011-12, is set to rise in revised estimates for the year 2012-13 and budget estimates for the year 2013-14. The revenue expenditure is projected to reach at 31.2 per cent to the GSDP in 2013-14 (BE). The trend of revenue expenditure shows that while the general service remained flat relative to GSDP, the expenditure on economic and social services have increased during 2009-10 and 2013-14 (BE).

Table 13
Expenditure Profile

(Per cent to GSDP)

	2004-05	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13 (RE)**	**2013-14 (BE)**
Revenue Expenditure	**48.4**	**44.7**	**45.1**	**45.8**	**42.8**	**29.8**	**28.2**	**28.9**	**30.6**	**31.2**
General Services	**14.9**	**14.4**	**15.5**	**15.5**	**13.8**	**10.7**	**9.6**	**9.0**	**10.0**	**10.4**
Interest Payment	5.7	5.1	5.3	4.7	4.8	2.5	2.6	2.3	2.2	2.0
Pension	1.8	2.1	2.3	2.0	1.8	2.1	2.2	2.1	2.6	2.7
Other General Services Excluding Salary	7.4	7.2	7.9	8.8	7.2	6.2	4.7	4.6	5.2	5.7
Social Services	**17.6**	**16.9**	**16.5**	**17.5**	**16.7**	**11.3**	**11.4**	**12.3**	**11.4**	**12.1**
Education	8.8	9.4	9.3	9.1	8.4	6.4	7.6	5.6	5.7	6.0
Medical and Public Health	2.8	2.3	2.3	2.6	2.3	1.8	1.5	1.4	1.3	1.3
Other Social Services	6.0	5.2	4.9	5.8	6.0	3.1	2.4	5.3	4.4	4.9
Economic Services	**15.9**	**13.4**	**13.1**	**12.8**	**12.2**	**7.8**	**7.0**	**7.3**	**8.7**	**8.2**
Compensation and Assignment to LBs	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**	**0.4**	**0.5**	**0.5**
Capital Expenditure	**20.4**	**17.3**	**15.1**	**16.6**	**18.9**	**11.2**	**6.4**	**7.9**	**16.1**	**12.7**
Capital Outlay	20.3	17.3	15.1	16.6	18.9	10.6	6.3	7.3	16.0	12.6
Net Lending	0.1	0.0	0.0	0.0	0.0	0.6	0.1	0.6	0.0	0.1

Source (Basic Data): Finance Accounts and State Budget 2013-14

The committed expenditure, which includes salary, interest payments, and pension, account for on an average 61 per cent of the total revenue expenditure during the period 2007-08 to 2013-14 (BE) (Table 14). Out of this, the salary payment alone constitutes on an average about 46 per cent. The share of salary payments in total revenue expenditure was higher in the year 2009-10 and 2010-11 due to the effect of pay revisions, which has declined since then.

Table 14
Committed Expenditure Per cent to Total Revenue Expenditure

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13 (RE)**	**2013-14 (BE)**
Salaries	42.99	41.75	54.05	55.55	44.08	41.41	41.80
Interest payment	10.27	10.33	8.44	9.28	7.85	7.03	6.37
Pension	4.38	4.31	6.88	7.96	7.15	8.37	8.73
Total	57.63	56.39	69.37	72.79	59.08	56.82	56.90

Table 15
Composition of Capital Expenditure

(Per Cent)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (RE)	2013-14 (BE)
Capital Expenditure	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
General Services	**4.7**	**5.0**	**6.5**	**9.5**	**12.6**	**13.7**	**12.6**	**4.1**	**12.6**	**15.5**
Social Services	**37.2**	**31.5**	**36.6**	**32.6**	**31.1**	**34.0**	**36.8**	**45.0**	**40.1**	**36.2**
Education	8.3	7.2	7.7	4.7	4.8	4.2	8.7	10.2	5.9	5.7
Health	1.0	2.3	0.6	0.6	1.1	0.5	7.1	15.8	7.3	8.2
Water supply, Sanitation, Housing & Urban Development	27.4	22.0	27.2	25.6	24.7	27.9	20.5	18.5	26.4	21.1
Information, Publicity & Broadcasting (21)	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.1	0.0
Welfare of SC/STBC	0.3	0.0	0.9	0.3	0.5	0.2	0.1	0.2	0.5	0.4
Social Security	0.2	0.0	0.1	1.3	0.1	0.9	0.1	0.0	0.0	0.7
Economic Services	**58.1**	**63.5**	**57.0**	**58.0**	**56.2**	**52.3**	**50.7**	**50.9**	**47.2**	**48.3**
Agriculture	1.1	1.5	1.8	1.7	1.5	2.3	1.4	2.8	1.8	1.4
Rural Development	3.3	1.9	7.7	9.2	4.0	5.2	5.0	5.8	1.6	2.1
Special Areas Programmes	0.9	7.2	8.0	5.5	1.7	1.8	2.5	2.9	1.8	1.4
Irrigation	0.7	0.6	0.8	0.7	0.8	0.5	1.2	0.5	0.7	0.4
Energy	28.2	25.5	11.7	11.4	10.1	11.1	7.3	6.1	7.0	3.5
Industries and Minerals	1.9	2.3	1.1	0.6	1.1	0.8	0.4	0.3	0.4	0.4
Transport	20.3	20.7	19.1	20.4	29.1	22.8	21.8	23.1	23.5	26.8
Science & Technology	0.0	0.0	0.1	0.4	0.3	0.2	0.0	0.0	0.0	0.0
Tourism	1.7	3.9	6.7	8.0	7.6	7.6	11.0	9.3	10.5	12.3

Source (Basic Data): Finance Accounts and State Budget 2012-13

The capital expenditure, which had slowed down in 2010-11 and 2011-12 relative to the GSDP, seems to have revived in 2012-13 (RE) and 2013-14 (BE). The requirements for achieving sustainable level of debt and deficit as stipulated in the FRBM fiscal targets required limiting the level of capital expenditure. The capital expenditure has increased from 7.9 per cent to GSDP in 2011-12 to 16.1 per cent in 2012-13 (RE) and the budget estimates for 2013-14 sets a target of 12.7 per cent (Table 15). The composition of capital expenditure shows that sectors like water supply and sanitation, transport, energy and tourism have been the focus areas. The education and rural development sectors also have attracted relatively higher capital expenditure. The improvement in fiscal situation in the State provides opportunity to reinforce the core development strategy of building the social and physical infrastructure.

3.8 Outstanding Debt and Government Guarantee

Outstanding debt of the Government of Sikkim has declined from 37.4 per cent in 2009-10 to 30.4 per cent in 2011-12, the last year for which audited data is available (Table 6). The outstanding debt is estimated to fall further in RE 2012-13 and BE 2013-14. The FRBM Act of the state stipulates to maintain the outstanding debt at prudent and sustainable level. With the improvement in fiscal situation in the State, the debt burden has been slowing down. The TFC in their revised fiscal roadmap have worked out the yearly outstanding debt burden for all the states aligning with the fiscal path. The outstanding debt burden of Sikkim for the years 2013-14 and 2014-15 as per the TFC fiscal roadmap is 58.80 and 55.90 relative to the GSDP respectively. The debt-GSDP ratio in the State remains lower than that of the TFC numbers. The decline in the average cost of debt of the state because of the debt restructuring formula of the Twelfth Finance Commission (TFC) has helped to lowering the debt burden. The state has availed of the benefit of the consolidation of the central loan under DCRF as provided by the TFC (Table 16). Decline in the average cost of debt will provide higher fiscal space to the state government through reduction in the volume of interest payments, which has declined from 2.5 per cent in 2009-10 relative to GSDP to 2 per cent in 2013-14 (BE).

Table 16

Benefit of the Consolidation of the Central Loan

Sl No	Ministries	Amount of relief
1	Ministry of Road Transport and Highway	0.39 lakh
2	Ministry of Agriculture	1514.48 lakh
3	Ministry of Environment and Forest	7.04 lakh
4	Ministry of Urban Development	72.79 lakh
	Total	1594.70 lakh

The degree of debt overhang for Sikkim as examined taking into consideration some of the criterion given in Table 17 indicates declining debt burden. The debt GSDP ratio after remaining above 30 per cent of GSDP until 2011-12 and has come down since then. The debt as a percentage of TRR has also been declining sharply in recent years and was as low as 68.8 per cent in 2012-13 (RE). The interest payment as a percentage of TRR has been on a decline.

Table 17
Indicators of Debt Management

(Per Cent)

	2009-10	2010-11	2011-12	2012-13 (RE)
Debt Stock as per cent of GSDP*	37.4	34.0	30.4	29.9
Debt as a per cent of TRR	97.8	112.9	88.9	68.8
Interest payment as a per cent of TRR	6.6	8.7	6.6	5.0

Note: This represents the aggregate debt liabilities of the State

Table 18
Composition of Debt and Liabilities

(Percent)

	2008-09	2009-10	2010-11	2011-12	2012-13 (RE)
A. Public Debt	76.87	78.15	74.63	72.56	72.47
Internal Debt	61.34	65.86	63.94	66.41	66.71
Loans and Adv. from the Central Govt.	15.53	12.28	10.69	6.15	5.76
B. Other Liabilities	23.13	21.85	25.37	27.44	27.53
Small Savings, Provident Fund etc	18.94	17.96	21.00	22.67	23.82
Reserve Fund	1.32	1.04	0.85	0.72	0.02
Deposits	2.87	2.85	3.51	4.05	3.70
Total Public Debt & Other Liabilities	100	100	100	100	100.00

Source (Basic Data): Finance Accounts and State Budget 2013-14

The structure of outstanding debt has an important bearing on interest payment as different debt instruments carry different rates of interest depending on the type of borrowing and maturity structure. The share of market borrowing in the state has increased over the years while the share of loans and advances from the Central government has declined in the last two years (Table 18). The share of high cost debt instruments like small savings, provident funds, etc. has shown a rising trend since 2008-09. The Fourteenth Finance Commission is urged to keep the trend of rising share of Market Borrowing and high cost debt in the State in consideration while suggesting changes in FRBM Act.

Guarantees given by the State Government

As per the Sikkim Government Guarantee Act, 2000, the ceiling on total outstanding government guarantee in a year is restricted to three-times of the State's tax revenue receipts of the second preceding year. The maximum amount guaranteed by the State government on 31 March 2013 was Rs.310 crore, which is below the permissible limit.

Subsidies

The 14th Finance Commission under TOR 3 (para iv) was asked to consider "the level of subsidies that are required, having regard to the need for sustainable and inclusive growth, and equitable sharing of subsidies between the Central Government and State Governments." The State Government has been judicious in providing subsidy for which the amount of subsidy provided through the State budget has remained low. The subsidies provided in the industrial, food and cooperative sectors are designed to improve the growth process in the State and benefit people who are in the need for State support. The total budgeted subsidy has increased from Rs.10.17 crores in 2007-08 to Rs.20.00 crores in 2013-14 (BE) (Table 19). The subsidy provided in agriculture is price subsidy to the farmers, transport and market assistance subsidy in cooperatives, and food subsidy for SC/ST and sale rice in Food, Civil Supplies & Consumer Affairs, and incentives for new industries. Except food subsidy in which the price support for sale of rice in the largest, all other subsidies have remained very low over the years.

Table 19
Subsidies

Rs. Lakh

Department	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 (RE)	2013-14 (BE)
Food Security & Agriculture Development Department	0.00	202.08	0.97	14.52	0.00	100.00	75.00
Co-operation Department	62.97	22.99	54.99	125.00	0.00	60.00	15.00
Food, Civil Supplies & Consumer Affairs	949.48	872.28	870.35	870.36	914.77	1241.7	1889.49
Commerce & Industries	4.21	10.94	6.99	0.00	0.00	20.00	20.00
Total	1016.66	1108.29	933.30	1009.88	914.77	1421.70	1999.49

Source (Basic Data): State Budgets of relevant years

3.9 Public Expenditure Management

The Fourteenth Finance Commission was asked to review the present Public Expenditure Management systems in place including the budgeting and accounting standards and practices; the existing system of classification of receipts and expenditure; linking outlays to outputs and outcomes; best practices within the country and internationally, and make appropriate recommendations thereon. The Thirteenth Finance Commission was asked to consider the need to improve the quality of public expenditure to obtain better outputs and outcomes while making its recommendations. The 13th FC focused on evaluating outcomes in identified areas to provide incentives targeting public expenditure outcomes, promoting innovation to improve outcomes, and improving transparency in Government accounts. The incentives in the form of grants were recommended in areas like targeting subsidies through UID, reduction of infant mortality, improvement in justice delivery, police training, establishment of Centre for Innovations in Public Systems (CIPS) at ASCI, Hyderabad, creation of District Innovation Fund, Improvement in transparency in Government accounts, database for government and employees and pensioners. Unlike the 13th FC, the 14th FC was asked to consider process areas and institutional aspects of public expenditure management.

The 12th Finance Commission in their recommendations relating to restructuring of public finances indicated that there was need for expenditure restructuring including augmentation of capital expenditure and linking resources allocated to performance in utilizing these resources. The Commission suggested introducing performance-oriented budgeting system to ensure economy, efficiency, and effectiveness. One of the most important recommendations of the 12th Finance commission was changeover to accrual-based accounting for proper recording of use of capital assets, proper costing of Government Services and measurement of future financial commitments. Government of India accepted this recommendation in principle and GASAB was entrusted with the task of preparing accounting standards and a roadmap to introduce the accrual accounting system in the country. The 13th Finance was supportive of the accrual accounting system and in its report expressed satisfaction on the preparation of the Government in this regard.

Establishing a sound public expenditure management system depends heavily on augmenting technical efficiency such as economy, efficiency, and effectiveness. The effectiveness broadly refers to results achieved from the use of the public resources. The key features of improving public expenditure management are bringing in multi-year expenditure perspective in planning, establishing output outcome budgeting, strengthening accounting and reporting system, modernizing internal control and audit system, and improving transparency and efficiency in Government operations such as procurement. Government of Sikkim has taken several steps to strengthen its public expenditure management system. Treasury Computerization, Computerization in Commercial Taxes Division, establishing Sikkim Integrated Financial Management System (SIFMS) are some of the initiatives in this regard.

The Fourteenth Finance Commission may consider the following suggestions in the context of improving public expenditure management system at State level;

1. Improving the public expenditure management system at State level is essential and in this context, the Commission should focus on reforms in budget management system to improve its performance orientation, technical efficiency in the accounts and reporting systems, and modernizing the public procurement system.
2. The Commission has sought information from the State Governments to indicate whether they have adopted outcome budget. The outcome budget has been in operation at Central level for many years. It is important for the Commission to study the effectiveness of the

outcome budget at central level and suggest the States the necessary changes before adopting it.

3. The State budgeting system follows the broad Constitutional provisions and the accounting and reporting system follows the established standards at national level provided by the CAG. The Commission should make review of this system and suggest changes to strengthen the public expenditure management system.
4. States like Sikkim do not have resources and expertise to modernizing their public expenditure management system. The 14th Finance Commission should support the State Government by recommending for technical assistance in the form of grant for comprehensive up gradation of public expenditure management system.

3.10 Fiscal Reforms and Expenditure Management Measures

3.10.1 Adopting Rule Based Fiscal Management; Fiscal Responsibility and Budget Management Act (FRBM)

The Government of Sikkim enacted fiscal responsibility and budget management act (FRBM) in the fiscal year 2010-11. Introduction of Fiscal Responsibility and Budget Management (FRBM) Act and formulation of a medium term fiscal plan (MTFP) in the state is aimed at designing and implementing a rule based fiscal management system to ensure fiscal stability and sustainability while ensuring efficient provision of public services. The Act envisages a fiscal adjustment path recommended by the Thirteenth Finance Commission (TFC) for Sikkim limiting fiscal deficit at the targeted level to ensure sustainable level of debt, and improving transparency in a medium term framework during 2010-15.

3.10.2 Treasury Computerization

Under Sikkim Integrated Financial Management System (SIFMS) all the Pay & Accounts Offices and the self-drawing departments have been computerized.

3.10.3 Computerization in Commercial Taxes Division

The Government of Sikkim Computerized the Commercial Tax Department with the help from Ministry of Information Technology under NeVAT project. The project implementation started from 13th April 2011. The objectives of the computerization **is to** improve the flow of information between the Government and tax payers, improving the speed of communication through internet based system, reduction in cost, raising the transparency in tax administration, and increasing accountability. Computerization of all the functions of the Department for all types of services e.g. online filing of return, online creation of waybills, online payment etc. expedites the tax administration process in a transparent Implementation of the project also made the process of record- keeping, reconciliation, researching and analysis of data easier.

The website 'www.sikkimtax.gov.in' and application which was named SeVA (Sikkim electronic Vanijiyakar Administration) was launched and hosted at State Data Centre on 6th of January 2012 wherein the Registration, Waybill, Waybill Endorsement were functional. E-Returns, e-Annual Returns, MIS's ,ITC,CST forms, Admin module, NOC, Online Payment, PEC ,Cancellation, was incorporated later. Online tax payment started on 18th of October 2012 with the integration of IDBI. Further two more banks - AXIS and HDFC got integrated with the Sava online system on first of Jan 2013. Modules like Audit and Assessments, Survey and inspection, e-TDS, Check post detained, video conferencing, Data Analysis Tool for Research Section have already been completed. It has been more than one year since implementation of the MMP and transition to the online system of e-governances. The benefits of the project has been noticed with the decrease in the personal interaction with the officials and gradually the office work load is being shared with the dealers which in turn provides ample time for the authorities to concentrate on other productive things to increase the revenue. With the introduction of online system of computerization in Commercial Tax Division, the data generated through the system has helped to forecast the revenue in a more scientific way.

3.10.4 The Sikkim Integrated Financial Management System (SIFMS),

The State Government has introduced The Sikkim Integrated Financial Management System (SIFMS). The system has been operating and running in a live mode on a real time basis in all the Pay & Account Offices (both Civil and Works) and self Cheque Drawing Departments viz, Raj Bhawan, Sikkim Legislative Assembly, Sikkim Nationalized Transport Division and Land Revenue Department. This system enables to capture all receipts, expenditure, transfer of funds etc. in real time mode. The database of Employees and Pensioners has been completed and integrated with Sikkim Integrated Financial Management System (SIFMS).

The system will facilitate the preparation of Salary bills of the employees and payment of pension to the pensioners and adjustment of deductions because of GPF/CPF/GIS on real time basis.

3.10.5 Reform of Pension System

The State Government introduced the New Pension Scheme (NPS) in Sikkim in 2006. This Scheme is applicable to all employees appointed after 1st April 2006 on regular basis. State government has signed an agreement with Pension Fund Regulatory and Development Authority (PFRDA) established by GOI as the regulator of NPS for the state. National Securities Depository Limited (NSDL) was appointed as Central Record Keeping Agency (CRA) to maintain records of contribution and its deployment in various pension fund schemes. New Pension Scheme Contribution Accounting Network (NPSCAN) is used to access reports on compliance by Drawing & Disbursing Officers(DDOs) regarding mandatory contributions by the subscribers.The state has opted for Centralised System of accounting, where there will be single DDO and DTO to manage this scheme.

3.10.6 Changes in tax Rate and Base

Land Revenue

In 2005-06, the State increased the existing rates of tax levied on different categories of rural land. The local rate for land revenue was initially Rs.5 per annum for dwelling houses. This has been raised to Rs.5, Rs.10, and Rs. 20 per annum for thatch house, Egra House and RCC building, respectively. Similarly, the land rent has also been increased considerably for different circles of revenue blocks and further categories of land.

Urban Land Rate

The Government has revised the ground rates in urban areas to Rs.50 per square feet in 2002.

Stamp Duty and Registration Fee

The state Government had revised the registration fee of land in 1998 from the then existing rate of 2 ½% to 4% on the consideration value of land and stamp duty was kept at 1% on the consideration value of land. In 2011, Sikkim revised fees and stamp duty that include transfer of properties at 4% and 9% for people of Sikkimese origin and others respectively. In addition, 1% stamp duty was imposed. Along with this, the Government also revised the charges on partition deed, and revised the registration fee on property mortgage and deed for commercial purposes in 2009.

VAT/Sales Tax/Purchase Tax

The VAT was introduced in the State in the year 2005. The VAT floor rate has not been changed since 2007-08. Tax rate on different items are; gold and silver at 1 %, and two rates at 4% and 12.5 % for other commodities. Tax rate on Petrol remained at 15%, Diesel at 7.5%, **Kerosene** at 4%, and LPG at 4 and 12.5% for domestic and commercial purposes respectively since 2007. Taxes on Tobacco products have been enhanced form 12.5% to 20% from 2011.

State Excise Duty

The rates of Excise Duty for IMFL were revised in the year 2008, wherein it had been fixed at a uniform rate separately **for** civil market and army. The excise rate so fixed for civil market was Rs.66/- per LPL (London Proof Liter) for all brands of Whisky, Brandy, Gin, Vodka, Rum Liqueur whether it was produced in Sikkim or bottled in Sikkim or imported from other States. For Army the excised duty fixed was Rs. 61/- per LPL, Rs. 53.5 /- per LPL and ` Rs. 58.50/- per LPL for all brands of Whisky, Brandy, Gin, Vodka, Rum Liqueur whether it was produced in Sikkim or bottled in Sikkim or imported from other States. In addition to Excise duty, bottling fees is levied at a uniform rate of 101.25 per case for both civil market and army. The Government also imposes an Import Pass Fee on IMFL imported from outside the State of Sikkim. In the year 2010, the affixing of security holograms was introduced and implemented in the state, wherein it was mandatory for all liquor bottles of various capacities to be affixed with a security hologram.

The Motor vehicle Tax

The **Sikkim** Motor vehicle tax has been amended in 2011 and the rates have been revised. Different rates have been fixed for two wheelers and four wheelers for private and commercial purposes. Rates for vehicle transporting goods and persons were separately fixed. While luxury tourist vehicles attracted higher rates, the necessity vehicles like ambulance were charged with lower rates.

Profession Tax

In 2006-07, Sikkim imposed a tax on professions, trades, and employment to raise additional resources for the benefit of the State.

Cesses/ Surcharges

The Excise department in Sikkim has started levying 'The Sikkim Educational Cess on Alcoholic Beverages Act, 2007' on IMFL and Beer. The educational cess is levied at the rate of Rs.2.70 per bulk litre on foreign liquor and Rs. 1.60 on bulk litre of beer manufactured in Sikkim and imported from other States for consumption in civil and army units within Sikkim. The cess collected is utilized specifically for the maintenance of school buildings in addition to the existing level of expenditure on such maintenance.

The Sikkim Ecology Fund and Environment Cess Act, 2005, have been enforced since April 2007. The Act focuses on improving the quality of the environment by controlling and abating pollution and restoration of ecological balance in the State. This Act has been amended in 2012, which specifies that the fund can be utilized for such other projects, as may be prescribed.

The Sikkim Transport Infrastructure Development Act, 2004 has been enforced since August 2004. The Act focuses on the improvement of the Sikkim Nationalised Transport infrastructure and acquisition of Fleet.

User Charges

The State Government **revised** the user charges for tests/investigations/medical and surgical procedures in 2010, which was further revised in 2013

The Sikkim state Electricity regulatory commission revised the tariff for consumption of electricity as per the Tariff Schedule in 2012.

4 Chapter IV

4.1 Devolution of Union Taxes and Duties

Devolution of share of Central taxes to the States and the *inter se* distribution of Central taxes among the States by the successive Finance Commissions has remained one of most transparent transfer of resources in India. The Fourteenth Finance Commission is **r**equired to make recommendations as to the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I, Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds. This is in accordance with Article 280(3) (a) of the Constitution. The Finance Commission takes a comprehensive view of the public finances of the Central and State governments so as to make recommendations regarding the sharing of taxes between the Centre and the States, and to resolve the issues relating vertical and horizontal imbalance. The Commission would determine the pool of the net proceeds of Central taxes that would be shared with the States; design criteria for inter se distribution of this pool, and determine the weights to be attached to the different allocation criteria. The Finance Commission has the key responsibility to design an impartial and liberal scheme of fiscal transfers to the States to establish equity and accelerate growth.

While trying to bring in normative approach to the devolution of Central taxes to the States, the Finance Commissions have adopted different approaches in the assessment of public finance and choice of parameters to design the inter se distribution formula. Sikkim depends heavily on Central transfers. The share of central taxes constitutes on an average 20 per cent of aggregate revenue of Sikkim. Given the disadvantages faced by the State in terms of cost disabilities, difficult geographical terrain, and high cost of living due to lack of proper connectivity, it sometimes does not conform to the standard that would enable it to get an adequate share in the central tax pool. The provision of public services is costly and the maintenance of infrastructure exerts continuous pressure on State's resources. In the milieu of Indian States, the needs of Sikkim are different and responsibilities are enormous. In this situation, a small variation in fiscal targets in terms of revenue collection or unforeseen expenditures due to natural calamities brings in volatility to the trend. A State like Sikkim should be considered carefully while designing a normative devolution formula.

4.2 Developments in the Divisible Pool for Tax Sharing

Prior to the 80th Constitutional Amendment, only two main Central taxes were shared with the States, viz., income tax (excluding corporation tax), and the Union excise duties(excluding duties of excise on medicinal and toilet preparations). There were considerable variations in the principles adopted for revenue sharing between these two taxes. There were also two tax rental arrangements with the States, where the Central government used to collect some of the existing taxes on behalf of the States and then distribute the proceeds among the States in accordance to the principles and shares recommended by the Finance Commission. Under the 80th Amendment of the Constitution, all Central taxes were brought into a shareable pool and it became mandatory to assign a share from each Central tax to the States. The amended Article 270 provided for the sharing of all Central taxes, except taxes under Articles 268 and 269, and the earmarked cesses and surcharges under Article 271. Only the "net proceeds" are to be shared between the Centre and the State. The Tenth Finance Commission, in their alternative scheme of devolution, recommended these changes. The Eleventh Finance Commission incorporated these changes while recommending the share of the States in the divisible pool. The broadening of the divisible pool, as against specific taxes, encouraged the central Government to pursue tax reforms in an integrated manner and States were benefited from the aggregate buoyancy of Central Taxes. The 88^{th} Constitutional amendment in 2004 added Service Tax in the divisible pool.

4.3 The Size of Overall Vertical Fiscal Transfers

The demarcation of functional responsibilities and financial powers between the Union and the States, as set out in the Constitution, confers wide-ranging expenditure responsibilities on States without buoyant sources of revenue. Thus, fiscal transfers from the Centre to the States have become indispensable to correct for the vertical imbalance. The overall Central transfers through all the conduits, the Finance Commission, Planning Commission, and Central Ministries, from the award period of Seventh Finance Commission to Twelfth Finance Commission remained around 38 per cent of the gross receipts. The 11th FC recommended an indicative ceiling on all revenue account transfers, at 37.5 per cent of gross revenue receipts of the Centre. The 12th FC increased it to 38 per cent. The trend of overall transfers as percentage of gross revenue receipts of Centre indicates that it declined from peak of 40.33 per cent during the award period of 9th FC to 35 per cent during the period of 10th and 11th

FC. This has increased to 38 per cent during the award period of 12th FC. The 13th FC has recommended raising the indicative ceiling to 39.5 per cent of the Centre's gross revenue receipts. The aggregate vertical transfers should be considerably raised to enable the State governments, particularly the fiscally disadvantaged ones, to improve the public services and attain higher growth rate.

4.4 Vertical Distribution of Central Taxes

The Finance Commission assumes key role in the fiscal federal framework in India, as its transfers are considered transparent and equitable. Given the fact that the responsibility of the State governments in the public service delivery spanning over economic and social sector is large, the expenditure needs are huge. Increasing number of centrally sponsored schemes and the associated matching grants, rise in the commitments to maintain infrastructure and assets created through plan process, and rising demands for provision of infrastructure for social and human development have starved the States of financial resources. It will not be possible for the States to perform reasonably to improve the growth process and bring in social and human development.

The Twelfth Finance Commission recommended the share of States in the net proceeds of shareable Central Taxes at 30.5 per cent including additional excise duties in lieu of Sales Tax as a part of the general pool of Central Taxes. The Thirteenth Finance Commission recommended increasing the share of States in the net proceeds of shareable Central taxes to 32 per cent. The Commission did not earmark any portion of this share as attributable to additional duties of excise in lieu of sales tax and did not recommend any reduction in the share of the States in the event of levy of VAT on textile, tobacco, and sugar by them. While the increase of share of States in the net proceeds of the Central Government by the 13th Fc was in right direction, there is a need to increase this share further to relate it to the responsibilities and needs of the States. The State of Sikkim proposes that the percentage share of States in the net proceeds of Central Taxes to be raised from present 32 per cent to 50 per cent. If the Commission regards it suitable, the increase can be implemented in phases to reach at 50 per cent.

The Government of India levies surcharge/cess on income tax, as a temporary measure, to raise additional resources. The income tax being part of the divisible pool, the Finance

Commission should consider including the surcharge/cess on in the divisible pool to be shared with the State Governments.

4.5 Criteria for Tax Sharing

The Finance Commissions adopted different criteria for designing the tax devolution shares of the States. The more recent Finance Commissions adopted criteria like, area, population, and distance from highest per capita income, tax effort, and fiscal discipline. The factors like population and area reflect needs, per capita income distance, or inverse of per capita income measure differential fiscal capacities, and tax effort and fiscal discipline indicate fiscal efficiency. Thus, both equity and efficiency parameters have been included in the criteria adopted by the Finance Commissions. The weights assigned to different criteria varied across the Finance Commissions. The Thirteenth Finance Commission accorded 25 per cent weight to population (1971), 10 per cent to area, 47.5 per cent to fiscal capacity distance, and 17.5 per cent to fiscal discipline. The 13th FC made a departure from its predecessors as it used fiscal capacity distance as against per capita income distance. Instead of estimating entitlements based on the distance from the highest per capita income, the Commission took the distance from the highest per capita "fiscal capacity". It estimated the average tax to GSDP ratios separately for general category and special category states from 2004 to 2007, and estimated the "per capita taxable capacity" of each state by multiplying the group's average ratio with the GSDP of the state. It then estimated the per capita taxable capacity of each state and estimated the distance from the highest fiscal capacity. The distance multiplied by the population of the state divided by the sum of this variable for all the states gives the share of individual states.

The recent growth in GSDP of the Sikkim as discussed in Chapter 2 raises the concern of the State**,** with regard to either per income distance or fiscal-capacity distance criteria. The growth in GSDP number came mostly from rise in production of hydroelectricity and pharmaceutical companies since 2009-10. Both the sources of rise in GSDP did not improve the tax revenue of the State as was evident from the low buoyancy coefficients. While the value of total electricity produced by the newly established hydropower units in Sikkim enhances GSDP and the per capita income, the reality is that the State gets only 12 per cent of the production as free power as per the agreement with the private producing companies. Income from the power, if Sikkim is able to sell, is accounted for in the non-tax revenue. However, due to the arrangement with Easter grid for power purchase and sell, T&D losses, and price mechanism, it is unlikely that the State will be able to get the full benefit of the free power. The pharmaceutical units transfer most of their production out of the State through stock transfer and there is not much impact on tax collection. The indirect impact on State tax would be the consumption of people employed in these units. Thus, the actual tax collection looks unfavorable when compared with rise in GSDP. When the fiscal capacity distance criterion is considered, the fiscal capacity is inflated without any real improvement in fiscal capacity as judged from tax-GSDP ratio. In the case of per capita income distance criteria also, the State is likely to suffer. The rise in per capita income due to the reasons alluded above does not improve the fiscal capacity of the State. On the other hand, there are number of indirect subsidies that these manufacturing units enjoy implying higher level of tax expenditure. What is important for Sikkim is to understand its cost disabilities in the form of remoteness, high transportation cost of goods, large proportion of forest area and difficult terrain, which considerably increase the unit cost of providing public services.

Fiscal efficiency in terms of tax effort for Sikkim also has another adverse feature. In a normative approach, fiscal efficiency is implicit because requirements are assessed taking into account the revenue effort. While the capacity of the State is severely restricted to increase its revenue collection through additional resource mobilization, there is significant trade diversion to the neighboring State of West Bengal due to high transport cost. The trade in high value commodities has been almost fully diverted to West Bengal. This built in disadvantage of a landlocked State must be kept in mind while considering its fiscal efficiency.

The State of Sikkim suggests that while designing the sharing formula for Central taxes among the States, the criteria like needs, cost disabilities, and fiscal discipline should be emphasized. The population figures of the latest census should be considered where population enters into the distribution criteria. Developments in social and human resource indicators should be included in the distribution criteria to reflect on States' performance given a level of resource availability.

Needs refer to expenditures that are required to be made but have not been made due to deficiency in fiscal capacity. Provision of merit goods viz**.** health, and education, and improving infrastructure is of prime importance to the Government. Population and area, accepted as factors representing the need of the State should continue be included in the devolution formula. However, population figures of the latest census to reflect the need of the States should be adopted.

Cost disabilities refer to the circumstances that lead to higher than average per capita costs for delivering the same level of services at an average level of efficiency. As the planning process over the years could not remove the cost disabilities, these should be part of the devolution scheme of the Finance commission. The exogenous causes those are beyond the control of the State become important, viz. excess rainfall, hilly terrain, and large and remote areas with low density of population. Some cost disabilities arise when the size of the State is too small and some minimum expenditure has to be incurred for providing the basic administrative infrastructure. Thus under cost disabilities criteria a suitable index needs to be developed. Availability of facilities like road, rail & air link, should be considered while preparing the index.

Fiscal discipline as used by the Finance Commissions refers to improvement in the ratio of own revenue receipts of a State to its total revenue expenditure to average ratio across all the States. The fiscal prudence as reflected in prudent fiscal management resulting in rising revenue surplus and containing fiscal deficit and debt level should also be considered under fiscal discipline. The special category States having a narrow resource base need to be treated separately while estimating the improvement in revenue receipts to their total revenue expenditure.

Social and Human Development Indicators should be considered while designing tax share formula. Investment in human resource development, indicators showing progress in achieving education, and health indicators are important parameters to be considered in this context. Human development index (HDI) is a comprehensive index that measures the overall status of a state in terms of education, knowledge, and standard of living. States, despite their limited resource investing in social and human development infrastructure should be given higher weight. While achievement in these areas show their performance, the infrastructure created need to be maintained. The suggested Criteria for Tax devolution are given in Table 20.

Table 20
Suggested Tax Devolution Criteria

Criterion	Suggested Weightage (%)
Population of 2011 census	20
Area	20
HDI	30
Fiscal Discipline	20
Cost Disability Index	10

To sum up, the proposals of the State are as under:

1. The aggregate vertical transfers should be considerably raised to enable the State governments, particularly the fiscally disadvantaged ones, to improve the public services and attain higher growth rate. The State of Sikkim is of the opinion that the percentage share of States in the net proceeds of Central Taxes should rise from present 32 per cent to 50 per cent. If the Commission regards it suitable, the increase can be implemented in phases to reach at 50 per cent.
2. The proceeds from surcharge/cess on income tax should be included in the divisible pool to be shared with the States.
3. The population figures of the latest census should be considered where population enters into the distribution criteria.
4. It is suggested that cost disabilities in the form of remoteness, high transportation cost of goods, large proportion of forest area and difficult terrain, which considerably increase the unit cost of providing public services, should be kept in view while designing the tax devolution principles.
5. While designing the sharing formula for Central taxes among the States, the criteria like needs, cost disabilities, and fiscal discipline should be emphasized.

6. In the case of fiscal discipline criterion, in addition to the parameter of improvement in the ratio of own revenue receipts of a State to its total revenue expenditure to average ratio across all the States, prudent fiscal management should be considered. The prudent fiscal management resulting in rising revenue surplus and containing fiscal deficit and debt level should also be considered under fiscal discipline.
7. The special category States having a narrow resource base need to be treated separately while estimating the improvement in revenue receipts to their total revenue expenditure.
8. Investment in human resource development, indicators showing progress in achieving education, and health indicators are important parameters to be considered in the tax sharing principles. States, despite their limited resource investing in social and human development infrastructure should be given higher weight. While achievement in these areas show their performance, the infrastructure created need to be maintained.

5 Chapter V

5.1 Grants-in-Aid under Article 275

As per the Terms of Reference (Para 1-ii), the Fourteenth Finance Commission is required to recommend the principles, which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues. This follows the article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article.

Central transfer constitutes a major share of total revenue receipts of Sikkim. During the period 2007-08 to 2013-14 (BE), total central transfers constituted on an average about 77 per cent of total revenue receipts (net of lottery expenditure). While share of total grants during this period was 56 per cent of total revenue, non-plan grants constituted only 5 per cent. As the Thirteenth Finance commission projected surplus in non-plan revenue account for the period 2010-11 to 2014-15, the State did not qualify to receive non-plan revenue deficit grants (NPRD). However, the Commission recommended performance grants for prudent fiscal management by the State Government. The State also received grants under disaster relief, elementary education, grants for improving outcome, environmental related grants, and maintenance of roads and bridges. These grants were applicable to all the States. The Commission also recognized the need of the State in several areas like tourism, water supply, capacity building, and some specific infrastructure projects for which recommended grants.

5.2 Principles of Grants under Article 275

Grants from the Central Government in India remained as key instrument of fiscal transfers. The main objective of giving grants to the States in need is to establish a level playing field among all the States. Usually the Central grant is provided to compensate the States for adverse physical conditions and other disabilities that lead to higher costs in providing public services. While Central grants are given to the States following the recommendations of the Finance Commission, plan grants decided by the Planning Commission and grants by the Central Ministries for implementing Central Plan Schemes, the devolution of Finance Commission grants are mainly for equalization of public services. The equalization principle refers to recommendation of grants to provide equal level of basic services at a given resource effort by the States. The Finance Commission assesses the need of the State by working out a desirable 'norm' and then transfer resources to the States that are below the 'norm' so as to help them achieve the standard of provision of services. Although establishing a framework of equalization grants through a normative basis remained the avowed objective of fiscal federal structure in India, the successive Finance Commissions could not succeed entirely in this regard.

The principles adopted by the Finance Commissions governing the grants-in-aid of the revenues of the States varied many a times. However, the following factors remained at the core of the devolution of grants.

Non-plan Revenue Deficit Grants (NPRD): Finance Commission provides NPRD to cover their non-plan revenue deficit, which remained to be met after devolution of Central Taxes. This is aimed at enabling the States to maintain to provide the existing level of services by safeguarding their already created socio-economic infrastructure. These grants have been declining as percentage of total grants in recent years due to improvement in State finances.

Implementing welfare schemes: The special grants given to help the States to implement schemes for weaker and deprived segments of the population.

National Programmes/Goals: Grants are given to pursue programmes of national interest such as universalization of elementary education and health programmes. These are targeted grants designed to help the States to overcome resource constraint in funding the schemes. Usually these type grants are given to all the States.

Maintenance of Assets: Finance commission provides grants to the States to help them maintain the assets already created. Grant for maintenance of roads and bridges provided by the **13th Finance commission** is one such grant.

Grants for environment and Ecology: The TOR for the Finance Commission calls upon to keep the need to balance management of ecology, environment, and climate change consistent with sustainable economic development while designing the principles of transfers. Finance Commissions do provide grant for management of environmental issues.

The Thirteenth Finance Commission provided incentive grants targeting public expenditure, promoting innovation to improve outcomes in public policy and district governance. This was in response to the TOR, which required it to consider the need to improve the quality of public expenditure to obtain better outputs and outcomes.

5.3 Non-plan Grants for Sikkim under 13th Finance Commission

The Thirteenth Finance Commission grants to Sikkim are given in Table 21. The Commission **assessed** the State to reach at surplus position in non-plan revenue account for which no NPRD grant was recommended. However, based on the fiscal performance the Commission recommended performance incentive grant of Rs.200 crores spread over three years starting from 2010-11. The State received grants for building, elementary education, improving outcomes environment grants, and grants for maintenance of roads and bridges. The commission considered some of the state specific demand for which it recommended grants. These are given in Table 22. The State received a NPRD grant of Rs.188.47 crores under the award period of the 12th Finance Commission.

The Finance Commission decides about the NPRD grant after assessing the State finances and forecasting the own revenue and expenditure for the award period. The Commission, however, designs its own basis of forecasting the own revenue and non-plan expenditure of the State. The State Government in its own assessment and forecasting given to the 14th Finance Commission has projected a deficit of Rs. 17955.00 crores including pay revisions and salary impact of new recruits and Rs.12243.89 crores without pay revisions and salary impact of new recruits in the non-plan revenue account. The State in its projection has taken a realistic approach regarding the revenue outcomes and expenditure needs in the award period of the 14th Finance Commission. The State is hopeful that the Commission would consider the expenditure needs of the State and its limited ability to raise resources from a very small and inelastic source. The severe disadvantages faced by the State and the cost disabilities, as alluded earlier, needs to be kept in view when the commission makes its own assessment. The State Government is also hopeful that its record of prudent fiscal management would be rewarded in the non-plan grant scheme of the Commission.

Table 21

Grants Recommended by the 13th Finance Commission

Rs. crores

	2010-11	2011-12	2012-13	2013-14	2014-15	2010-15
Performance Grant	**80**	**60**	**60**	**0**	**0**	**200**
Local Bodies	**17.40**	**27.10**	**39.80**	**47.10**	**55.80**	**187.20**
(i) Basic Grant	17.40	20.20	23.60	28.00	33.20	122.40
(ii)Performances Grant	0.00	6.90	16.20	19.10	22.60	64.80
Disaster Relief Grant	**23.75**	**24.89**	**26.08**	**27.33**	**28.65**	**130.70**
(i) Central Share (90%)	20.48	21.50	22.57	23.70	24.89	113.14
(ii)State Share	2.27	2.39	2.51	2.63	2.76	12.56
(iii) Capacity Building	1.00	1.00	1.00	1.00	1.00	5.00
Elementary Education	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**5.00**
Improving outcome	**7.87**	**7.87**	**6.38**	**7.38**	**6.40**	**35.90**
(i) Improvement in Justice Delivery	4.35	4.35	4.36	4.36	4.38	21.80
(ii) Incentives For Issuing UIDS	0.22	0.22	0.22	0.22	0.22	1.10
(iii) District Innovation Fund	0.00	2.00	0.00	1.00	1.00	4.00
(iv) Improvement in stats. System	0.80	0.80	0.80	0.80	0.80	4.00
(v) Employee & Pension Data Base	2.50	0.50	1.00	1.00	0.00	5.00
Environmental Grant	**5.07**	**6.07**	**11.14**	**11.14**	**11.14**	**44.56**
(i) Forest	5.07	5.07	10.14	10.14	10.14	40.56
(ii) Water Sector (Irrigation)	0.00	1.00	1.00	1.00	1.00	4.00
Maintenance of Roads & Bridges	**0.00**	**14.00**	**15.00**	**18.00**	**21.00**	**68.00**
State Specific Grants		**100.00**	**100.00**	**100.00**	**100.00**	**400.00**
Total Grants	**135.09**	**240.93**	**259.40**	**211.95**	**223.99**	**1071.36**

Table 22

State Specific Grants: 13th FC

	2011-12	2012-13	2013-14	2014-15	2010-15
(i) Sky walk at BhalyDhunga	50.00	50.00	50.00	50.00	200.00
(ii) Village Tourism	20.00	20.00	20.00	20.00	80.00
Renovation of foot suspension bridges	8.75	8.75	8.75	8.75	35.00
Up gradation water supply schemes	5.00	5.00	5.00	5.00	20.00
Police training center at Yangyang	2.50	2.50	2.50	2.50	10.00
Residential and non-residential building	3.75	3.75	3.75	3.75	15.00
New monitoring check post, transport, security equipment	3.75	3.75	3.75	3.75	15.00
Additional storage facility	1.50	1.50	1.50	1.50	6.00
State Capacity Building Institute	2.50	2.50	2.50	2.50	10.00
Heritage and Culture	2.25	2.25	2.25	2.25	09.00
Total	100.00	100.00	100.00	100.00	100.00

The State of Sikkim expects greater understanding of the need of the State and liberal view on grants. The suggestions of the State with regard to grants under Article 275 are as follows:

1. The State is hopeful that the Commission would consider the expenditure needs of the State and its limited ability to raise resources from a very small and inelastic source. The severe disadvantages faced by the State and the cost disabilities, as alluded earlier, needs to be kept in view when the commission makes its own assessment. The State projection of deficit in non-plan revenue account should be considered while determining the grants
2. The State Government is also hopeful that its record of prudent fiscal management would be rewarded by the Commission.
3. Many a times the State faces problem in utilization of project specific grants due to natural calamities and climate problems in hilly areas and environment clearance for acquiring land for the projects. The Commission should be liberal in the transfer of grants. There should be no or minimum conditions attached to grants. The grants should flow to the States in an uninterrupted manner like share of Central Taxes.
4. The Thirteenth Finance commission recommended grants for the maintenance of Capital assets like roads and Bridges. The State is hopeful that the Fourteenth Finance Commission will include maintenance of building as well under the maintenance grants. The State faces severe pressure on its finances to maintain the public buildings and religious places due to difficult weather condition, heavy rainfall, and frequent landslide.
5. The Commission should consider the up-gradation demands of the State favorably, presented in a separate volume.

6 Chapter VI

6.1 Ecology and Environment

The TOR, in Para-3 (x) requires the 14^{th} Finance Commission to keep in consideration the need to balance management of ecology, environment, and climate change consistent with sustainable economic development, while making its recommendations.

The Government of Sikkim over the years has adopted policies that are sustainable and eco-friendly. Concerted efforts have been made to preserve and increase the forest cover in the State. Sikkim gives utmost emphasis to environment sustainability and protecting the rare Himalayan flora and fauna. The state has adopted Green mission as the State policy and encouraged the farmers to practice the organic farming. Protection of environment from degradation and persevering Himalayan ecology assumes significance for the State. The State Forest, Land Use, and Wildlife Policy of 2000 lay emphasis on forest protection. The need to undertake soil conservation of watersheds to conserve hill slopes is also emphasized in the policy. Banning grazing in reserved forest areas, commercial collection of herbs and safeguarding the indigenous species are other landmark decisions of the government aimed at preserving the biodiversity and ecological systems in forest areas. The Sikkim Forest and Water Courses Preservation Act 2007 provides detailed provision relating to forest rights and forest management policies.

Climate change poses a serious challenge to development and to the poor. At present climate change studies is one of the important subjects of concern, which has been taken up in holistic manner all over the World. Climate change is a global phenomenon, which affects every regions of the world directly and indirectly. The effects are of different types affecting the livelihoods in various ways such as decreasing the productivity of crops, drought and famines, adverse climatic conditions, epidemics, natural disaster etc. It is also necessary to deal with climate change at regional levels in a systematic manner.

6.1.1 Two Major Issues Relating to Ecology and Climate Change

There are two issues relating to climate change that concerns Government of Sikkim. The first is the effective forest management to preserve the existing forest and biodiversity of the State. Second is the need for proper glacier dynamics studies. Reports of Inter-Governmental Panel on Climate Change regarding global warming and glacial melting have raised serious concern in the State. Indeed glaciers are very good indicators of climate change. Global warming and climate change can directly influence Himalayan glaciers. Almost in all the part of Indian Himalayas, the glaciers are retreating. For this, ideal glacier should be identified in Sikkim for glacier dynamics studies. The State government expects generous grants from the Fourteenth Finance Commission for these two objectives.

A. Forest Management

The Thirteenth Finance Commission in their report opined that forests in India constitute the first line of defence against pollution resulting from economic activity. Forest is one of the richest natural resources of Sikkim. With luxuriant forest, abounding in all parts of state, forestry has been the major land use in the State. Nearly 82% of the total geographical area of the State is under the administrative control of the State Forest Department. The forest and tree cover of the State is 47.69% of the total geographical area of the state. This proportion is one of the largest in the country. The composition ranges from tropical Dry Deciduous Forests with Sal and its associates in the valleys of Teesta and Rangit to the Alpine Scrub and grassland in high altitude. The Sikkim forests contain large variety of biodiversity.

Given limited resources at the disposal of the State, persevering the vast forest area and biodiversity in Sikkim has always remained a challenge. The forest grants given by the Finance Commission, based on forest cover, has been very useful for the State. The State of Sikkim expects that the Fourteenth Finance Commission would recognize not only the forest cover but also the unique biodiversity and unique ecosystem services which Sikkim offers to the nation.

Forests in Sikkim

Total recorded forest area recorded in the State is 5841 sq. km out of which reserve forests constitute 2261 sq. km (Table 23). The forest cover constitutes about 47.69 per cent of the State’s geographical area (Table 24). The Sikkim forests contain variety of biodiversity species (Rough estimates shown in Table 25). Effective forest management, preservation and the ecosystem assumes significance to protect the biodiversity in the State.

Table 23
Area under Forest

Forest Area	Coverage in sq. km
Total recorded forest area	5841 Sq.km
a) Reserve Forests	2261 Sq.km
b) Khasmal Forests	285 Sq.km
c) Goucharan	104 Sq.km

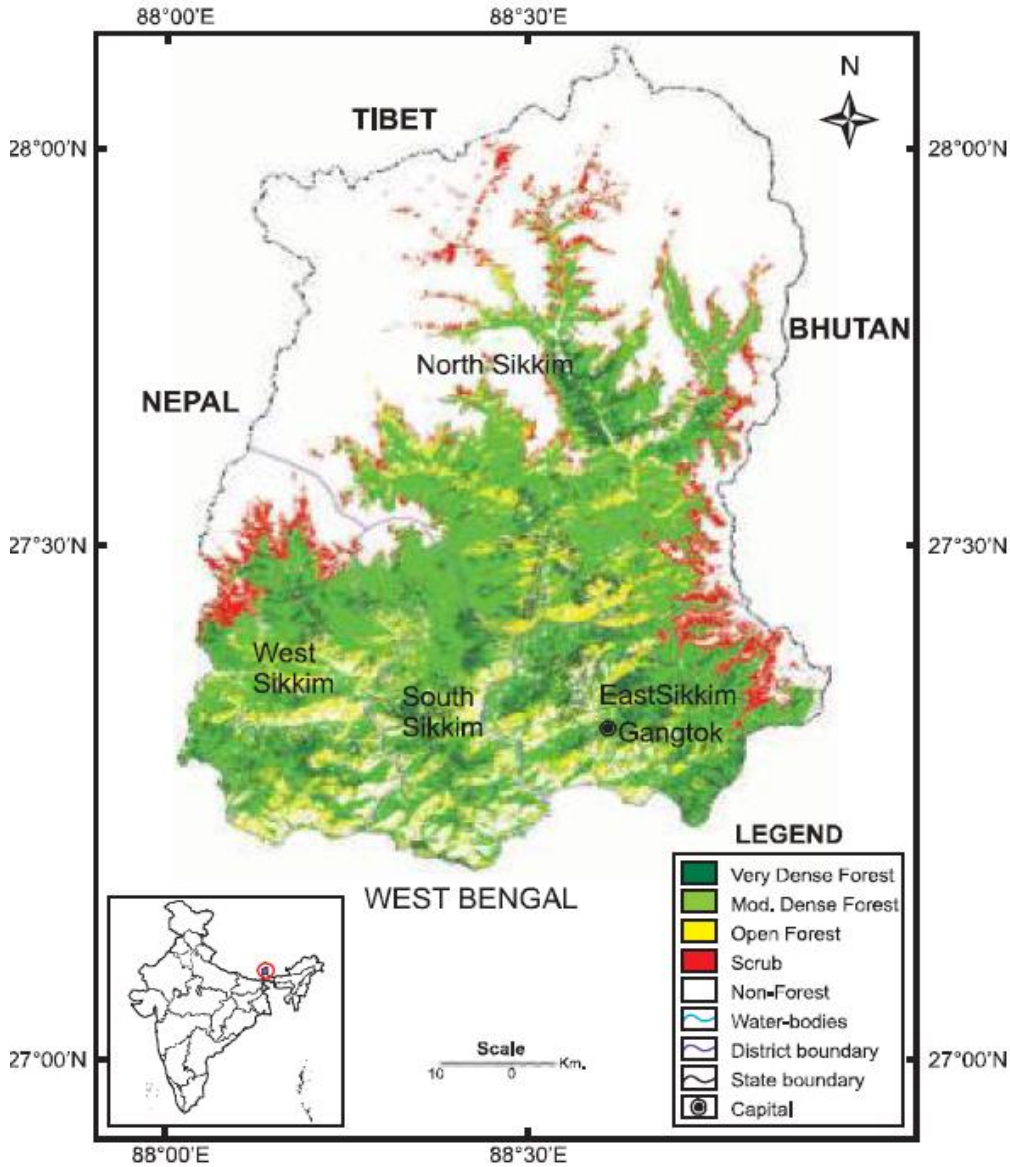
Table 24
Forest and Tree Cover

Category	Area	% of Geographical area
Tree Cover	25	0.35
Forest cover	3359	47.34
Forest & Tree Cover	3384	47.69

Table 25
Biodiversity in Sikkim

Categories	Species
Mammals	144 species.
Birds	Over 450 species.
Butterfly & Moths	Over 400 species
Orchids	Over 450 species
Rhododendrons	Over 400 species.
Flowering Plants	Over 3500 species
Fern & its allies	Over 300 species
Medicinal Plants	Over 400 species

Figure 1: Forest Cover Map of Sikkim



Proposed Activities

The action plan proposed here aims at improvement in the quantity and quality of forest cover through preservation and propagation of unique floral and faunal diversity of Sikkim, regeneration of degraded areas, production of quality plantation material, forest protection, eco-tourism and adapting forest management to emerging threats of climate change. Various components of the works to be undertaken under this plan are elaborated in the subsequent sections.

I. Preservation and Propagation of Unique Floral and Faunal Diversity of Sikkim

Sikkim, covering just 0.2 % of the geographical area of the country, has tremendous biodiversity in the Eastern Himalayan region. The varied topographical characteristics provide uniqueness to Sikkim and make it rich in floristic diversity. The IUCN (International Union for Conservation of Nature) has recognized this region as a part of Indo-Burma hot spot. Sikkim is richest in terms of number of flowering plant species per 100 sq km found in its geographic area. Sikkim harbours nearly one fourth of the total flowering plants of India. More than 120 species of plants are reported exclusively endemic to the state of Sikkim. Sikkim is the second home of rhododendrons in India after Arunachal Pradesh as 36 species of rhododendrons are found in Sikkim. More than 50 species of *Primula* are reported from Sikkim region. Teesta basin harbours the maximum number of orchid species in India. Orchids are found in all parts from alpine, temperate to tropical region and have diverse habitats right from soil, stones to tree branches.

In Sikkim, flora more than 400 species of plants have medicinal use both for human beings and domestic animals. The plants are used as tonic, aphrodisiac, to cure simple diseases like fever, diarrhea to very serious diseases like cancer, rheumatism, asthma, etc. Plants like *Podophyllum hexandrum* and *Taxus baccata* are useful for treatment of cancer. They are concentrated mainly in the higher altitudes (2,500 to 3,000 m). Plants like *Aconitum ferox*, *Alnus nepalensis, Arisaema speciosum, Daphne bholua*, *Ephedra gerardiana*, *Hedychium spicatum*, *Heracleum wallichii*, *Impatiens racemosa, Nardostachys jatamansi, Panax pseudoginseng, Picrorhiza kurrooa*, *Podophyllum hexandrum* and *Taxus baccata* are found in the alpine and sub-alpine regions. *Aloe barbadensis, Brassica campestris, Bridelia retusa, Cissampelos pariera, Piper longum* and *Terminalia belerica* are restricted to 1,000- 1,200 m altitudes in tropical parts. Besides herbs there are a number of arborescent trees and shrubs, which are also used to cure various diseases. *Abies densa, Acer campbelli, Berberis aristata*, *Jatropha curcas, Prinsepia utilis, Skimmia laureola, Spondias pinnata, Taxus baccata* and *Zanthoxyllum oxyphyllum* are some important trees or shrub species which are extensively used for various medicinal purposes in different parts of Sikkim.

Many exotic plant species like *Achyranthes bidentata, Bidens biternata, Datura stramonium, Eupatorium adenophorum, Galinsoga parviflora*, etc. are seen mainly along the roadside, in agriculture fields or in cleared forest area. There are more than 30 species of flowering plants, which have come from outside and are now very conspicuous in many parts of Sikkim.

Lowland forests of Sikkim are home to several endangered species of birds like the Rufous-necked Hornbill *Aceros nipalensis*, Great Indian Hornbill *Buceros bicornis homrai* locally called 'Hongraio'. The other birds found in Sikkim include Satyr Tragopan, Monal Pheasant, Fire-tailed Sunbird, Blue Magpie and Blood Pheasant etc. Red Panda is the State Animal of Sikkim. Other unique dominant wild fauna includes Musk Deer, Himalayan Tahr, Blue Sheep, Kiang, Nayan, Tibetan Gazelle, Snow Leopard and Tibetan Wolf,. Kyongnosla Alpine Sanctuary has sheltered the Takin *Budorcas taxicolo.*

The State Government has plans to preserve this unique biodiversity of the State.

i. In-situ and ex-situ conservation measures such as fencing the vulnerable areas, assisted natural regeneration, and artificial regeneration.
ii. Large undisturbed habitats would be protected from further fragmentation by confining tourism activities only in areas that are already well designated. Joint anti-poaching operations would be conducted and joint patrols of forest staff and local community organizations including EDCs, Himal Rakshak and NGOs would be done.
iii. EX-Situ Conservation Areas like The Himalayan Zoological Park will be used to initiate endangered species conservation breeding projects of target animal species such as Red Panda (State Animal), Blood Pheasant (State Bird), Himalayan Tahr, Blue Sheep and Snow Leopard. Veterinary health checkups would be held to prevent transmission of diseases to wild animals from domestic animals and vice versa. Vehicles would be made available to the field officials. These activities will also be accompanied by concurrent publicity and awareness programmes.

2. Regeneration of Degraded areas:

Forest Survey of India Report emphasizes the gravity of this problem and calls for a positive action. It says: "The high intensity of rainfall in Sikkim often causes extensive soil erosion and heavy losses of nutrients of land by leaching. Sikkim being a hilly state with heavy rainfall, occurrence of landslide and erosion of land by waterfall and rivers during heavy rains are quite common. In order to safe guard the human lives and natural resources of the State, flood protection works; waterfall training works and erosion works are necessary."

The objectives of the activities to be undertaken for regeneration of degraded areas are:

- To improve the vegetal cover in the area to bring about improvement in forest quality and composition
- To raise mixed plants to improve the environment and to assist the biodiversity, soil and water conservation

The plan of action for regeneration of degraded areas is as follows;

i. The activities under State Green Mission and Ten Minutes to Earth would be further strengthened under this plan.

ii. The areas prone to biotic pressure in the form of grazing would be secluded by stonewall fencing.

iii. The Eco- restoration of hill slopes and moisture management would be simultaneously taken.

iv. Attempts would be made to treat the landslides and soil erosion in an integrated way. This will help stabilizing identified landslides in selected watersheds and will accelerate natural re-vegetative process. Reduction in landslides and soil erosion will also stabilize the landslides in the riverbanks and gullies and reduce potential for channelized debris flows or debris floods. Arresting soil erosion will reduce the potential for additional mass wasting, minimize sediment production and sediment delivery to streams, and thereby reduce the risk of damage to fish habitat and domestic water quality supply.

v. Augmentation of water sources would be done through treatment in the recharge zone wherever necessary.

3. Production of Quality Plantation Material

The seedlings in the nurseries of the Forest Department have been the backbone of state government's greening programmes. Most of the seedlings are provided to the public and the institutions free of cost. For production of quality plantation material the nurseries needs to be strengthened. The activities proposed for this purpose is as follows;

i. Propagation nurseries will be maintained and strengthened in lowland and highland areas, for the purpose of ex-situ conservation and dissemination of important indigenous plant species for cultivation, multiplication, and trading.

ii. The nurseries will be used to propagate rare and endangered plant species, difficult-to-propagate species, and species with high medicinal and economic values.

iii. For indigenous plants with high ornamental values such as wild orchid, primulas, rhododendrons, and other wild flower species, floricultural propagation nursery will be created.

Other activities under this programme include

- Identification, demarcation, and management of seed stands/seed production areas of multipurpose economically important trees for improved seed;
- Development of techniques for seed harvesting collection, storages, treatment and testing for variability and germination; and
- Studies on seed biology and phenology of rare and endangered species in selected regions

4. Forest Protection

Protection forest remains as one of the most important element of forest management in Sikkim. The activities proposed for this is as follows;

i. It is proposed to create boundary demarcation through angle iron posts and stonewall fencing around plantation areas, along forest boundary line, sacred groves etc. Housing facilities will be constructed for frontline staff at strategic locations and forest transit accommodations would be upgraded. Modern equipment will be procured for research and facilitating the fieldwork.

ii. Fire adversely affects natural regeneration, forest growth, ground flora, soil organisms, and site productivity. In the lower hill, reserved forests there are peacocks and other low altitude wildlife like otters, wild boars, porcupine, snakes, wild fowl etc., which have to be preserved. Extensive fires in Oak and chestnut forest that kills the trees can reduce food resources for birds, squirrels and Himalayan black bear. Similarly, the loss of extensive area of dwarf bamboo, the preferred species of Red Panda, would adversely affect that species. Effective fire control as is essential for the forest development.

iii. Identification of existing and potential weeds like Mikenia, Eupatorium, Lantana etc., would be taken up and effective control at various stages of growth would be done.

5. Promotion of Ecotourism in Forests, National Parks, and Sanctuaries:

The ecotourism has the objectives of providing income generation opportunities to local communities living in the forest fringe area, and ensuring that the impacts of developing ecotourism do not damage the environment

A harmony is to be fostered between people and environment and between conservation and development. This would also mean less dependence upon the natural resources in as far as it amounts to removal of produce from these areas. This will also help in conservation of local traditions, culture, and heritage. The activities proposed to be undertaken include eco-trails in forests, sanctuaries and national parks, trekking routes, development of wildlife-watching areas and development of ecotourism facilities at places frequented by tourists.

6. Adapting Forest Management to Emerging Threats of Climate Change:

The climate change poses a serious challenge to forests of Sikkim. It, at the same time, offers opportunities that can be leveraged for forest management. The objectives of the activities to be undertaken would be

1) to analyse and understand the trajectory of ecosystem dynamics in response to climate change
2) Using opportunities of carbon finance for enhancing the forest management

1. Cost Estimates

The activities proposed for forest management in the above sections are estimated to cost about Rs.74 cores. The tentative breakup of the component wise cost estimates are given in Table 26.

Table 26

Cost Estimates for Forest Management Activities

Sl no.	Components	Cost in Rs. (Crores)
1.	Preservation and propagation of unique floral and faunal diversity of Sikkim	5
2.	Regeneration of degraded areas	25
3.	Production of quality plantation material	10
4.	Forest Protection	20
5.	Promotion of ecotourism in Forests, National Parks and Sanctuaries	12
6.	Adapting forest management to emerging threats of climate change	2
	Total	Rs. 74 crores

The Fourteenth Finance commission is requested to consider the importance of forest management in Sikkim and provide grants for these activities. It is reiterated that the State of Sikkim expects that the Fourteenth Finance Commission would recognize not only the forest cover but also the value of unique biodiversity and unique ecosystem services, which Sikkim offers to the nation. The forest management schemes proposed here will be implemented by the Forest, Environment & Wildlife Department of Sikkim in accordance with the guidelines of the Government of India.

B. Study of Glacier Dynamics of Ideal Glacier and Glacial Lakes

Glacier is a perennial mass of ice originating on the land surface by the recrystallization of snow or other forms of solid precipitation and showing evidence of past or present flow. They constantly change their shape and form to adopt the changes in the surrounding environment. Glaciers create their own microclimate and regulate the general climate of the area. In Sikkim, there are 84 Glaciers in Teesta basin (Glaciers atlas of Teesta basin, 2001). All the rivers and small tributaries are fed by these glaciers. The main source of drinking water is glacier fed rivers or seepage of Glacier melts and rainwater. Since Sikkim has a hilly terrain, major source of drinking water **is** relied on glacier melt surface runoff water and springs.

All power projects are located very close to glaciers. Lack of data on rate of erosion, annual water discharge, and hydrometeorology from these zones of the Himalayas can create huge problems in the planning and execution of Hydro projects in Sikkim. Also, there is a lack of long term glaciological data in Sikkim. Hence, for formulating any type of model for the estimation of forecast of melt water runoff from glaciated catchments, periodic data on long-term basis is required. One of the major reasons why power projects in Europe run so well is that they are backed by glaciological data for over hundreds of years. Qualitative and quantitative data of glacier and snowmelt water go a long way in planning, estimating, and forecasting the power generations of the glaciated river basins well in advance. It would also aid in understanding the study of climatic phenomena.

Sikkim State Council of Science and Technology in support of DST, GOI has been studying the glacier dynamics of East Rathong Glacier from last one year. Studies have been going on for ablation rates in glacier, glacier velocity, snout monitoring, glacier hydrology, sedimentation etc. However, it is very difficult for the State Council to carry out glacier mass balance by direct glaciological method since the accumulation area, its head wall of East Rathong glacier is unapproachable, and heavy risk is involved in this exercise due to steep slope. In this context, it is necessary to find out the ideal glacier in Sikkim to generate long-term data on glaciology of Sikkim. Ideal glacier can be easily approached, smaller area, identifiable snout etc, where mass balance studies, which define health of the glacier would be a prime focus. Alternative methods for carrying out mass balance in the East Rathong Glacier and other unapproachable glaciers would be geodetic method and hydrological method, which requires satellite imageries of ablation season (June-October) in time series and precipitation, evaporation (AWS) and discharge data respectively. On the other hand, glacier melts has contributed to the formation of many pro glacial lakes in Sikkim, which can create threat to the downstream human habitation and other resources, therefore it is very necessary to study glaciers with proper instruments and logistics.

Need of Permanent Manpower in the Glacier Studies of Sikkim

Among the various work carried out by Department of Science and Technology on Climate Change, the studies on glaciers of Sikkim is considered as most challenging and crucial. Glacier is considered as one of the main indicator of climate change, due to its fragile nature and characteristics. At present glaciers in the different parts of the world are in fast retreating stage. Climate change is considered as one of the important factors for these retreats of the glacier. Different organizations in the different parts of the world are engaged in the studies of the glacier.

Considering the large number of glaciers in Sikkim, it is very important to study some more glaciers. Apart from that, the study of glacier must be carried out for the longer duration in order to reach at certain conclusions, which may vary from 10 to 20 years. The study of glacier is one of the challenging studies with full of risk on life of the people engaged in its studies due to harsh high altitude weather and presence of numerous crevasses in the surface of the glacier.

There is a need to focus on well-trained work force on glacier study in Sikkim. Permanent work force is needed to carry out the glacier study for the longer period. At present Department of Science and Technology has two project scientists working on East Rathong Glacier. They are trained in Geological Survey of India, Lucknow and Jawaharlal Nehru University, New Delhi. They are in recruited for a term of one year and after completion of one year fresh appointments are needed. The project scientist may leave the current job once they get better jobs elsewhere. Therefore, the priority for the department is to get skilled manpower trained in glaciological programmes in India. In the absence of skilled scientists, the department will not be able to carry out the studies of glacier in proper manner. In other Himalayan states, glaciological studies have been carried out from many years and they have very good time series baseline data. Thus, the State needs to recruit permanent manpower or absorption of trained manpower in the glacier and climate change studies so that the glacier study may continue without any interruption in the state. These would help the state in getting long-term glaciological data, which act as basic requirements in planning and execution of different projects of Sikkim.

Fund Requirement for the Project

This is the long-term monitoring programme of glacier. The department needs to find the ideal glacier in Sikkim for glacier studies, which would be the representative of all the glaciers of Sikkim. The activity for the first five years is estimated to cost Rs.10 crores that includes cost of recruiting trained scientists in glacial studies. The State Government requests the Fourteenth Finance Commission to provide grants for this very important climate change study.

7 Chapter VII

7.1 Goods and Services Tax

The Fourteenth Finance Commission is required to consider the impact of the proposed Goods and Services Tax (GST) on the finances of the Centre and the States and mechanism for compensation in case of any revenue loss. The State of Sikkim is of the opinion that introduction of GST would help in reforms in indirect taxation system in the country by integrating taxes on goods and services. Although the introduction of GST was delayed due to problems in coordination between the central and State Government on number of issues, progress has been made to reduce the differences on issues like design, rates, and compensation. The recommendations of the 14th FC on the impact of GST on State finances and the mechanism for compensation will be important inputs in this respect. Particularly, the compensation mechanism is significant, as the implementation of GST may not revenue neutral to all the States.

It is expected that implementation of GST will increase collection of revenue of the State Government due to availability of a whole new sector "SERVICES" to be taxes by the States. Tax on services proposed to be allocated to States such as consultancy, tour & travels, transport, entertainment, gambling, courier, beauty parlour, gymnasium, cyber café etc will generate the additional revenue. However, the quantum of possible gain cannot be specified because no official data is available as on date on tax base of services and their involvement in manufacturing and distribution of goods in the State.

Import from foreign countries is another new sector that will be available for the States to levy tax under GST. The international trade occurring in border of Sikkim in form of Nathula border trade is expected to grow in future. Hence, this border trade will definitely generate additional revenue for the State.

The destination-based principle of GST is expected to eliminate cascading effect of the tax. This will enhance investment capacity of producing sector and purchasing power of consumers. The enhancement will expand the economy yielding more revenue in form of indirect taxes to the State Government. As per the estimate of the Kelkar Committee the reform in indirect tax system will contribute 1.5 growths in GDP. The proportionate gain in revenue would be availed by the State of Sikkim as well.

While the State Government is optimistic about the introduction of GST in the country, there are certain areas of concern.

Proposal to include petroleum products is not correct

1. All along, it was a consensus decision of the Empowered Committee that the items, namely, petroleum crude, motor spirit, aviation turbine fuel, high-speed diesel, and alcoholic drinks will be kept outside the GST. It is accordingly mentioned in Paragraph 3.4 of the First Discussion Paper on GST in India released by the Empowered Committee in November 2009. However, recently the Committee on GST Design has recommended inclusion of the items in GST basket. In this context, the State of Sikkim would like to suggest that these items should not be brought under GST. It was deliberated upon in various meetings of the Empowered Committee that these items are used as inputs in all type of economic activities involving production of goods and services. Their inclusion in GST at initial phase of implementation will immensely build up the amount of creditable input tax. The studies on tax base and revenue neutral rate done by the committees and institutions so far have also not considered its implication.

States like Sikkim need support for upgrading tax administration

2. The introduction of GST will throw new challenges like allowing credit of tax paid on goods and services to the State of origin. The challenges like drain of revenue on direct inter-state purchase by final consumers of State will continue. Further, the scope for addition al revenue to be collected by controlling the evasion is large. This was evident in view of the inter-state purchase data of 2012-13. To address all these issues there is need for comprehensive automation of inter-state transaction under GSTN (Goods & Services Tax Network). This will make monitoring more effective to minimize evasion and will result in rise in revenue collection. While the State Government has plans for upgrading the tax administration system in Sikkim, there is a need for financial support for this endeavor..

Mechanism for compensation of revenue loss

3. The Central Government has assured the Empowered Committee of the State Finance Ministers that a suitable package of compensation will be provided to the States in the event of loss of revenue after implementation of GST. The State supports the demand of the Empowered Committee that the full compensation should be provided for five years after implementation of GST through the GST Council. The methodology of computing the revenue loss should contain growth rate based on five best performances during last ten years, instead of average growth rate of immediate previous three/five years.

Levy of tax to compensate CST loss will adversely affect the GST implantation

4. Lately, some advanced States have raised the issue of loss of CST revenue in the Empowered Committee. They have demanded that in lieu of CST the producing states may be allowed to levy some tax (Green Tax) on goods imported by consuming states under GST. The State of Sikkim is absolute against such levy. This will open the floodgate of cascading effect and other distortions.

8 Chapter VIII

8.1 Financing Disaster Relief Expenditure

The para 9 of the Terms of Reference of the Fourteenth Finance Commission requires that the Commission to review the present arrangements as regards financing of Disaster Management with reference to the funds constituted under the Disaster Management Act, 2005(53 of 2005), and make appropriate recommendations thereon.

The Issues Relating to Natural Calamities in Sikkim

The State of Sikkim, situated at very high altitude, has a very fragile ecology. It is a mountainous state crisscrossed with narrow valleys and cliffs. The young fold mountains are characterized by a weak geology comprising of sedimentary and low grade metamorphic rocks which when combined with the state's heavy rainfall (2800 mm average annual rainfall) causes extensive soil erosion and loss of nutrients through leaching, resulting in frequent landslides. The complex geological setup causes frequent earth movements aggravating the landslides throughout the state. The entire state is categorized as a highly active seismic zone and it comes under Zone V. The state receives heavy rainfall during the monsoons and in recent years, the rainy season has been stretching from the normal three months to five months. Even during other seasons, the state has been experiencing incessant rains of late causing more damages to life and property.

The impact of calamities, based on the list adopted by the Finance Commissions in Sikkim is as under:

Landslides: The monsoon season is the period of probable occurrence of calamities as past records reveal. Major calamities have struck the state culminating to colossal losses to life and property. Every year the road network is disrupted throughout the state as well as interstate highway is blocked due to landslides. The steep terrains of the state along with the rivulets, **which get** flow of water during monsoons, create a calamity in the form of landslides.

Hailstorms: During the months of March- April each year the state experiences torrential rainfall and hailstorms, resulting in heavy loss of standing crops as well as damages to the green houses of the farmers in the villages.

Cloudburst: This form of calamity results in heavy loss as water pipelines, electricity poles, communication lines, road network, other government infrastructures get damaged every year. Cloudbursts are a common phenomenon in Sikkim during the monsoons.

Flooding: Although Sikkim is a hilly State, the lower reaches do have plains especially on the river basins and during monsoons, these areas are vulnerable to floods. Even in the hilly slopes due to the jhoras/rivulets being clogged, situation of flooding arises along the slopes causing much grief and damage to life and property.

Fire: In recent years, the state has been experiencing many incidents of forest fire as well as fire in the localities. These are associated with dryness in the forest areas during the winter season.

Earthquakes: Earthquake is a common phenomenon in the state as it falls within the seismic Zone V. While there were many jolts before the earthquake of 18 September 2011 was one of the worst that the State experienced in its recent History. The damage to life and property was severe. At present reconstruction of infrastructure is being carried out through the financial assistance provided by the Government of India. The Earthquake also causes frequent landslides.

8.2 Financing the Relief Expenditure

The amount of annual contribution to the CRF (now merged with newly constituted SDRF) is as per the allocation fixed by the Finance Commission. The Central Government contributes 90 per cent of the total annual allocation to the CRF in two installments and the State Government meets the balance 10 per cent. Further, fixed deposits are made in the nationalized banks from the CRF as and when possible. The interest earned from this is credited back to the CRF. In some cases, when the balance available in the CRF becomes inadequate for the relief expenditure, the central Government provides relief assistance from the National Calamity Contingency Fund (NCCF) to tide over the crisis. The central assistance is based on the assessment carried out by the National Centre for Calamity Management in these cases. The State has been benefited from the funding made available through the CRF. The expenditure recorded from the CRF during the last six years, is given in

Table 27. The Prime Minister's package for relief expenditure for the earthquake of 2011, however, was a separate arrangement.

Table 27
Expenditure from CRF

Rs.Crore

Sl.No.	Year	Expenditure from CRF
1	2007-08	18.58
2	2008-09	32.36
3	20009-10	14.57
4	2010-11	16.36
5	20011-12	49.58
6	2012-13	15.62

The receipt from the NCCF is given in Table 28.

Table 28
Expenditure from NCCF

Rs.Crore

Sl.No	Year	Expenditure
1	2011-12	107.59
2	2012-13	92.79
	TOTAL	200.38

Assessment of Damages (Life and property)

In case of any calamity, the details of the calamity and the damages caused by the calamity are reported to the Relief Commissioner by the District Collectors. Based on the reports, relief is provided from the Calamity Relief Fund in accordance with the items and norms of expenditure approved by the Department of Agriculture and Co-operation, National Management Division (NDM), Government of India. Relief in case of life and property due to natural calamity is also being provided in accordance with the items and norms of the CRF. In case of damages to infrastructures like roads, water supply, power lines, schools, hospitals, etc, relief is being provided based on technical reports and estimates of damages prepared by the Engineering Departments. Beside this, relief is also provided from the CRF for immediate restoration and repairs of infrastructure so that hardship to the public is avoided. All relief to the districts is being provided based on the approval of the District Level Relief Committee (DLRC) for relief up to Rs.2.00 lakhs and by the State Level Relief Committee (SLRC) for relief above Rs.2.00 lakhs with the approval of the State Executive Committee headed by the Chief Secretary as the Chairperson.

The Disaster Management Act 2005

The Central Government enacted the Disaster Management Act, 2005 for effective management of disasters. The Disaster Management Act 2005 defines ‘Disaster’ as a catastrophe, mishap, calamity or grave occurrence in any area, arising from natural or man made causes, or by accident or negligence which results in substantial loss of life or human suffering or damage to, and destruction of property, or damage to, or degradation of, environment, and is of such a nature or magnitude as to be beyond the coping capacity of the community of the affected area.

The Act defines “Disaster management” as a continuous and integrated process of planning, organizing, coordinating, and implementing measures which is necessary or expedient for –

- Prevention of danger or threat of any disaster;
- Mitigation or reduction of risk of any disaster or its severity or consequences;
- Capacity building;
- Preparedness to deal with any disaster;
- Prompt response to any threatening disaster situation or disaster;
- Assessing the severity or magnitude of effects of any disaster; evacuation, rescue and relief;
- Rehabilitation and reconstruction

All these provisions of Disaster Management Act 2005 envisage preparation of medium as well as long-term strategy for preventing the occurrence of natural calamities or reducing the severity of impact and frequency of occurrence of the natural calamities. The Disaster Management Act 2005 has prescribed establishment of the following funds:

1. State Disaster Response Fund
2. District Disaster Response Fund
3. State Disaster Mitigation Fund
4. District Disaster Mitigation Fund

The earlier Finance Commissions have recognized a list of six natural calamities (cyclone, drought, fire, flood, and hailstorm) to which tsunami, landslide, avalanches, cloudburst, and pest attack were added later. While the DM Act widened the definition of disaster to cover even manmade causes, the Thirteenth Finance Commission held the view that the existing list is exhaustive and helped in providing relief to the affected.

The two funds created under the DM Act to finance the relief expenditure, were to be established at three levels, Central, State, and Districts. While the funding for the national fund was to be provided by the central Government, the Act did not specify the source of funding for the State levels Funds. The Thirteenth Finance Commission recommended for the merger of NCCF with the NDRF and the CRFs with the SDRFs and transfer of available funds in the NCCF and CRFs to the newly constituted bodies. Recognizing the usefulness role played by the CRFs, the Thirteenth Finance Commission felt that the there was a need for Central funding for the SDRFs. The Commission recommended that for general category States, the SDRF funding would be in the ratio of 75:25 between Central and State Governments and for the special category States, the ratio would be 90:10.

The Thirteenth Finance Commission continued the practice of adopting expenditure – based approach like the earlier Commissions. The total expenditure for calamity relief under accounting head 2245 was considered, which was adjusted by the amount contributed from the NCCF and for inflation. All the special category States and the State having per capita income lower than Rs.30,203 (2005-07) were allowed an increase of 30 per cent on derived relief expenditure keeping the lower fiscal capacity in view. The Commission recommended Rs.33581 crores as the aggregate size of all the SDRFs. The Commission also provided an additional amount of Rs.525 crores for capacity building. The State of Sikkim has already transferred the existing balances from CRF to the SDRF as recommended by the 13th Finance Commission.

Specific Difficulties Faced by the State and Suggestions

The Commission may review the present arrangements as regards financing of disaster management and make appropriate recommendations duly taking into account the actual need and ground realities in respect of difficult hilly States, which are highly prone to natural calamities.

1. In the hills, the State has been bound by the items and norms of expenditure from the CRF to take up temporary restoration works only. Taking up works purely of temporary nature especially in restoration of vehicular road linkages is not adequate. With the onset of monsoon and the torrential rain that the state experiences, it is seen that temporary restoration works do not last long and eventually gets washed away by the heavy rain. The temporary work neither provides relief nor fulfills the purpose for which the funds are provided for. Therefore, the State proposes to make changes in the norms and works of semi-permanent nature with use of concrete be allowed in the State like Sikkim.

2. There are many places in the State, where the upper areas have started to sink. Construction of a protective wall at the base of such areas will not only protect the area immediately above it but will also protect all the areas that lie above it. The benefit is enormous to the public in such areas. The mitigation and preventive measure would provide for prevention of loss of life and property of the people. The position of the State is that the area once reported to be sinking should be considered as being already affected by natural calamity.

3. The NDRF/ SDRF guidelines do not permit prevention /mitigation works. However, in a hilly terrain like Sikkim, preventive measures are the best solution for avoiding greater calamity. As such, the state may be permitted to utilize SDRF fund for preventive/ mitigation measures.

4. It is also very common in a hilly State like Sikkim that during monsoons many rivulets, which lie dormant during the winter season, become flooded due to very heavy rainfall, and overflow into the nearby roads/ houses/land. The Jhora Training, a method to control this situation relating to overflowing of rivulets, could prevent a number of hazards to life and property. It is hence requested that norms for utilization of CRF funds (SDRF) may be relaxed for hilly States to respond to these kinds of natural calamities.

5. The State of Sikkim experiences heavy rainfall especially during the monsoon months. Rain is often accompanied with thunder and lightning because of which there have been deaths and damages to the houses due to lightning strikes every year. Such deaths need to be covered under the items and norms of expenditure of CRF.

6. A number of epidemics break out especially during the monsoons causing great loss to life and property. In such situations, the public look upon the State to provide relief. Hence, relief in such cases may also be included in the norms for providing relief.

7. The state of Sikkim is mostly covered by forest, which constitutes 70% of the total area of the state. Due to the drying of the trees and sparks due to frequent lightning or other reasons, there are a number of incidents of forest fire, which also affects the surrounding locality. Hence, relief and restoration under such circumstances may also be covered under SDFR.

8. The State of Sikkim falls within the seismic earthquake Zone V. The state has been experiencing many jolts of which the earthquake of 18 September 2011 was one of the worst that hit the State. Even after the major earthquake of 18th September 2011, the state has been experiencing a number of jolts, at times leading to damage of property and disturbance of communication links like roads, telecommunication and power failure. Earthquake also causes frequent landslides.

9. The State urges the Commission to consider for 100 per cent funding of CRF/SDRF by the Central Government instead of existing funding of 90 per cent due to difficulties in generating even the 10 per cent State share

9 Chapter IX

9.1 Local Bodies in Sikkim

The last two decades has witnessed remarkable trend towards increasing decentralization throughout the world. The focus was towards devolution of political, administrative and fiscal authority to local units. India has also kept pace with this global trend.

In 1993, the Government of India passed a series of constitutional reforms (the 73rd and 74th Constitutional Amendment Acts), which were intended to empower and democratize local bodies both in the rural and urban areas. The 73rd and 74th Constitutional Amendment Acts provided constitutional status to local bodies in the country which are seen as the third tier of the government. The passage of these Acts indicates a fundamental restructuring of the governance and administrative system of the country, based on the philosophy of decentralization and power to the people.

Sikkim introduced its Panchayati Raj Act in 1993 to conform to the 73rd Constitutional Amendment. The State has also conformed to the 74th Constitutional Amendment Act by bringing in the enabling legislation. The Sikkim Municipalities Act 2007 was introduced in March 2007 for setting up of Urban Local Bodies in the state.

9.2 Evolution of Local-Self Governance in Sikkim

Although Sikkim introduced its Panchayati Raj Act in 1993 to conform to the 73rd Amendment Act, the roots of Panchayati Raj in the State dates back to the time when Sikkim was a kingdom under the Namgyal Dynasty. The first recorded attempt to establish Panchayats in the State was made as early as 1948.[1] An attempt was made to create Panchayats, consisting of the landlords or his representative and four other members from the block, selected by the people in a meeting convened for the purpose.

[1] Vide Notification No.3054-254/PS dated the 24th January 1948

The Sikkim Panchayat Act, 1965 came into force in December 1965. It was promulgated to consolidate and amend laws relating to Panchayats in Sikkim. The objective of establishing these Panchayats was to facilitate rural development and to enable participation by all communities at the village level. The term of such Panchayats was three years and each of these Panchayats was assigned 16 duties and functions. To fulfill these duties, the Panchayats had resources comprising house tax, a proportion of land revenue of the block, matching grants by the *Darbar* for original work (for which public contribution was collected), sanitation cess and water cess. In 1982, a new Act was enacted for decentralizing the work at district levels. This Act envisaged the constitution of Zilla Panchayats (ZP) at the district level.

Sikkim ushered in the new age of decentralization by implementing the Constitutional 73rd Amendment Act, 1993. In doing so, it enacted the Sikkim Panchayat Act which was notified in October 1993. Sikkim follows a two-tier system of Panchayati Raj with the Zilla Panchayat at the district level and Gram Panchayat (GP) at the village level. The Sikkim Panchayats Act, 1993, enabled the Gram Panchayats and the Zilla Panchayats to have the authority to levy taxes, rates and fees. The duties cast by the constitution to the State Government viz. periodic holding of local elections, bringing out enabling legislations for the transfer of funds, functions and functionaries, constitution of State Finance Commission has been fully adhered to by the State. The State has also implemented the 74th Constitutional Amendment Act with the setting up of Urban Local Bodies (ULBs) and the enabling legislation, The Sikkim Municipalities Act 2007, was enacted by the Legislative Assembly in March 2007. Though the Act was brought in 2007, the urban local bodies were formed only in 2010-11. Sikkim follows a three-tier structure for the urban local bodies namely Municipal Corporation, Municipal Council, and Nagar Panchayats. The State has adhered to all the provisions of the 73rd Amendment Act.

At present, there are 4 Zilla Panchayats and 176 Gram Panchayats Units comprising of 989 wards in Sikkim. Of the 176 Gram Panchayats there are 2 traditional institutions of self-governance at Lachung and Lachen, also known as the *Dzumsas*. The *Dzumsas* were deemed to be Gram Panchayat Units (GPU) for the purpose of Sikkim Panchayat Act, 1993 and exercise its traditional powers and functions in addition to those of the Gram Panchayats. On the urban local body front, there are 7 urban local bodies in the State comprising of 1 Municipal Corporation, 1 Municipal Council and 5 Nagar Panchayats. Table 29 shows the number local bodies – both rural and urban, in Sikkim as on 1 April 2013.

Table 29
Local Bodies in Sikkim

Rural Local Bodies (as on 01.04.2013)	Gram Panchayat (GP)	176
	Zilla Panchayat (ZP)	4
Urban Local Bodies (as on 01.04.2013)	Municipal Corporation	1
	Municipal Council	1
	Nagar Panchayat	5

9.3 Status of Decentralized Governance and Devolution

One of the remarkable achievements of the State government is the degree of decentralization of power in rural areas. Power has been transferred to villages through Panchayats, to make the people partners in finalizing schemes and implementing them at the grassroots level. Sikkim has routinely been acknowledged as the best state in the country in the category of smaller states for its outstanding performance in strengthening and developing the Panchayati Raj institutions. The state government has adopted a strategy that mixes power decentralization, people's involvement and benefit centric activities. Developmental schemes are finalized and implemented at the grassroots level.

There has been a sustained effort to make the Panchayats effective institutions of local governance through training of the elected members, providing them funds for development and setting up various supporting bodies and institutions. These include State Election Commission, State Finance Commission, Block Administrative Centers (BAC) (these have now been renamed as Gram Bikash Kendras), District Planning Committees (DPC), Social Audit-cum-Vigilance Committees and the Gram Planning Forums (GPF).

The state government has taken several steps to help women who are socially, politically, and economically underprivileged. In 2005, the Sikkim Panchayat Act was amended to insert a provision for one-third reservation for women in Gram and Ward Sabhas to ensure active participation of women in all decision making. Later, in 2007, this was increased to 40 percent reservation for women. In the Panchayat elections held in November 2012, the reservation for women was raised to 50 percent.

These serious and consistent efforts made by the Sikkim Government have benefited the people of the state. One of the indicators of the progress made by Sikkim is the various national awards conferred to the State for transferring power to the people. Sikkim was judged as the 3rd Best State in Panchayati Raj in 2006-07, 2nd Best State in Panchayati Raj in 2009-10 and 3rd Best State in 2010-11.

9.4 Devolution of Powers & Activity Mapping

The Eleventh Schedule added to the Constitution by the 73rd Amendment lists twenty-nine functions, which are devolvable to the Panchayati Raj Institutions (PRIs). States were free to set the speed and design of their approach to decentralization under the general framework of the Constitutional mandate. The Ministry of Rural Development (MoRD), Government of India in July 2001 constituted a Central Task Force for suggesting the manner of transfer to each tier of the panchayats so that devolution of all the 29 functions enlisted in the Eleventh Schedule can be completed by 2002. The Sikkim Panchayat Act, 1993 has provision for transfer of these functions to the PRIs. Accordingly, the State Government through Executive orders transferred functions to the ZPs and GPs.

Activity mapping was taken up which provides clarity with regard to the delegation of functions between the State Government, the Zilla Panchayats and the Gram Panchayats. It further provides for allocation of funds and functionaries for effectively discharging such functions. The transfer of function of the local bodies was based on activity mapping. The Twelfth Schedule added to the Constitution by the 74th Amendment lists eighteen functions devolvable to the urban local bodies. The Sikkim Municipalities Act, 2007 provides for devolution of all 18 functions included in the Twelfth Schedule to the Municipal Corporations, Municipal Councils and Nagar Panchayats. Accordingly the State Government through notification in 2010 transferred functions to Urban Local Bodies.

9.5 Audit of Accounts

In keeping with the recommendations of Eleventh Finance Commission and guidelines issued by Ministry of Finance, the Government of Sikkim has entrusted the task of audit of accounts of Panchayati Raj Institutions to C&AG. Accordingly, audit of GPs is being conducted biannually and ZPs annually by the office of the Accountant General since May 2003 as per the methodology and procedure enshrined in Auditing Standards and the Guidelines issued by C&AG from time to time. Accounts of PRIs are also audited by the Director, Local Fund Audit and by a Chartered Accountant hired for this purpose. The state Government has adopted the revised format prepared by CAG for accounting purposes. Latest year up to which the accounts of the rural local bodies have been audited is 2010-11.

In case of Urban Local Bodies, the Technical Guidance & Support (TG&S) is being provided by AG Office and the audit is also being carried out by the Director, Local Fund Audit, FRED (i.e. Finance, Revenue and Expenditure Department). The ULBs follow Sikkim Municipal Accounting Manual which is based on National Municipal Accounting Manual. Audit of the Gangtok Municipal Corporation has been carried out up to 2011-12.

9.6 State Finance Commissions

Constitution of a State Finance Commission every five years is mandated in Article 243 I (1) and 243Y (1) of the 73rd and 74th Constitutional Amendment Act (CAA) of India, 1993. The State Finance Commissions are assigned the task of reviewing the financial position of local bodies and making recommendations on the sharing and assignment of various taxes, duties, tolls, fees etc. and grants-in-aid to be given to the local bodies from the consolidated fund of the State. Following the Constitutional obligation, Sikkim set up its first Commission on 22nd July 1998. The Commission submitted its Report on 16th August 1999. The Second State Finance Commission was notified on 5 July 2003 and it submitted its report on 30 September 2004.

Third Finance Commission of the State was constituted in March 2009 and it submitted the report in February 2010. The report of the Commission covered the five years period 2010-11 to 2014-15. The Fourth Finance Commission of Sikkim was constituted in June 2012 and the report was submitted in May 2013. The dates of constitution of the different State Finance Commissions, dates of submission of their reports and the period of coverage of each of the four SFCs along with the date of submission of Action taken Report (ATR) by the State Government is presented in Table 30.

Table 30
Status of State Finance Commissions

Round	Date of Constitution of SFC	Date of Submission of Report	Period of coverage	ATR Submitted on
First SFC	22.07.1998	16.08.1999	2000-01 to 2004-05	June 2000
Second SFC	05.07.2003	30.09.2004	2005-06 to 2009-10	25.2.2006
Third SFC	04.03.2009	27.02.2010	2010-11 to 2014-15	23.03.2010
Fourth SFC	15.06.2012	15.05.2013	2015-16 to 2019-20	Under Consideration

9.7 Own Revenues of Local Bodies

In order to function as institutions of self-governance, the local bodies (both rural and urban local bodies) in Sikkim are empowered to raise tax and non-tax revenues. Sikkim Government vide notification no. 05/RM&DD/P dated 27/09/2010 has fixed the taxes, their rates and the fees to be levied by the Gram Panchayat (see Annexure-II for the notification). The department is actively involved not only in sensitizing Panchayat representatives for raising own resources but is also monitoring their efforts in this direction.

As the ULBs have recently been formed in the State in 2010-11, the transfer of functions is taking place progressively. Sikkim Municipalities Act, 2007 empowers the Municipalities in the State to raise resources by way of levying taxes and non-taxes.

9.8 Elections

As envisaged in the Amendment Act the State Government is regularly holding elections for its local bodies. The State Election Commission of Sikkim was constituted in 1992 as an independent constitutional body in pursuance of the 73rd and 74th Amendment of the Constitution of India and is vested the responsibility for superintendence, direction and control of preparation of electoral rolls for and conduct of all elections to local bodies in a free and fair manner. The last elections of the Rural Local Bodies in Sikkim were held on 3 November 2012 while that of Urban Local Bodies was held on 27 April 2010.

9.9 Suggested Approach for the Fourteenth Finance Commission for Local Bodies in Sikkim

Sound finance of panchayats is a constitutional obligation. As the Panchayats are heavily dependent on grants from both the Centre and State, revenue transfers from the Central and State Government to them is very crucial. Though the Panchayats in Sikkim have been vested with increased powers to raise revenues, their capacity to generate resources for carrying out the responsibilities assigned to them is weak and grossly inadequate. It is therefore important that adequate finances be available with the Panchayats to match the transferred functions based on the activity mapping for the devolution of funds, functions and functionaries (3Fs).

Corresponding to the measures suggested by the Finance Commissions to make it obligatory for the PRIs by empowering them to levy certain taxes, prescribing minimum revenue collection, levy of user charges, higher efficiency in tax collection, economy in expenditure and transparency in functioning, the results of these measures to improve the financial position of the Panchayats has not been very encouraging. This is partly due to thin tax domain of the Panchayats, their disadvantaged geographical locations, sparse population with scarce and uneven economic activity in the Panchayat areas and partly due to panchayats' reluctance to collect revenues assigned to them. As a result, the internal revenue generation by PRIs is very low. Even the State's ability to meet the resource requirements of the PRIs based on the recommendations of State Finance Commissions is not adequate as the State is constrained by its committed liabilities, which are a priority. Therefore, the dependency of panchayats on the central funding through Central Finance Commission transfers is primary.

Taking into consideration the issues relating to the financial health of the Panchayats, the State is of the opinion that that the 14th Finance Commission should increase the volume of local body grants substantially to support PRIs in the State. The focus of the local body grants under the 14th FC should be on:

- enhancing operational physical infrastructure in the Panchayats, such as construction of Panchayat Ghars, Community Centre and their maintenance;

- maintenance of basic civic services by the Panchayats including Disaster Management and Emergency Preparedness;
- strengthening of Gram Sabhas & IEC activities;
- strengthening e-Panchayat and new accounting structure;
- special assistance to Panchayats in backward, vulnerable and difficult areas of the state;
- creation of database with provision of adequate manpower in each of the GPs;
- honorarium and sitting fee for elected representatives at enhanced/revised rates;
- discretionary grants for elected representatives at both the tier of Panchayats at enhanced/revised rates;
- meeting up rentals wherever operational infrastructural facilities are not available;
- meeting up salaries of staff appointed at the GPs at enhanced/revised rates;
- meeting up office expenses;
- maintenance of civic amenities such as primary education facilities, health care, dhara vikas, rural drinking water supply assets, replacement and rejuvenation of non-functional rural drinking water assets, minor irrigation channel, garbage/solid waste management services, sewage disposal, O&M in rural sanitation programmes, conservation of forest/social forestry, capacity building and exposure visits of the PRI elected representatives/functionaries and community service centre etc.;
- at least 5% of the grant should be allowed for administrative expenditure for regular monitoring and evaluating the performance of the PRIs, processes for implementation of the recommendations of the Finance Commissions and strengthening of the Panchayat cell in Rural Management and Development Department (RM&DD).

In view of the ever-increasing obligations and responsibilities to provide basic services, infrastructure, as well as meeting other civic needs, it is urged to significantly enhance the funding under 14th FC grants. The fund allocation to the PRIs should be untied so that the PRIs have the flexibility to plan and implement programmes in accordance with their local priorities.

The levy of penal interest issue on non-adherence of timely transfer of funds to PRIs should be relaxed for Sikkim for the following genuine reasons and ground realities:

- absence of core banking facility in the villages
- absence of internet connectivity/online banking facility in the villages
- road blockades during heavy monsoon
- considerable time taken to reach far flung, remote and inaccessible area GPUs
- insufficient accounts manpower in the Panchayat Cell to handle the disbursement of grants to the PRIs

In view of Sikkim's vulnerability to the occurrence of frequent landslides, difficult terrain, unavailability of internet and communication connectivity etc., the State urges the 14th Finance Commission not to impose any eligibility conditions for the entitlement of grants or imposition of fines for delay in transferring grants to PRIs.

The Urban Local Bodies (ULBs) in Sikkim were formed recently in 2010-11. They are still in their early stages and hence require considerable amount of funds for carrying out functions and responsibilities entrusted to them. The present grant-in-aid from the State Government and the own resources are not sufficient to provide basic civic services to the citizens. The functions are being transferred to ULBs in a phased manner. The resources are being transferred as per the recommendation of 3rd State Finance Commission. The Plan grant has been stopped, as the State Govt. has not been able to generate extra fund to transfer to the ULBs. The property tax has not been initiated yet. Because of this situation, the ULBs have been handicapped on many fronts.

The 14th Finance Commission should keep this into consideration while deciding on the quantum of grants for the urban local bodies in the State. The focus of the urban local body grants under the 14th FC should be on:

- maintenance of basic civic services by the ULBs including Disaster Management and Emergency Preparedness;
- creation of database with provision of adequate manpower in each of the ULBs;
- honorarium and sitting fee for the elected representatives of ULBs at enhanced/revised rates;
- discretionary grants for elected representatives in all ULBs at enhanced/revised rates;

- meeting up salaries of staff appointed at the ULBs at enhanced/revised rates;
- meeting up of office expenses of the ULBs;
- maintenance of civic amenities such as drinking water supply assets, garbage/solid waste management services, sewage disposal, capacity building of the elected representatives/functionaries of the ULBs etc.;
- at least 5% of the grant should be allowed for administrative expenditure for regular monitoring and evaluating the performance of the ULBs, processes for implementation of the recommendations of the Finance Commissions.

In view of the ever-increasing obligations and responsibilities to provide basic services, infrastructure, as well as meeting other civic needs, it is urged to enhance the funding for ULBs under 14th FC grants significantly. The fund allocation to the ULBs should be totally untied so that they have the flexibility to plan and implement programmes in accordance with their local priorities.

In addition to the above, there are additional issues for which the 14th Finance Commission should give special consideration and some financial support could be provided to the ULBs. These issues are:

a) Any new appointment of manpower to aid the delivery of services is very restricted as ULBs do not have fund to meet the salary component for additional manpower.
b) Municipal Solid Waste is the function of the ULBs. Gangtok Municipal Corporation has inherited a fleet of old garbage trucks, which need to be replaced immediately as their repairs prove to be very uneconomical.
c) The office space of ULBs have been provided by Urban Development & Housing Department to meet the immediate need and will not be able to cater to the future function of the ULBs. Town Hall is necessary for all ULBs where none exist.
d) To ensure efficient delivery of services, computerization is of utmost importance. ULBs will have to heavily computerize their system of service delivery to meet the demand of its citizen

The tentative financial estimates for the same are given Table 31

Table 31

Tentative Cost of Proposed Activities for ULBs

Rs. Lakh

Name of the Municipality	Salary Support	Solid waste Support	Office/Town Hall support	Computerisation support
Gangtok Municipal Corporation	500.00	200.00	800.00	100.00
Namchi Municipal Council	200.00	100.00	600.00	75.00
Rangpo Nagar Panchayat	100.00	50.00	500.00	50.00
Singtam Nagar Panchayat	100.00	50.00	500.00	50.00
Mangan Nagar Panchayat	100.00	50.00	500.00	50.00
Jorethang Nagar Panchayat	100.00	50.00	500.00	50.00
Gyalshing Nagar Panchayat	100.00	50.00	500.00	50.00

Projected Resource Requirement for Local Bodies from the 14th Finance Commission

Tables 32 and 33 show respectively the projected expenditure of the Rural Local Bodies (RLBs) and the Urban Local Bodies (ULBs) in Sikkim for the period 2015-16 to 2019-20 (i.e., for the award period of the 14th Finance Commission).

The total projected expenditure for the both the tiers of Rural Local Bodies in Sikkim for the award period of the 14th Finance Commission is Rs. 281.598 cores of which Rs. 147.85 crores is capital expenditure meant for creation of infrastructure for water supply in the rural areas in Sikkim. Around Rs. 26 crores would be required for meeting the expenditure towards maintenance of infrastructure for water supply in the rural Sikkim. The other major component of expenditure relates to salary and wages of the Panchayat functionaries including the honorarium to the elected members of the local bodies.

The urban local bodies in Sikkim were formed recently in 2010-11. They are still in their early stages and hence require adequate funds for carrying out functions and responsibilities entrusted to them properly. The grant given to the urban local bodies in Sikkim by the 13th Finance Commission was negligible as there was no urban local body in Sikkim during time of the 13th Finance Commission. The 14th Finance Commission should keep these considerations while deciding on the quantum of grants to urban local bodies in Sikkim. The total projected expenditure requirement for the urban local bodies for the 5-year award period of the 14th Finance Commission (2015-16 to 2019-20) works out to Rs. 55.35 crores.

Table 32
Projected Expenditures of Rural Local Bodies

(Rs. in lakhs)

S. No.	Rural Local Bodies	Projections for 14th FC					
		2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**Total**
1	Establishment	1937.31	2031.54	2139.80	2262.28	2403.20	**10774.13**
2	Maintenance	425.92	468.51	515.36	566.90	623.59	**2600.28**
3	Capital Expenditure	2421.81	2663.99	2930.39	3223.43	3545.77	**14785.38**
4	Welfare Expenditure for citizens	--	--	--	--	--	**0.00**
	Total	**4785.04**	**5164.04**	**5585.55**	**6052.60**	**6572.56**	**28159.80**

Table 33
Projected Expenditures of Urban Local Bodies

(Rs. in lakhs)

S. No.	Urban Local Bodies	Projections for 14th FC					
		2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**Total**
1	Establishment	533.17	586.49	645.13	709.65	780.61	**3255.05**
2	Maintenance	110.92	122.02	134.22	147.64	162.40	**677.20**
3	Capital Expenditure	110.09	121.09	133.20	146.52	161.18	**672.08**
4	Welfare Expenditure for citizens	4.62	5.09	5.60	6.16	6.77	**28.24**
5	Any other (pl. specify)	147.87	162.65	178.92	196.81	216.49	**902.75**
	Total	**906.67**	**997.34**	**1097.07**	**1206.78**	**1327.46**	**5535.32**

The 14th Finance Commission should keep the projected expenditures of the both the rural and urban local bodies in view while considering the devolution of grants to the State.

Issues Raised by 4th SFC for Consideration by the 14th Finance Commission

The following are some of the issues raised by the Fourth SFC of the State for consideration by the 14th Finance Commission.

1. On the basis of per capita expenditure, the award of grant under Article 280 (3) (BB) from the 14th Finance Commission towards augmenting the Consolidated Fund of the State for supplementing the resources of Panchayats and Urban Local Bodies, to be at least Rs. 900.00 per capita annually for the period 2015-20.

2. The 14th Finance Commission should consider Census 2011 population figures while ascertaining allocations to Local Bodies.
3. The 4th SFC feels that the issues/recommendations pertaining to the Local Bodies in the SFC/CFC reports should be widely disseminated and percolated down to them through focused knowledge transfer and capacity enhancement initiatives. In this respect it is of the view that the 14th Finance Commission may allocate special grants to the districts for undertaking such capacity enhancement and knowledge dissemination initiatives across all the PRIs and ULBs.

10 Chapter X

10.1 Summary

The formation of Fourteenth Finance Commission, as mandated by the Article 280 of the Constitution, provides an opportunity to the State yet again to reaffirm its faith on the spirit of the fiscal federal system and the Constitutional process governing the country. The Commission will make recommendations regarding the sharing of Union taxes, principles governing Grants-in-aid to the States and transfer of resources to local bodies taking into consideration the terms of references (TOR) provided to it. The State of Sikkim welcomes the Fourteenth Finance Commission. Looking at the commendable work done by the previous Finance Commissions, the State has absolute faith on the Commission to design a rational transfer system while taking into consideration the needs of state like Sikkim. Despite the capacity constraints, cost disabilities and inherent disadvantages posed by a difficult geographical terrain for service delivery constraints, the State has made determined effort to improve the living standard of its people and provide them quality services within the limited resources that was available to it. The outcomes reflect the endeavors, which have been recognized at every level. Sikkim has been very thankful to the previous Finance Commissions for their understanding of the difficult situation of the State and efforts made. The State expects similar support from the Fourteenth Finance Commission.

10.2 Broad Issues to be considered by the 14th Finance Commission Regarding Sikkim

1. While recommending the principles and amount of grants-in-aid for the states in the need of assistance and the principles governing the interstate distribution of central taxes and determining the quantum of grants, the Commission should not overlook cost disabilities and special circumstances of the States. The norms should be calibrated keeping the special features and requirements of small States like Sikkim. The high cost of living in the State and cost disabilities for the Government to provide public services due to mountainous terrain of the State should be considered while determining the grants. The small revenue base of the State limits the ability of the State to provide adequate public services to the people. Lack of proper infrastructure and connectivity with rest of the country increases cost of public service provision tremendously.

2. Although the State has been bestowed with nature's bounties, adequate flow of funds is required to develop them to convert them into source revenue, particularly in tourism sector. The Finance Commission should pay heed to the State's demand for grants to build infrastructure to tap these potentialities and maintain them.

3. Unlike many other States, the transport and power sectors are managed by the government in Sikkim. Indeed providing power and transport facility to people in sparsely populated far-flung areas in the hills increases the cost tremendously. The receipt from these services and related expenditure forms part of the internal revenue and non-plan expenditure in the consolidated fund of the State. The past two Finance Commissions excluded these two sectors in assessing the requirements of the State for which net operation deficit of these sectors has been kept outside the purview of the consideration for inclusion in the non-plan development expenditure. Excluding the net deficit of departmentally managed transport and power sectors does not provide an accurate assessment of requirement of the State.

4. Salary expenditure in another area in which the Assessment by the Commission should consider the actual salary payments of the State Government over the years while projecting during the award period. The 12th FC recommendation limited the salary expenditure of the States to 35 per cent of revenue expenditure net of interest payments and pensions. The 13the FC also recognized this normative ceiling while factoring in the impact of pay revision on salary payments. The State of Sikkim is of the opinion that the 14th FC should assess the non-plan revenue expenditure by taking into account the actual salary payments of the State.

5. The conditions laid down by the earlier Finance Commissions for release of grants are found to be stringent. While the government of Sikkim made all efforts to abide by the conditionalities, flexibility should be built into the system to enable the State Government to utilize the funds earmarked for developmental activities.
6. Sikkim has abided by the fiscal path drawn by the Thirteenth Finance Commission and achieved the fiscal targets while improving the growth rate. It is important, in this context

to point out that the strict adherence to quantitative targets of fiscal deficit has limited the ability of the State Government to provide adequately for maintenance expenditure and expand the capital expenditure to create infrastructure. For a hilly state like Sikkim, deterioration of infrastructure and capital assets has been very high. The State is committed to follow the fiscal reform path to be recommended by the Fourteenth Finance Commission and to bring in any suggested changes in the FRBM Act and MTFP. However, the State is of the opinion that the Commission should relook at the strict fiscal deficit target while suggesting any fiscal restructuring framework. The strict enforcement of fiscal deficit targets by the central Government in determining the borrowing limit restricts the capital expenditure in the State. In addition, we also like to urge that the Finance to provide incentives to the States base on their fiscal performance.

7. The 14th FC is required to consider expenditure on non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by March 31, 2015. Due to emphasis on social sector in the plan process, a large portion of plan expenditure has become committed in nature. Particularly in the case of education and health sectors, the salary expenditure constitutes a sizable share of plan expenditure. As the ToR specifies, the Commission is required to consider only the non-salary part of the plan schemes. For a State like Sikkim, where maintaining the existing level of services is huge problem due to limited resources, it will not be fair to leave out the salary component of maintenance expenditure. The State, therefore, urges the Commission to consider the total committed expenditure of completed plan schemes.

8. The ToR asks the Commission to consider plan schemes to be completed by 31 March 2015. However, the 12th Plan is going end on March 31, 2017. Thus if the Commission considers plan schemes only up to 31 march 2015, then it will only capture the committed liability of the state government partially. The State, therefore, urges the Commission to extend this timeline and consider liability because of plan schemes to be completed by March 31, 2017.
9. The 14th FC is required to consider the need for insulating the pricing of public utility service like drinking water, irrigation, power and public transport from policy fluctuation

through statutory provision. Sikkim has already constituted electricity regulatory commissions to regulate the electricity tariff in the State. The State Cabinet approved the proposal seeking approval for revision of tariff for consumption of electricity as per the order of the Sikkim State Electricity Regulatory Commission in 2013. However, insulating the pricing public utilities provided by the state, such as, education, drinking water, roads, sewage, based on the principle of cost recovery may not possible in Sikkim given the cost involved in providing public services in a difficult hilly terrain and to a small and dispersed population.

10. Sikkim has special concerns regarding the use of 1971 population as a factor in the devolution formula by successive Finance Commissions. The Finance Commission is required to use the population figures of 1971, as per the TOR, in all cases where population is regarded as a factor for determination of devolution of funds. The State is aware of the rationale for adopting population in the devolution formula as expenditure needs of the States. However, the State is of the opinion that the use of 1971 population figure for determining the devolution is not justified, particularly for Sikkim. The State suggests that the Commission should use the population figure derived from the latest census in the design of devolution formula. This will help achieving the objective, for which the population factors is used in the devolution formula.

11. Sikkim had not joined the Indian union at the time of 1971 census survey. After joining the Indian Union in 1975, Sikkim's population has grown at a higher rate than the average growth rate of the country as a whole due to the influx of people from other States. The expansion of population in a short period was abnormally high and the 1981 Census reveals that the growth of population over the decade was over 50 per cent. Although after 1981, population growth in Sikkim reduced, it remained higher than that of the all India average in next two census surveys. Thus adopting 1971 population as an indicator for determining the devolution does not do justice for Sikkim given its history and population trend. The Commission may consider using the population figures of 2011 census while designing the devolution instead of the four decades old population figure of 1971 census.

Macroeconomic Outlook

12. The economic growth in Sikkim has picked up in recent years. During the period 2004-05 to 2011-12, the GSDP at constant prices grew at the rate of about 19 per cent. The per capita income also showed about 18 per cent growth rate. The impressive growth of GSDP in recent years was mostly due to higher contributions from power, manufacturing, public administration and banking sectors. During the Eleventh Plan period, the GSDP grew at high rate of 26 per cent. The major contribution from power and manufacturing sectors in the recent spurt in growth rate of the State economy needs to be analysed carefully to understand their impact on State revenues.

Fiscal Profile of Sikkim

13. The fiscal trend since 2004-05 shows that there has been considerable improvement in the fiscal situation in recent years. The State has been maintaining surplus in the revenue account and the fiscal deficit has been reduced to the level prescribed by the Thirteenth Finance Commission (TFC). The introduction of FRBM Act in 2010-11 provided the rule based fiscal management with defined deficit and debt targets. The post FRBM experience indicates considerable improvement in fiscal situation and containment of fiscal deficit and rise in revenue surplus. The fiscal deficit has been reduced considerably from 7.2 per cent relative to GSDP in 2008-09 to about 2 per cent in 2011-12 and is projected to remain limited to 3 per cent in the budget estimates for the year 2013-14. The fiscal consolidation will be instrumental for growth in the future years by creating fiscal space for the State Government to allocate resources to the priority areas.

14. The buoyancy coefficients for the State taxes during the period 2004-05 to 2013-14 reveal that the growth of taxes has fallen behind the growth of the GSDP. This relationship assumes that the State GSDP is the proxy for tax base. The pattern of growth in the State suggests that the sectors growing rapidly and contributing to growth process have not contributed to tax revenues to the same extent. Particularly the generation of electricity by

the hydroelectric sector and production of pharmaceutical industries though contribute to the growth numbers; their revenue impact was not high.

15. The own non-tax revenue remains an important source of revenue for the State as it constitutes about half of the own revenue receipts. Income from State lottery, power sector, road transport, and interest receipts has been the main source of non-tax revenue. The hydropower projects being constructed in the State are expected to contribute to the income from this source in the form of 12 per cent of the total power generation as free power to the State in the coming years. The projection of non-tax revenue from the power sector in the award period of the Fourteenth Finance commission keeps this in consideration.

16. The social sector, particularly education and health in Sikkim, receive special attention in the resource allocation. In order to improve the quality of education and health infrastructure, the State Government has initiated several measures.

17. Outstanding debt of the Government of Sikkim has declined from 37.4 per cent in 2009-10 to 30.4 per cent in 2011-12, the last year for which audited data is available (Table 6). The outstanding debt is estimated to fall further in RE 2012-13 and BE 2013-14.

18. The State Government in its own assessment and forecasting given to the 14th Finance Commission has projected a deficit of Rs.17955.00 crores including pay revisions and salary impact of new recruits and Rs.12243.89 crores without pay revisions and salary impact of new recruits in the non-plan revenue account.

Public Expenditure Management

19. The Fourteenth Finance Commission was asked to review the present Public Expenditure Management systems in place including the budgeting and accounting standards and practices; the existing system of classification of receipts and expenditure; linking outlays to outputs and outcomes; best practices within the country and internationally, and make appropriate recommendations thereon.

20. Improving the public expenditure management system at State level is essential and in this context, the Commission should focus on reforms in budget management system to improve its performance orientation, technical efficiency in the accounts and reporting systems, and modernizing the public procurement system.

21. The Commission has sought information from the State Governments to indicate whether they have adopted outcome budget. The outcome budget has been in operation at Central level for many years. It is important for the Commission to study the effectiveness of the outcome budget at central level and suggest the States the necessary changes before adopting it.

22. The State budgeting system follows the broad Constitutional provisions and the accounting and reporting system follows the established standards at national level provided by the CAG. The Commission should make review of this system and suggest changes to strengthen the public expenditure management system.

23. States like Sikkim do not have resources and expertise to modernizing their public expenditure management system. The 14th Finance Commission should support the State Government by recommending for technical assistance in the form of grant for comprehensive up gradation of public expenditure management system.

Devolution of Union Taxes and Duties

24. The aggregate vertical transfers should be considerably raised to enable the State governments, particularly the fiscally disadvantaged ones, to improve the public services and attain higher growth rate. The State of Sikkim is of the opinion that the percentage share of States in the net proceeds of Central Taxes should rise from present 32 per cent to 50 per cent. If the Commission regards it suitable, the increase can be implemented in phases to reach at 50 per cent.

25. The proceeds from surcharge/cess on income tax should be included in the divisible pool to be shared with the States.

26. The population figures of the latest census should be considered where population enters into the distribution criteria.

27. It is suggested that cost disabilities in the form of remoteness, high transportation cost of goods, large proportion of forest area and difficult terrain, which considerably increase the unit cost of providing public services, should be kept in view while designing the tax devolution principles.

28. While designing the sharing formula for Central taxes among the States, the criteria like needs, cost disabilities, and fiscal discipline should be emphasized.

29. In the case of fiscal discipline criterion, in addition to the parameter of improvement in the ratio of own revenue receipts of a State to its total revenue expenditure to average ratio across all the States, prudent fiscal management should be considered. The prudent fiscal management resulting in rising revenue surplus and containing fiscal deficit and debt level should also be considered under fiscal discipline.

30. The special category States having a narrow resource base need to be treated separately while estimating the improvement in revenue receipts to their total revenue expenditure.

31. Investment in human resource development, indicators showing progress in achieving education, and health indicators are important parameters to be considered in the tax sharing principles. States, despite their limited resource investing in social and human development infrastructure should be given higher weight. While achievement in these areas show their performance, the infrastructure created need to be maintained.

Grants-in-Aid under Article 275

32. The State is hopeful that the Commission would consider the expenditure needs of the State and its limited ability to raise resources from a very small and inelastic source. The severe disadvantages faced by the State and the cost disabilities, as alluded earlier, needs to be kept in view when the commission makes its own assessment. The State projection of deficit in non-plan revenue account should be considered while determining the grants

33. The State Government is also hopeful that its record of prudent fiscal management would be rewarded in the non-plan grant scheme of the Commission.

34. Many a times the State faces problem in utilization of project specific grants due to natural calamities and climate problems in hilly areas. The Commission should be liberal in the transfer of grants. There should be no or minimum conditions attached to grants. The grants should flow to the States in an uninterrupted manner like share of Central Taxes.

35. The Thirteenth Finance commission recommended grants for the maintenance of Capital assets like roads and Bridges. The State is hopeful that the Fourteenth Finance Commission will include maintenance of building as well under the maintenance grants. The State faces severe pressure on its finances to maintain the public buildings and religious places due to difficult weather condition, heavy rainfall, and frequent landslide.

36. The Commission should consider the up-gradation demands of the State favorably, presented in a separate volume.

Ecology and Environment

37. Given limited resources at the disposal of the State, persevering the vast forest area and biodiversity in Sikkim has always remained a challenge. The forest grants given by the Finance Commission, based on forest cover, has been very useful for the State. The State of Sikkim expects that the Fourteenth Finance Commission would recognize not only the forest cover but also the unique biodiversity and unique ecosystem services which Sikkim offers to the nation.

38. The Government of Sikkim over the years has adopted policies that are sustainable and eco-friendly. Concerted efforts have been made to preserve and increase the forest cover in the State. Sikkim gives utmost emphasis to environment sustainability and protecting the rare Himalayan flora and fauna. The state has adopted Green mission as the State policy and encouraged the farmers to practice the organic farming. Protection of environment from degradation and persevering Himalayan ecology assumes significance in the State. There are two issues relating to climate change that concerns Government of Sikkim. The first is the effective forest management to preserve the existing forest and biodiversity in the State. Second is the need for proper glacier dynamics studies.

39. Reports of Inter-Governmental Panel on Climate Change regarding global warming and glacial melting have raised serious concern in the State. Global warming and climate change can directly influence Himalayan glaciers, as they are very good indicators of climate change. Almost in all the part of Indian Himalayas, the glaciers are retreating. For this, ideal glacier should be identified in Sikkim for glacier dynamics studies. The State government expects generous grants from the Fourteenth Finance Commission for these two objectives.

40. The State proposes to undertake several programmes forest management. The action plan proposed aims at improvement in the quantity and quality of forest cover through preservation and propagation of unique floral and faunal diversity of Sikkim, regeneration of degraded areas, production of quality plantation material, forest protection, forest protection, promotion of eco-tourism, and adapting forest management to emerging threats of climate change. Various components of the works to be undertaken under this plan are elaborated in the subsequent sections.

41. The activities proposed for forest management in the above sections are estimated to cost about Rs.74 cores. The Fourteenth Finance commission is requested to consider the importance of forest management in Sikkim and provide grants for these activities.

42. There is a need to focus on well-trained work force on glacier study in Sikkim. The State needs to recruit permanent manpower or absorption of trained manpower in the glacier

and climate change studies so that the glacier study may continue without any interruption in the state. These would help the state in getting long-term glaciological data, which act as basic requirements in planning and execution of different projects of Sikkim.

43. For this long-term monitoring programme of glacier, the State Government has estimated that for the first five years an amount of Rs.10 crores is needed. This includes the cost of recruiting trained scientists in glacial studies. The State Government requests the Fourteenth Finance Commission to provide grants for this very important climate change study.

Goods and Services Tax

44. All along, it was a consensus decision of the Empowered Committee that the items, namely, petroleum crude, motor spirit, aviation turbine fuel, high-speed diesel, and alcoholic drinks will be kept outside the GST. However, recently the Committee on GST Design has recommended inclusion of the items in GST basket. In this context, the State of Sikkim would like to suggest that these items should not be brought under GST. Their inclusion in GST at initial phase of implementation will immensely build up the amount of creditable input tax.

45. The introduction of GST will throw new challenges like allowing credit of tax paid on goods and services to the State of origin. The challenges like drain of revenue on direct inter-state purchase by final consumers of State will continue. Further, the scope for addition al revenue to be collected by controlling the evasion is large. This will make monitoring more effective to minimize evasion and will result in rise in revenue collection. While the State Government has plans for upgrading the tax administration system in Sikkim, there is a need for financial support for this endeavor..

46. The Central Government has assured the Empowered Committee of the State Finance Ministers that a suitable package of compensation will be provided to the States in the event of loss of revenue after implementation of GST. The State of Sikkim would like to support the demand of the Empowered Committee that the full compensation should be

provided for five years after implementation of GST through the GST Council. The methodology of computing the revenue loss should contain growth rate based on five best performances during last ten years, instead of average growth rate of immediate previous three/five years.

47. Lately, some advanced States have raised the issue of loss of CST revenue in the Empowered Committee. They have demanded that in lieu of CST the producing states may be allowed to levy some tax (Green Tax) on goods imported by consuming states under GST. The State of Sikkim is absolute against such levy. This will open the floodgate of cascading effect and other distortions.

Financing Disaster Relief Expenditure

48. The Commission may review the present arrangements as regards financing of disaster management and make appropriate recommendations duly taking into account the actual need and ground realities in respect of difficult hilly States, which are highly prone to natural calamities.

49. In the hills, the State has been bound by the items and norms of expenditure from the CRF to take up temporary restoration works only. Taking up works purely of temporary nature especially in restoration of vehicular road linkages is not adequate. With the onset of monsoon and the torrential rain that the state experiences, it is seen that temporary restoration works do not last long and eventually gets washed away by the heavy rain. The temporary work neither provides relief nor fulfills the purpose for which the funds are provided for. Therefore, the State proposes to make changes in the norms and works of semi-permanent nature with use of concrete be allowed in the State like Sikkim.

50. There are many places in the State, where the upper areas have started to sink. Construction of a protective wall at the base of such areas will not only protect the area immediately above it but will also protect all the areas that lie above it. The benefit is enormous to the public in such areas. The mitigation and preventive measure would provide for prevention of loss of life and property of the people. The position of the State

is that the area once reported to be sinking should be considered as being already affected by natural calamity.

51. The NDRF/ SDRF guidelines do not permit prevention /mitigation works. However, in a hilly terrain like Sikkim, preventive measures are the best solution for avoiding greater calamity. As such, the state may be permitted to utilize SDRF fund for preventive/ mitigation measures.

52. It is also very common in a hilly State like Sikkim that during monsoons many rivulets, which lie dormant during the winter season, become flooded due to very heavy rainfall, and overflow into the nearby roads/ houses/land. The Jhora Training, a method to control this situation relating to overflowing of rivulets, could prevent a number of hazards to life and property. It is hence requested that norms for utilization of CRF funds (SDRF) may be relaxed for hilly States to respond to these kinds of natural calamities.

53. The State of Sikkim experiences heavy rainfall especially during the monsoon months. Rain is often accompanied with thunder and lightning because of which there have been deaths and damages to the houses due to lightning strikes every year. Such deaths need to be covered under the items and norms of expenditure of CRF.

54. A number of epidemics break out especially during the monsoons causing great loss to life and property. In such situations, the public look upon the State to provide relief. Hence, relief in such cases may also be included in the norms for providing relief.

55. The state of Sikkim is mostly covered by forest, which constitutes 70% of the total area of the state. Due to the drying of the trees and sparks due to frequent lightning or other reasons, there are a number of incidents of forest fire, which also affects the surrounding locality. Hence, relief and restoration under such circumstances may also be covered under SDFR.

56. The State of Sikkim falls within the seismic earthquake Zone V. The state has been experiencing many jolts of which the earthquake of 18 September 2011 was one of the worst that hit the State. Even after the major earthquake of 18th September 2011, the state has been experiencing a

number of jolts, at times leading to damage of property and disturbance of communication links like roads, telecommunication and power failure. Earthquake also causes frequent landslides.

57. The State urges the Commission to consider for 100 per cent funding of CRF/SDRF by the Central Government instead of existing funding of 90 per cent due to difficulties in generating even the 10 per cent State share

Local Bodies in Sikkim

58. Taking into consideration the weak financial health of the Panchayats in Sikkim, the State urges the 14^{th} Finance Commission to increase the volume of local body grants substantially to support PRIs in the State. The focus of the local body grants under the 14^{th} FC should be on:
    - Enhancing operational physical infrastructure in the panchayats, such as construction of Panchayat Ghars, Community Centres and their maintenance;
    - Maintenance of basic civic services by the Panchayats including Disaster Management and Emergency Preparedness;
    - Strengthening of Gram Sabhas & IEC activities;
    - Strengthening e-Panchayat and new accounting structure;
    - Special assistance to Panchayats in backward, vulnerable and difficult areas of the state;
    - Creation of database with provision of adequate manpower in each of the GPs;
    - Honorarium and sitting fee for elected representatives at enhanced/revised rates;
    - Discretionary grants for elected representatives at both the tier of Panchayats at enhanced/revised rates;
    - Meeting up rentals wherever operational infrastructural facilities are not available;
    - Meeting up salaries of staff appointed at the GPs at enhanced/revised rates;
    - Meeting up office expenses;
    - Maintenance of civic amenities such as primary education facilities, health care, dhara vikas, rural drinking water supply assets, replacement and rejuvenation of non-functional rural drinking water assets, minor irrigation channel, garbage/solid

waste management services, sewage disposal, O&M in rural sanitation programmes, conservation of forest/social forestry, capacity building and exposure visits of the PRI elected representatives/functionaries and community service centers etc.;

- At least 5% of the grant should be allowed for administrative expenditure for regular monitoring and evaluating the performance of the PRIs, processes for implementation of the recommendations of the Finance Commissions and strengthening of the Panchayat cell in Rural Management and Development Department (RM&DD).

59. The fund allocation to the PRIs should be untied so that the PRIs have the flexibility to plan and implement programmes in accordance with their local priorities.

60. The levy of penal interest issue on non-adherence of timely transfer of funds to PRIs should be relaxed for Sikkim for the following genuine reasons and ground realities:
    - Absence of core banking facility in the villages
    - Absence of internet connectivity/online banking facility
    - Road blockades during heavy monsoon
    - Considerable time taken to reach far flung, remote and inaccessible area GPUs
    - Insufficient accounts manpower in the Panchayat Cell to handle the disbursement of grants to the PRIs

    In view of Sikkim's vulnerability to the occurrence of frequent landslides, difficult terrain, unavailability of internet and communication connectivity etc., the State urges the 14th Finance Commission not to impose any eligibility conditions for the entitlement of grants or imposition of fines for delay in transferring grants to PRIs.

61. The focus of the urban local body grants under the 14th FC should be on:
    - Maintenance of basic civic services by the ULBs including Disaster Management and Emergency Preparedness;
    - Creation of database with provision of adequate manpower in each of the ULBs;

- Honorarium and sitting fee for he elected representatives of ULBs at enhanced/revised rates;
- Discretionary grants for elected representatives in all ULBs at enhanced/revised rates;
- Meeting up salaries of staff appointed at the ULBs at enhanced/revised rates;
- Meeting up of office expenses of the ULBs;
- Maintenance of civic amenities such as drinking water supply assets, garbage/solid waste management services, sewage disposal, capacity building of the elected representatives/functionaries of the ULBs etc.;
- At least 5% of the grant should be allowed for administrative expenditure for regular monitoring and evaluating the performance of the ULBs, processes for implementation of the recommendations of the Finance Commissions.

62. In addition to the above, there are additional issues for which the 14th Finance Commission should give special consideration and some financial support could be provided to the ULBs. These issues are:
    a. Any new appointment of manpower to aid the delivery of services is very restricted as ULBs do not have fund to meet the salary component for additional manpower.
    b. Municipal Solid Waste is the function of the ULBs. Gangtok Municipal Corporation has inherited a fleet of old garbage trucks, which need to be replaced immediately as their repairs prove to be very uneconomical.
    c. The office space of ULBs have been provided by Urban Development & Housing Department to meet the immediate need and will not be able to cater to the future function of the ULBs. Town Hall is necessary for all ULBs where none exist.
    d. To ensure efficient delivery of services, computerization is of utmost importance. ULBs will have to heavily computerize their system of service delivery to meet the demand of its citizen

The tentative financial estimates for the same are:

Rs. Lakh

Name of the Municipality	Salary Support	Solid waste Support	Office/Town Hall support	Computerisation support
Gangtok Municipal Corporation	500.00	200.00	800.00	100.00
Namchi Municipal Council	200.00	100.00	600.00	75.00
Rangpo Nagar Panchayat	100.00	50.00	500.00	50.00
Singtam Nagar Panchayat	100.00	50.00	500.00	50.00
Mangan Nagar Panchayat	100.00	50.00	500.00	50.00
Jorethang Nagar Panchayat	100.00	50.00	500.00	50.00
Gyalshing Nagar Panchayat	100.00	50.00	500.00	50.00

63. The following are some of the issues raised by the fourth SFC of the State for consideration by the 14th Finance Commission. The Commission may consider these issues while recommending grants for local bodies for Sikkim.

  e. On the basis of per capita expenditure, the award of grant under Article 280 (3) (BB) from the 14th Finance Commission towards augmenting the Consolidated Fund of the State for supplementing the resources of Panchayats and Urban Local Bodies, to be at least Rs. 900.00 per capita annually for the period 2015-20.

  f. The 14th Finance Commission should consider Census 2011 population figures while ascertaining allocations to Local Bodies.

  g. The fourth SFC feels that the issues/recommendations pertaining to the Local Bodies in the SFC/CFC reports should be widely disseminated and percolated down to them through focused knowledge transfer and capacity enhancement initiatives. In this respect, it is of the view that the 1 4th Finance Commission may allocate special grants to the districts for undertaking such capacity enhancement and knowledge dissemination initiatives across all the PRIs and ULBs.