The Review of Compliance of the Government of Sikkim to the State FRBM Act For the Year 2014-15

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1. Introduction

The fiscal year 2014-15 was the last year under the award of the Thirteenth Finance Commission (TFC). The fiscal regime relating to resource transfers from the Central Government has been changed in 2015-16 following the recommendations of Fourteenth Finance Commission (FFC). Sikkim benefited from the TFC recommendations on resource transfers; despite the fact the State did not receive the revenue deficit grant. The Central Government also took the decision to channelisefunds of all the centrally sponsored schemes (CSSs) through State Budget instead of the earlier practice of directly funding the districts or implementing agencies. Although, this change did not improve the resource availability to the State, it improved the accountability process in the implementation of CSSs. The fiscal responsibility and budget management act (FRBMA) stipulated fiscal targets continued to be anchored on the existing fiscal stance of the Government.

The Sikkim FRBMAprescribes for periodical independent review of the fiscal policy of the Government and its compliance to the provisions ofthis Act. This provision follows the TFC recommendations to strengthen accountability system in the process of compliance to the Act. The Act also provides for presenting half yearly review report by the Minister-in-charge of the Department of Finance. However, the half-yearly review shows mostly the trends of fiscal variables and possibility of any deviation from the fiscal consolidation path and efforts to arrest the slide. The independent review considers a broader picture of the fiscal management and policy in the State to the State legislature,

An independent review is considered as an important element of public financial management systems, which facilitates taking decision making process. The FRBMA, through the provision of independent review and monitoring, provides an institutional process to assess the fiscal management of the State Government keeping in view the fiscal targets and fiscal management principles. It helps in providing an unbiased assessment of Government's compliance with the provisions of the fiscal rules and reasons for any deviations.Theobjective of this review is to improve the credibility and transparency in the fiscal management of the Government.

The specific objective of this review is to examine the concurrence of the State Government to the FRBMA fiscal targets in terms of deficit and debt stock relative to the GSDP. The State Act is in line with the fiscal adjustment path recommended by the TFC for Sikkim limiting the fiscal deficit at the targeted level to ensure sustainable level of debt. The review also looks at the other budget management requirements enshrined in the Act like improving transparency and desirable fiscal management principles. The fiscal management principles enshrined in the Act aimed at maintaining debt stock at a sustainable level, using borrowed funds for productive use, pursuing tax policies with due regard to economic efficiency, pursuing expenditure policies to provide impetus to economic growth, and to formulating a realistic budget to minimize deviations during the course of the year.

Any independent review of State finances of Sikkim has to keep in consideration the limited resource base of the State and high dependence on central fund for provision of public services in a difficult hilly terrain. The difficulties necessitate a prudent fiscal management. The FRBM Act with its stated objective to set up a sustainable fiscal policy over a long-runprovides an important institutional structure to achieve fiscal consolidation and improvement in predictability of resource flow for the provision of physical and social infrastructure. The review report includes the following;

- Analysis of the macroeconomic outlook and recent trends of public finance, including revenue generation, expenditure framework, and the debt burden to assess the fiscal stance of the State government.
- Assessment of the achievement of fiscal targets during 2014-15 as prescribed in the FRBMA of the State.
- Evaluation of the fiscal trends achieved during the year 2014-15 as against the budget projections contained in the rolling fiscal targets worked out in the Medium Term Fiscal Policy (MTFP) presented along with the budget.
- Assessment of the desired fiscal management principles contained in the FRBMA to achieve the fiscal targets and transparency measures.

The study benefited from the discussionswith senior officials of the Department of Finance on overall perspective of the State fiscal management including revenue mobilization efforts and the rationale behind resource allocations to different sectors. Discussions with tax department and major spending departments on revenues and expenditure trends and priorities have immensely helped this study.

The report is organized as follows. Apart from the introduction, Section 2 provides an overall assessment of macroeconomic outlook and sectoral composition of GSDP. Section 3 contains analysis on state finances in recent years. Compliance of the State Government to the fiscal targets and fiscal management principles under the Sikkim FRBMA are discussed in Section 4. Issues related to revenue mobilization and expenditure pattern for the year 2014-15 as compared to the budget provisions are analyzed in Section 5. Concluding observations are contained in Section 6.

2. Macroeconomic Outlook

The GSDP of Sikkim recorded a growth rate of 7.88 percent at constant prices and 18.18 percent in current prices in 2013-14 (Table 1). The trend growth rate over the period 2005-06 to 2013-14 at current prices was staggering 25 percent. This high growth of GSDP during the period 2008-09 and 2009-10 has influenced the trend growth rate. This has ensued predominantly due to the sudden spurt in manufacturing sector. In constant prices, the share of manufacturing sector GSDP has gone up to 28.44 percent in 2009-10 whereas it was below 4 percent during the previous years. From 2009-10 onwards, the share has shown an increasing trend, which has reached 33.71 percent in 2013-14. Growth of the GSDP was predominantly driven by manufacturing, construction, and power sectors. The per capita income of the state, which was Rs.30727 in 2004-05, has increased substantially to Rs.196144 in 2013-14 at current prices.The industry sector accounts for about 60.35 percent of the State GDP and manufacturing about33.71 percent in 2013-14. The relative share of service sector, which was the dominant contributor to the growth of GSDP since 2004-05, declined in the recent years. The relative share of the primary sector has been declining over the years and the share of mining and quarrying activities remained sparse.

The growth of the economy and its relative composition is an important factor to assess the revenue generation effort of the State Government. What is important in the context of Sikkim is that the tax receipt has not kept pace with the growth of the economy. While agriculture sector is usually out of the tax net, the growing manufacturing sector should have positively helped in improving the tax effort. The commissioning of hydropower projects, reinforcement of small-scale and pharmaceutical industries helped the growth process. The sectors growing rapidly and contributing to the growth process should have contributed to the revenue collection of the State Government. Some of the sectors included in the service sector like transport and transactions in real estate provide a tax base to the Government. However, collection of service tax is in the hand of the Central government, out of which the State gets a share.

Table 1

Composition of GSDP (Constant Prices)

(Percent)

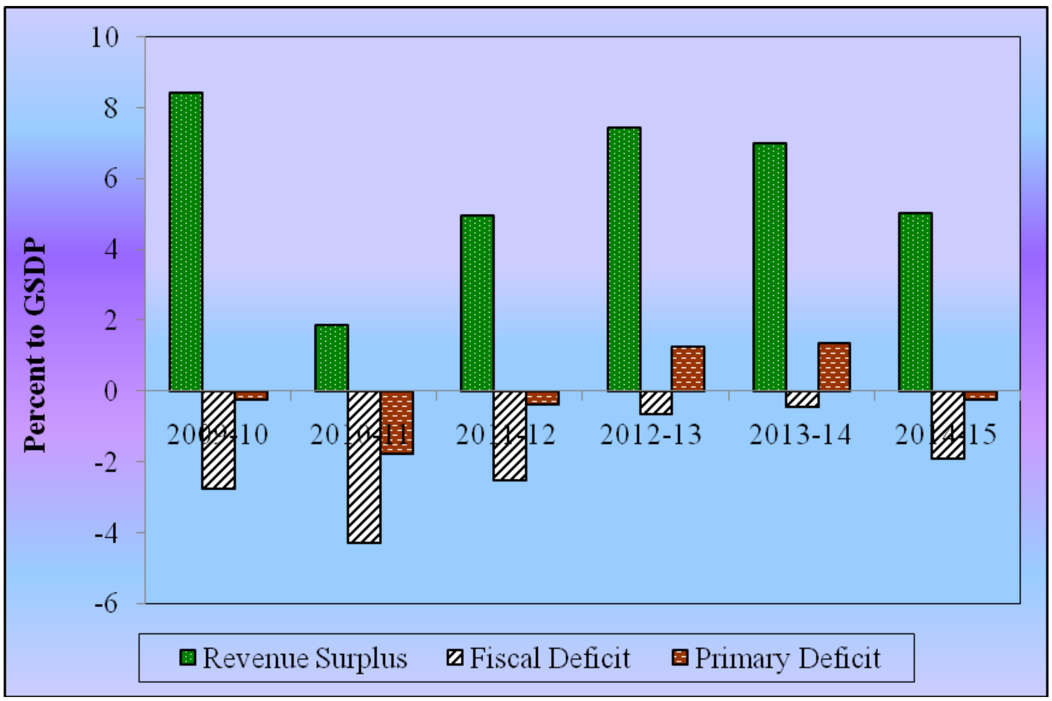
Sector	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Primary Sector	**17.74**	**16.76**	**16.18**	**14.56**	**8.74**	**8.44**	**10.56**	**10.09**	**9.72**
Agriculture	17.63	16.65	16.07	14.40	8.65	8.34	10.42	9.89	9.48
Mining	0.11	0.11	0.11	0.15	0.10	0.10	0.14	0.20	0.24
Secondary Sector	**29.25**	**29.54**	**30.18**	**34.94**	**55.03**	**59.12**	**59.06**	**59.57**	**60.35**
Manufacturing	3.60	3.66	3.90	3.65	28.44	37.15	37.98	35.37	33.71
Construction	19.86	19.44	18.69	15.52	9.91	9.36	10.79	13.85	16.30
Electricity, gas and Water supply	5.78	6.44	7.59	15.76	16.69	12.61	10.28	10.35	10.35
Tertiary Sector	**53.01**	**53.70**	**53.64**	**50.51**	**36.22**	**32.44**	**30.39**	**30.34**	**29.93**
Transport	4.18	4.38	4.55	4.46	2.94	2.82	2.89	3.05	3.11
Trade, hotels and restaurants	4.84	4.62	4.51	4.07	2.43	2.35	2.74	2.64	2.56
Banking, Insurance	2.95	3.59	4.04	3.64	2.60	2.94	2.87	3.00	3.12
Real estate	9.38	9.19	9.94	9.49	5.60	5.36	5.16	4.99	4.81
Public Admin	15.14	15.52	14.79	14.15	11.72	9.85	8.87	9.16	8.73
Other services	16.52	16.41	15.81	14.70	10.93	9.13	7.86	7.49	7.60
Growth Rate									
Constant Prices	9.79	5.99	7.63	16.38	73.61	8.71	10.76	7.62	7.88
Current Prices	14.59	8.45	15.96	28.85	89.92	20.85	20.17	17.58	18.18

Source: CSO, GoI

3. Overview of the State Finances

The public finance in Sikkim is usually marked by surplus in the revenue account and a low fiscal deficit below the permissible level prescribed in the FRBMA (Figure 1). The introduction of FRBMA provided the rule based fiscal management framework with defined deficit and debt targets. The fiscal deficit declined from 4.27 percent relative to GSDP in 2010-11 to0.43 percent in 2013-14 before rising to 1.90 percent in 2014-15. The surplus in the revenue account as percent to GSDP has shown a winding path. It hasdeclined from 8.42 percent in 2009-10 to 1.89 percent in 2010-11, and thereafter, it has gone up to 7.02 percent in 2013-14. In 2014-15, the revenue surplus was 5.04 percent.

Figure 1
Fiscal Outcomes in Sikkim



Large revenue surplus and inability to push the capital expenditure upwards keeps the fiscal deficit low. Large revenue surplus in the State was due to high dependence on Central transfers, all of which are usually booked under revenue receipts. Many of the Central grants are tied grants, proceeds from which are utilized for capital expenditure as per the design of the scheme. Thus the capital expenditure as percentage to GSDP also remains high in the State. The low fiscal deficit, although increased in 2014-15 as compared to 2012-13 and 2013-14, indicates more of structural problems and a situation where the Central funds under various programmes are fully utilized. The unutilized Central funds do not lapse and add to the revenue surplus in the year they were received.

The fiscal outcomes for the year 2014-15 for the State look favorable with a sizable revenue surplus, fiscal deficit lower than 2 percent of GSDP, and debt-GSDP ratio below 25 percent. Although this fiscal stance indicates availability of considerable fiscal space to the Government, sufficient care needs to be taken while interpreting this outcome.Large unspent balances in the revenue account feeds into the revenue surplus and reduces the fiscal deficit in respective years and thus, the fiscal deficit does not reflect the actual gap. During 2014-15, the unspent balance was Rs.516.06 crores which was received by the State Government in the month of March. This constitutes about 30 percent of the total receipts.

Capital outlay, which was very high at 8.04 percent to GSDP in 2012-13, came down to 7.37 percent in 2013-14 and further to 6.76 percent in 2014-15. The size of the capital outlay in the State usually related to the provisions made in the CSSs and other Central programmes through NEC and NLCPR schemes. To increase the capital outlay, the State Government needs to provide more funds from its own sources and borrowing. The borrowing is, however, limited to the ceilings fixed by the Central Government aligned with the fiscal deficit target stipulated by the FRBMA. Thus, the capital outlay will continue to vary depending upon the flow of funds under the Central programmes and level of resources generated by the State.

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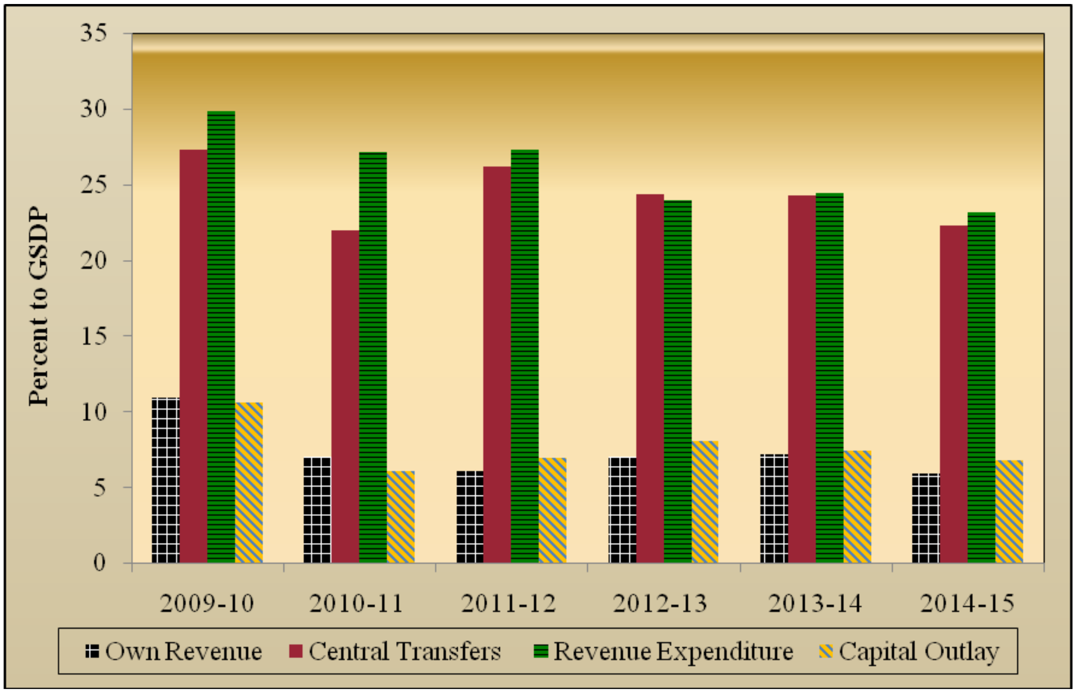
Figure 2 depicts the trends in own revenue receipts, central transfers, revenue expenditures and capital outlay (on general, social and economic services together). It shows that during 2010-11 and 2013-14, the own revenue of the State, both tax and non-tax receipts taken together was about 7 percent of GSDP, which has gone down to about 6 percent in 2014-15. The Central transfer including share in Central taxes and grants, which showed an increasing trend since 2010-11 has declined in 2014-15. The aggregate Central transfers increased from 22 percent in 2010-11 to 24.30 percent in 2013-14 and declined to 22.29 percent in 2014-15. Given this resource position, the State Government seems to have tightly controlled the revenue expenditure. The revenue expenditure declined from 27.15 percent in 2010-11 to 23.12 percent in 2014-15. The capital outlay however, shows an increasing trend since 2010-11. The capital outlay as percentage of

GSDP declined from 8.04 percent in 2012-13 to 6.76 percent in 2014-15. During the fiscal year 2014-15, the decline in capital outlay reflects overall decline in the resource position of the State Government.

Figure 2
Broad Fiscal trends in Sikkim



The revenue receipts of the State in 2014-15 shows a slide as compared to the previous two years (Table 2). Both the own tax and non-tax revenue show a decline in 2014-15 as percent to GSDP. The non-tax revenue in Sikkim contains large contributions from lottery operations and sale of electricity as the State Government manages the power sector through a department. The income from lottery operations has declined due to adverse market conditions and unfavorable policies by other State Governments.The aggregate revenue receipt of the state was 28.16 percent in 2014-15 as compared to 31.46 percent in 2013-14.

While, the sales tax collections have remained more or less static at around 2 percent of GSDP during 2009-10 to 2010-11, it plunged to 1.39 percent in 2011-12 and after that went on a rise to 2.31 percent in 2013-14. In 2014-15, it has declined to 1.94 percent. State excise duty also shows a decline in 2014-15. The collection from stamps and registration fees remained static at 0.05 percent to the GSDP and other taxes show a decline in 2014-15. Thus, the decline in State taxes as percentage to GSDP contributed to overall decline of the revenue receipts.

Table 2
Revenue Receipts in Sikkim

Percent of GSDP

Heads	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Total Revenue Receipts	38.24	29.03	32.25	31.40	31.46	28.16
Total Own Revenue	10.94	7.04	6.04	7.04	7.16	5.86
Own Tax Revenue	3.65	3.77	3.30	4.16	4.24	3.63
Sales Tax	1.97	1.93	1.39	2.17	2.31	1.94
State Excise Duties	0.93	0.95	1.08	1.06	0.97	0.90
Motor Vehicle Tax	0.13	0.14	0.19	0.16	0.15	0.13
Stamp Duty and Reg. Fees	0.07	0.08	0.09	0.05	0.05	0.05
Other Taxes	0.54	0.67	0.55	0.72	0.75	0.61
Own Non-Tax Revenue	7.30	3.27	2.74	2.88	2.92	2.23
Central Transfers	27.30	21.99	26.21	24.36	24.30	22.29
Tax Devolution	6.11	7.08	6.87	6.67	6.16	5.57
Grants-in-Aid	21.19	14.91	19.34	17.69	18.13	16.72

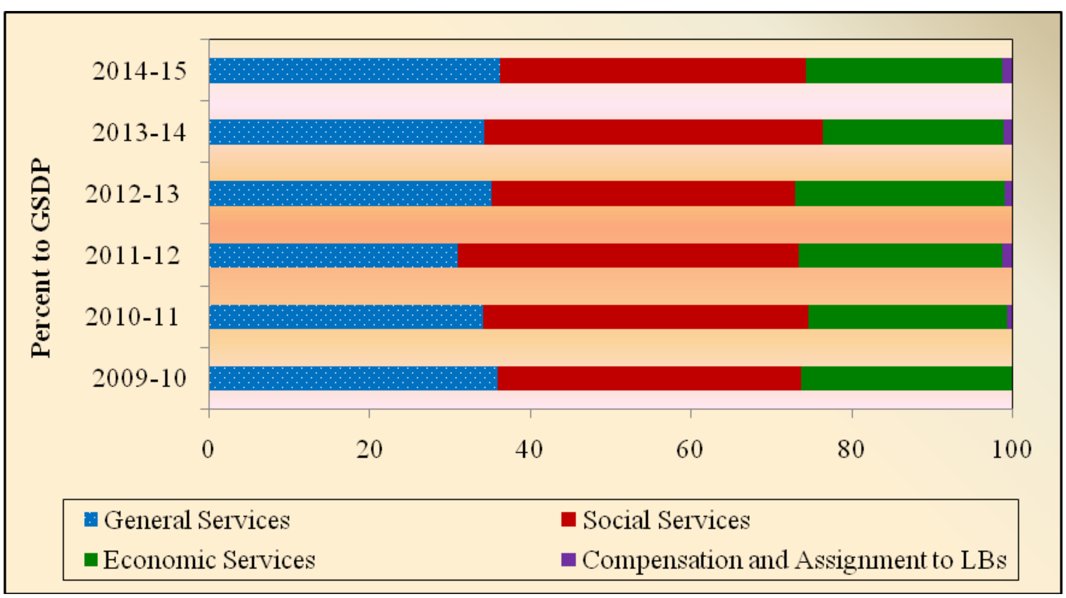
Source (Basic Data): Finance Accounts, State Budget 2016-17, and CSO

What is important in the context of Sikkim is the low buoyancy of the State taxes. The State taxes have not grown commensurate with the growing economy over the years. The Statements of MTFP of the State of the past years presented along with the budget acknowledge that the buoyancy coefficients for the State taxes remained low suggesting that the growth of taxes has fallen behind the growth of the GSDP. The sectors, electricity, and manufacturing, growing rapidly and contributing to growth process have not contributed to tax revenues. Although the value of the electricity generated by the newly commissioned hydroelectric units contributes to the growth numbers, it does not enlarge the tax base. Similarly, the improved production by the pharmaceuticals in the manufacturing sector, though adds to the growth, most of it goes out of the State in the form of consignments attracting no VAT. However, the expanded economic activity due to the construction and higher employment in these sectors, and rise in business should have resulted in higher tax collection beyond the normal growth. It is necessary for the State to look into these issues to improve the tax mobilization.

The central transfer to the State is large, which constitutes little more than there fourths of the total State revenues. High dependency of the State on Central funds implies severe distortions in the resource allocation in case there is any deviation from the budget estimates. The central transfer has increased from Rs.1630crore in 2010-11 to Rs.3007crore in 2013-14. As percentage of GSDP, the Central transfer has increased from about 22 percent to 24.4 percent during this period. However, during the fiscal year, the nominal increase in Central transfers is rather small for which as percentage to the GSDP it decline to about 23 percent. Both, the share in Central taxes and grants from Centre havedeclined in 2014-15. The transfer dependency of the State is evident as due to decline in Central transfers, the expenditures as percent to GSDP also have declined in 2014-15.

As the public expenditure is dominated by the revenueexpenditure, its composition needs to be analyzed to examine the resource allocation to different sectors. The composition of revenue expenditure, given in Figure 3, shows that the relative shares of directly productive economic service, which dipped to 22.42 percent in 2013-14 as compared to the previous year's level of 26.17 percent, shows an improvement to 24.46 percent in 2014-15.The share of general service increased in 2014-15, whereas the share of social service, suffered a decline by 4 percentage points as it declined from 42.19 percent in 2013-14 to 38.12 percent in 2014-15.It is important for the Government of Sikkim to focus on directly productive social and economic sectors so that the overall composition of revenue expenditure adds value to the public expenditure.

Figure 3
Composition of Revenue Expenditure in Sikkim



Composition of revenue expenditures can also be examined from the point of view of expenditures that are contractual, committed, and pre-determined in nature. Higher share of committed expenditure in total revenue expenditure reduces the discretionary expenditure on providing public services andlimits the degree of flexibility available to the government in determining allocation of public expenditures. It could be observed from Table 3 that the share of committed expenditure in Sikkim, which showed a decline in 2013-14,increased in 2014-15 due to higher salary and pension payments. Higher committed spending reduces the room for spending on any development activities.

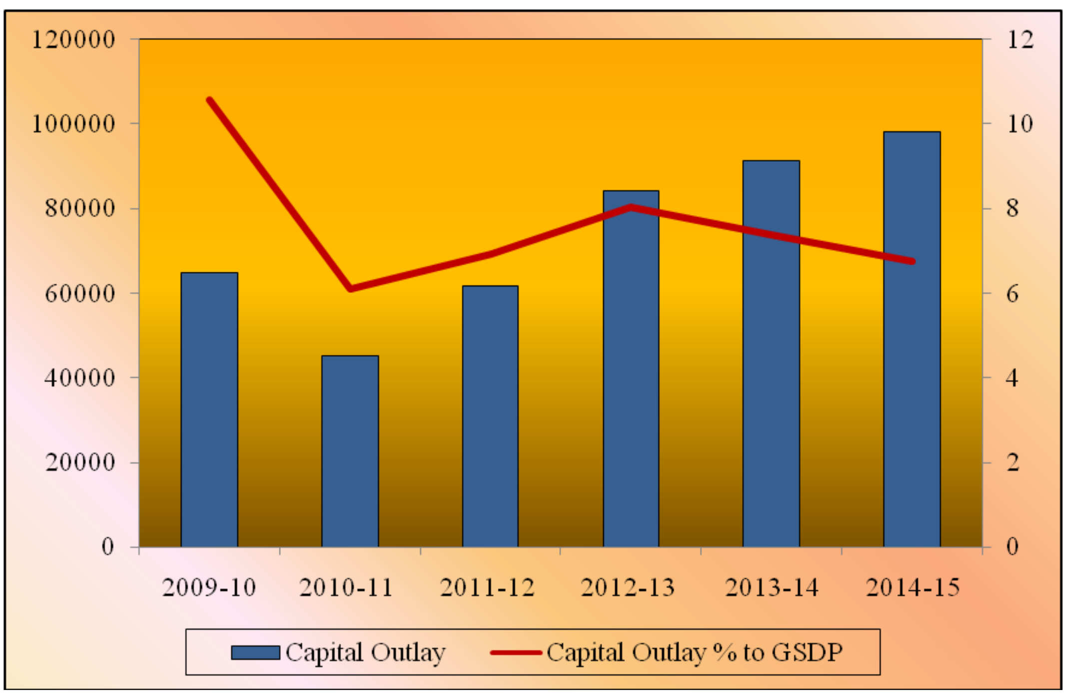
Table 3
Committed Revenue Expenditure in Total Revenue Expenditure

(Percent)

Committed Expenditure	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Salaries and Wages	44.07	42.77	35.00	47.29	44.65	46.85
Interest Payments	8.44	9.28	7.85	7.93	7.31	7.14
Pensions	6.88	7.96	7.15	8.98	8.62	9.92
Total	59.39	60.01	50.01	64.21	60.58	63.91

Source (Basic Data): Finance Accounts and State Budget 2015-16

Figure 4
Capital outlay in Sikkim



The Capital outlay on various services (general, social, and economic) in the Statehas remained reasonably high (Figure 4). In nominal terms, it increased from

Rs.451.07 crores in 2010-11 to Rs.980.71 crores in 2014-15. As percent to GSDP, this works out a rise from 6.09 percent to 6.76 percent. However as percent to GSDP, the capital outlay was less in 2014-15 vis-à-vis the previous year. Capital expenditures of the right kind have a major role in stimulating the rate of growth of the state economy. It contributes to growth more directly. Although, capital expenditure was showing a positive trend, its decline ratio in 2014-15 due to resource pressure is a cause of concern. Although the fiscal deficit increased in 2014-15, still there was scope to improve the capital outlay. The State government should finance identified public investments with high social returns.

The indebtedness of the Government of Sikkim has declined significantly over the years (Table 4).Taking all types of liabilities, the total stock decreased from 32.78percent of GSDP in 2010-11 to23.26 percent in 2014-15, with indebtedness falling consistently every year throughout the period. FRBM Act of the state stipulates to maintain the outstanding debt at prudent and sustainable level. The decline in the average cost of debt of the state because of the debt restructuring formula of the Twelfth Finance Commission has helped to lowering the debt burden. As the State Government managed to adhere to the FRBMA targets for the fiscal deficit, the debt burden has reduced significantly. The aggregate level of indebtedness in 2013-14indicates that the State Government complied with the TFC recommendations and its own FRBMA targets.

Table 4
Liabilities of the Government of Sikkim

(Percent of GSDP)

	2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
A.Public Debt	29.21	24.47	20.80	18.89	17.66	17.29
6003 Internal Debt of the State Government	24.62	20.96	19.03	17.46	16.63	16.46
6004 Loans and Advances from the Central Government	4.59	3.51	1.76	1.42	1.03	0.83
B.Other Liabilities	8.17	8.32	7.87	7.45	7.98	9.04
Small savings,Provident Fund etc.	6.71	6.88	6.50	5.96	5.54	4.89
Total Public Debt and Other Liabilities	37.39	32.78	28.66	26.34	24.46	23.26

Source (Basic Data): Finance Accounts, Relevant Years

4. Compliance to the FRBMA Targets

4.1 FRBMA Targets and Fiscal Achievements of the State Government

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

- Present a Medium Term Fiscal Plan
- Undertake appropriate fiscal management principles indicated in the Act to achieve the targets
- Achieve fiscal targets relating to deficit, stock of debt, and outstanding guarantees.
- Take suitable measures to ensure greater transparency in the fiscal operation.
- Conform to the measures prescribed for enforcing compliance to the Act

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

The Government of Sikkim presented the MTFP statement based on the FRBMA rule format that contains macroeconomic statement, projections of fiscal targets and fiscal management principles with regard to revenues and expenditures for three years along with the 2014-15 budget documents. The objective of MTFP is to provide the fiscal plan of the Government to raise the revenues, resource allocation priorities, and borrowing plan for the ensuing year in a transparent way. This statement contains three-year rolling targets for revenue deficit, fiscal deficit, and the debt-GSDP ratio – for the ensuing year, and for two subsequent years synchronizing with the Act provisions. It also contains medium-term fiscal objectives, perspective on the growth of the State economy, the strategic priorities for revenues and expenditures, and the conformity of the fiscal outlook of the Government with the fiscal principles enshrined in the Act. The first year of the MTFP projections is the budget estimates for the year 2014-15.

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

1. Maintain revenue account balance beginning from the year 2011-12;
2. Reduce the fiscal deficit to 3.5 percent of the estimated Gross State DomesticProduct in each of the financial year starting from 2011-12 and reduce the fiscaldeficit to not more than three percent of the estimated Gross State DomesticProduct at the end of 31st March 2014 and adhere to it thereafter;
3. Cap the total outstanding guarantees within the specified limit under the SikkimCeiling on Government Guarantees Act, 2000 (21 of 2000);
4. Ensure that the outstanding debt-GSDP ratio follows a sustainable path emanating from the above targets of the deficit as specified by the Government beginning from the fiscal year 2011-12. The level of debt-GSDP is fixed based on the recommendations of the Central Finance Commission. For Sikkim, the debt-GSDP ratio recommended by the TFC for the year 2012-13 was 62.1 percent.

The fiscal year 2014-15, witnessed lower revenue generation both from internal and Central sources and as a result the expenditure was compressed under revenue and capital heads. Although the revenue surplus was sizable to the extent of about 5 percent of GSDP, it was lower than that of the previous year. The aggregate revenue receipt at 28.16 in 2014-15 percent was lower by 3.30 percentage points as compared to the fiscal year 2013-14. The impact of lower revenue generation was felt on both the revenue expenditure and capital outlay. As mentioned earlier, the surplus in revenue account was 5.04 percent of the GSDP in 2014-15. The capital outlay experienced a decline from 7.37 percent in 2013-14 to 6.76 percent in 2014-15. The fiscal deficit was higher in 2014-15 at 1.90 as compared to a meager 0.43 percent of GSDP in 2013-14. The rise in fiscal deficit should not be considered as matter of concern, as it remained much below the permissible level of 3 percent and the stock of outstanding liabilities continued to decline as percentage to the GSDP.

The fiscal targets specified in the FRBMA and the outcomes for the year 2014-15 are shown in Table 5. Against the Act requirement of maintaining balance in the revenue account, and limiting the fiscal deficit to 3percent of the GSDP, the State Government achieved a revenue surplus of 5.04 and fiscal deficit of 1.90 percent respectively. In nominal terms,however, there was a decline in revenue surplus from Rs.868.48crores in 2013-14 to Rs.731 crores in 2014-15. The fiscal deficit has increased from Rs.52.94croresto 275.40 croresduring the same period.As the Act requires the deficit to be expressed as a ratio to the GSDP, the revenue and fiscal deficit of the State in 2013-14 remained within the limit imposed by the Act. Outstanding debt burden, an outcome of the fiscal management the State, at 23.98 percent relative to the GSDP remains much lower than the target of 55.9 percent. The other fiscal target, outstanding guarantees, remained within the specified limit of Sikkim Ceiling on Government Guarantee Act 2000. Thus, the fiscal outcomes for the year 2014-15comply with the fiscal targets stipulated in the FRBM Act. While there was a rise in fiscal deficit, which shows the utilization of fiscal space available, the State Government needs strengthen its resource base to improve the priority sector spending.

Table 5

FRBMA Targets and Fiscal Achievements during 2014-15

Percent

	Targets	**Achievements**
Revenue Deficit % of GSDP	0	-5.04
Fiscal Deficit % of GSDP	3.00	1.90
Total Debt Stock % of GSDP (TFC Target)	55.9	23.98
Outstanding Guarantees	Restricted to the limit under the Sikkim Ceiling on Government Guarantees Act, 2000	

Note: Negative sign for deficit figures indicate surplus

4.2 Fiscal Management Principles

The FRBM Act of the State enunciates a set of guiding fiscal management principles to maintain prudent debt level, manage guarantees, ensure borrowings to be used for productive purposes, and pursue revenue expenditure policies to provide impetus to economic growth. The objective of giving a set of fiscal management principles is to help the State Government to achieve the statutory targets. These principles are usually common to the economic policies pursued by the Governments at any level and can be properly assessed only over a reasonably long period with continuous monitoring of relevant fiscal data. The recent fiscal policies and budget management practices need to be assessed keeping the stated principles of the Act under consideration.

Debt Management

The debt management principles of the FRBMA require the State Government to maintain debt at a prudent level, manage guarantees and other contingent liabilities prudently, and use borrowed funds for productive purposes and create capital assets. The borrowed resources should not be used to finance current expenditure. Indeed, the debt management policy of any Government aims at meeting the financing needs at the lowest possible long-term borrowing costs and to keep the total debt within sustainable levels. The debt stock as percentage of GSDP has declined substantially to 23.98 percent in 2014-15.

The State Government borrows within the limit set by the Government of India. The Government of India follows the TFC recommendations to fix the debt limit of the State Governments keeping the 3 percent fiscal deficit in consideration. Given a comfortable cash balance situation the borrowing limit fixed by the Central government usually remains below the permissible level of fiscal deficit. The accumulated debt stock continued to decline, as the growth of the nominal GSDP has remained high in Sikkim. As the fiscal deficit has been contained at very low level in 2013-14, there was no pressure on resorting to any other borrowing options to increase the accumulated liabilities. Borrowing and repayment for the year 2014-15shown in Table 6 reveals that actual public debt that includes internal debt (market and institutional borrowing) and loans from Central Government was less than the budget estimates. Thus, due to high growth of GSDP, substantial revenue surplus, and the limit put by the Central Government on borrowing, the debt stock as percentage to GSDP has come down in Sikkim.

The FRBMA requirement of using borrowed funds exclusively for creating capital assets is satisfied as the State Government has been successfully generating large surplus in revenue account consistently. The State Government needs to borrow to finance the deficit arising due to capital outlay and any deficit in the revenue account. The capital outlay in Sikkim has remained reasonably high due to tied nature of the plan grants coming to the State. A revenue surplus has provided fiscal space to the Government to increase the capital outlay and keep the debt burden sustainable. While the capital outlay increased continuously since 2010-11to 2012-13, it decelerated since then due to pressure on resources available to the Government. The State Government needs to expand its fiscal space to accommodate high investments.

Table 6

Borrowings and Repayments: 2014-15

(Rs.In Lakh)

	Budget Estimates	Actual	Difference
Public Debt Receipts			
Internal Debt	44195.97	40812.00	-3383.97
Loans Advances from Central Government	1450.00	367.00	-1083.00
Public Debt	45645.97	41179.00	-4466.97
Small Savings and Provident Fund	21378.63	26551.00	5172.37
Total	67024.60	67730.00	705.40
Debt Repayments			
Internal Debt	7863.93	7736.00	-127.93
Loans Advances from Central Government	1036.05	967.00	-69.05
Public Debt	8899.98	8703.00	-196.98
Small Savings and Provident Fund	20979.19	24096.00	3116.81
Total	29879.17	32799.00	2919.83

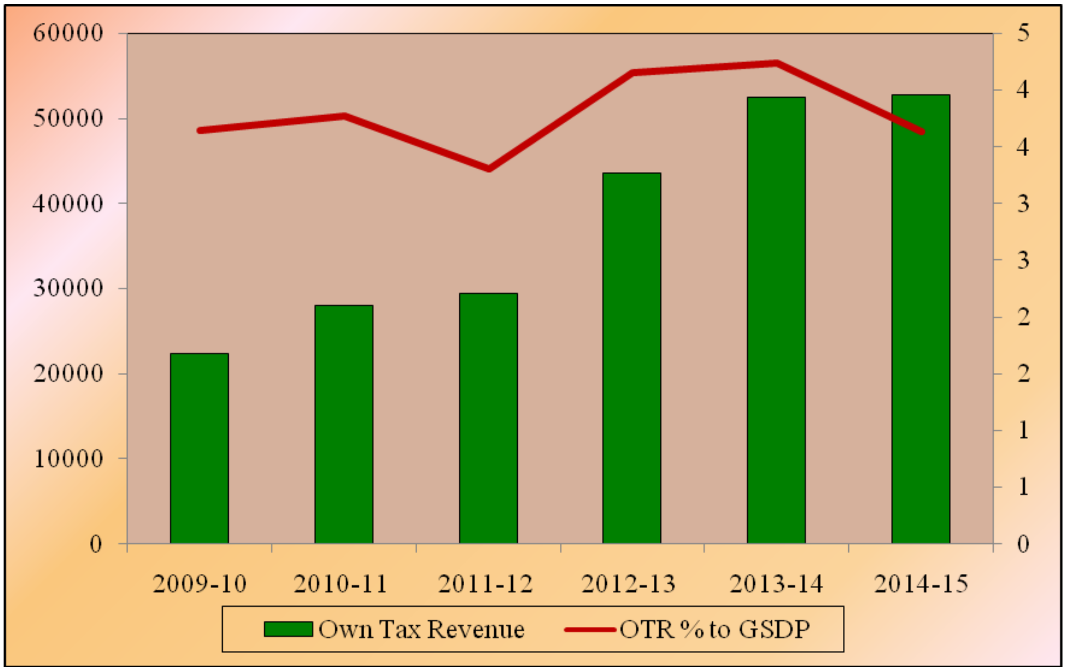
Source: Finance Accounts and Budget Document for the year 2013-14 and 2014-15

Tax Policy and Administration

The FRBM Act requires the State Government to maintain integrity of the tax system by minimizing special incentives, concessions and exemptions. It also calls upon the Government to pursue the tax policy with due regard to economic efficiency and compliance cost. The own -tax revenue,which showed an increasing trend as percentage to the GSDP since 2010-11, declined in 2014-15 (Figure 5). One of the important features of a good tax system is to maintain stability and predictability in the level of tax burden. Although the own-tax performance was not adequate in 2014-15, there have not been many changes in tax rate of individual State taxes. The VAT regime, introduced in 2005, has stabilized in terms of rate and base structure in the State.

Collecting sufficient revenues to carry out functional responsibilities without distorting economic decisions of people relative to saving and consumption and market behavior imparts economic efficiency to the tax system. The introduction of VAT and stabilization of the rate structure in the State has reduced any discretionary changes in the tax policy. The State Government has made efforts to modernize the tax administration and introduced electronic payment taxes, e-filing of returns and generation of Waybills and statutory forms on electronic mode.

Figure 5
Own Tax Revenue as Percentage of GSDP



The FRBMA also calls upon the Government to raise non-tax revenue with due regard to cost recovery and equity. The non-tax revenue of the State contributes significantly to the own revenue of the State. As percentage of GSDP, it has shown marginal decline in 2014-15 over the previous year. Its relative share in total own revenue of the State declined. The major share of non-tax revenue of the State comes from provision of electricity and transport and lottery operation. In addition to these sources, the non-tax revenue includes income from interest earnings, police, and forestry. These sources, particularly the lottery income, have not proved to be stable sources of income. The scope for reducing subsidy and improving cost recovery from other services provided by the Government in the social and economic sectors seems to be limited. However, the Government should make efforts to improve cost recovery in economic sectors by improving the quality of the service provided.

Expenditure Policy and Institutional Measures to Improve Quality of Expenditure

The FRBMA of Sikkim calls upon the Government to pursue expenditure policies that would provide impetus to economic growth, poverty reduction, and improvement in human development. The fiscal management principles also requires the Government to improve institutional framework to maintain physical assets, increase transparency, minimize fiscal risks associated with public sector undertakings (PSUs), and formulate realistic budget formulation to minimize the deviations during the course of the year. The achievement of these goals needs to be assessed over a long period.

The achievement of socio-economic development in Sikkim has been significant. The State economy has experienced substantial growth in recent years and the per capita income of the state has increased from Rs.30727 in 2004-05 to Rs.196144 in 2013-14 at current prices. The major socio-economic indicators for the State show commendable improvement. The poverty ratio has declined to 8.19 per cent as compared to all India average of 21.92 per cent in 2011-12. The literacy rate at 81.40 per cent in 2011-12 is significant achievement. The IMR has gone down to 24 per 1000 in 2011 as compared to the all India average of 44. The rebuilding and reconstruction activities required after the devastating earthquake of 2011 has been continuing funded by both the Central and the State Government.

The expenditure trends for the State shows spending on general service, which is relatively less productive for the State, continues to be high. However, there has been a decline in the share of productive expenditure in economic sectors. The capital outlay, which was traditionally high in Sikkim, has shown a downward trend in recent years. Given the availability of fiscal space, the Government should take determined steps to further improve the spending in priority sectors and strengthen the infrastructure building.

The Act requires the Government toformulate a realistic budget with due regard to the general economicoutlook and revenue prospects and minimize deviations during the courseof the year. The detailed account of comparison of budget estimates and actual outturn relating to revenue and expenditure has been given in latter sections. The budget management practice in the State shows several discrepancies. The State is heavily dependent on Central transfers that includes share in central taxes and Central grants. The

State, in addition to centrally sponsored schemes, also receives funding from agencies like DONER and NEC for infrastructure projects. The State budget suffers during the implementation phase due to lack of predictability of these funds. Many a times the expenditures planned in the budget go awry due to non-receipts of components of these funds and late receipt of grants towards fag end of the financial year. It is important for the State Government to step up coordination with the Central agencies to improve the fund-flow to planned projects and programs.

Fiscal transparency measures enunciated in the FRBMA requires the State Government to minimize the secrecy and disclose data and information relating to the fiscal operations. The rules to the Act specify the data and information to be disclosed along with the budget documents.

5. Budget Credibility: Projections and Outturns

The ability to raise the projected revenue and implement the budgeted expenditure is an important factor that shows the capacity of the Government to deliver the public services as enunciated in the Government policies. The deviations from the projected revenues and expenditures blunts the efficacy and credibility of Government policies .The fiscal management principles, enshrined in the FRBM Act, therefore, require that the budget should be formulated in a realistic manner to minimize the deviations from the projections. In this section, a comparison between budget estimates and fiscal outturns for the year 2014-15 is provided. Table 7 shows the fiscal variables as projected in the budget for the year 2014-15 and the achievements for the year. The fiscal indicators for both the budget estimates and budget outturns are shown as percentages of the GSDP at current prices.

In addition to growing slowly over the previous year, the revenue receipts in 2014-15 also fell short of the budget estimates considerably (Table 7). This deviation affected realization of both the revenue and capital expenditure as they were voted in the legislature. The revenue receipts declined by 8.78 percentage points relative the GSDP over the budget estimates. This is equivalent to 23.77 percent when the actual receipt was compared to the budget estimates. The revenue and capital expenditures were low by 5.04 and 4.39 percentage points. While the Government managed to improve the own-tax revenue as compared to the budget estimates by about 6 percent (nominal amounts), the non-tax revenue fell by almost same margin. The decline in Central transfers by 8.82 percentage points relative to the GSDP affected the aggregate revenue the most. Although the compression of therevenue expenditure resulted in a sizable surplus in the revenue account, it was less by 3.74 percentage points as compared to the budget estimates.

Table 7
Budget Estimates and Outturns for the year 2014-15

(Percent to GSDP)

	2013-14	2014-15	2014-15 (BE)	Deviation from the Budget (2014-15)	Difference in % to BE
Revenues	**31.46**	**28.16**	**36.93**	**-8.78**	**-23.77**
Own Tax Revenues	**4.24**	**3.63**	**3.43**	**0.21**	**6.06**
Own Non-Tax Revenues	**2.92**	**2.23**	**2.39**	**-0.16**	**-6.88**
Central Transfers	**24.30**	**22.29**	**31.11**	**-8.82**	**-28.35**
Tax Devolution	6.16	5.57	6.59	-1.01	-15.36
Grants	18.13	16.72	24.53	-7.81	-31.84
Revenue Expenditure	**24.44**	**23.12**	**28.16**	**-5.04**	**-17.88**
General Services	8.36	8.36	8.42	-0.06	-0.71
Social Services	10.31	8.81	10.36	-1.54	-14.89
Economic Services	5.48	5.65	8.93	-3.28	-36.68
Compensation and Assignment to LBs	0.29	0.29	0.45	-0.16	-35.37
Capital Expenditure	**7.44**	**6.93**	**11.32**	**-4.39**	**-38.77**
Capital Outlay	7.37	6.76	11.14	-4.38	-39.34
Net Lending	0.08	0.18	0.18	-0.01	-4.04
Revenue Deficit	**-7.02**	**-5.04**	**-8.78**	**3.74**	**-42.64**
Fiscal Deficit	**0.43**	**1.90**	**2.54**	**-0.65**	**-25.41**
Primary Deficit	**-1.36**	**0.25**	**0.89**	**-0.64**	**-72.28**
Outstanding Debt	**24.79**	**23.98**	**23.73**	**0.25**	**1.07**

Source: Basic data – Finance Accounts and Budget Document for the year 2014-15, GoSGSDP data used are of 2004-05 series

In the case of capital expenditure, there was a shortfall of 4.39 percentage points relative to the GSDP. Although capital outlay was considerably less as compared to the budget estimates, the fiscal deficit was higher as compared to the previous year, due to lower realization of revenue receipts. The outcome of the budget management during the fiscal year 2014-15 was the decline in debt stock from 24.79percent of GSDP in 2013-14 to 23.98 percent in 2014-15.

The comparison of the budget outcomes and estimates reveal several issues pertaining to expenditure management and budget projections. While the State

Government managed to hold on to the own revenue receipts projected in the budget, although with a slip on the non-tax revenue target, the decline in Central transfers, particularly the grants, pulled down the aggregate resources by about 8.78 percentage points relative to GSDP. This is due to non-receipt of Central transfers and late receipt of funds, which could not be utilized during the year (Table 8). The non-receipt of Central transfers is the difference between what was budgeted and what was actually received from the Central Government. The difference works out to be Rs.1280.67 crores (Table 9). The major deviation of Rs.1133.85 crores was from grants alone. There could be two major reasons for non-receipt of funds budgeted for the fiscal year. First, the inability of putting State's share in central programs stops the release of the second installment of already agreed upon fund flows. The second is the anticipated projection of flow of funds that was not materialized. This happens mainly in the case of NEC and NLCPR transfers.

Delayed receipts Central funds considerably aggravated the budget management problem in Sikkim. The funds received during the last quarter of the fiscal year could not put to use and large part of it remains as unspent amount. This has been a continuing practice over last many years. In 2014-15, out of the total Central funds of Rs.1672.26 crores,Rs.586.43 crores was received during the last quarterof the fiscal year (Table 8). This works out to be 35 percent of the aggregate transfers. The unspent amount for the whole year wasRs.516.06 crores. Although, the government usually includes the unspent amount in the plan of spending for the following year on the projects conceived in the budget year, but the spending plan of the budget is not met. The issues relating to delay in implementation of projects and submission of utilization certificate is also a reason for late arrival of funds from the central Government.

Given the dependence of the State on Central funds, it is appropriate to focus on providing the State's share in the scheme of the plan financing and get the projected Central funds. The State Government also needs to be realistic in its anticipation of Central program funds and prepare the budget accordingly. Otherwise, it will be construed as a biased projection of revenues to accommodate ever-increasing budget size.

Table 8

Central Funds Received during End of the Fiscal year and the Unspent Amount

Rs. In Crores

Scheme Name	Total Receipts	Receipts in March	Receipts during Jan to March	Unspent Balances
2009-10				
Plan Central Sector	682.87	35.60	207.25	157.18
CSS	180.19	12.91	52.79	116.67
Total	**863.06**	**48.51**	**260.04**	**273.85**
2010-11				
Plan Central Sector	832.36	110.38	252.77	194.46
CSS	146.40	11.75	48.13	104.80
Total	**978.76**	**122.13**	**300.90**	**299.26**
2011-12				
Plan Central Sector	1198.52	45.46	466.35	143.58
CSS	165.07	14.94	48.60	71.43
Total	**1363.59**	**60.40**	**514.95**	**215.01**
2012-13				
Plan Central Sector	1362.22	112.86	441.36	273.36
CSS	191.49	8.44	38.53	68.96
Total	**1553.71**	**121.30**	**479.89**	**342.32**
2013-14				
Plan Central Sector	1863.27	197.74	412.74	262.33
CSS	235.75	59.99	71.42	190.31
Total	**2099.02**	**257.73**	**484.16**	**452.64**
2014-15				
Plan Central Sector	1100.03	106.61	422.08	328.65
CSS	572.23	46.90	164.35	187.41
Total	**1672.26**	**153.51**	**586.43**	**516.06**

The second major issue in the budget management is the deviation of capital outlay from the budget estimates. The deviation in capital expenditure by 3.74 percentage points in 2014-15 is closelyrelated to non-receipt and delayed receipt of Central grants resulting in large unspent amounts. The delay in implementing the projects in the infrastructure sector due to several inadequacies also stops the flow of funds. The fiscal space available to the State Government in terms of large revenue surplus was not utilized effectively. Although part of the unspent amount is budgeted to be spent next year, on the same projects, the time-overrun results in cost overrun requiring larger amount of resources for completion of the projects.

Compared to the last two years, when the fiscal deficit was very low at below one percent level, in 2014-15 the fiscal deficit increased to 1.90 percent. The rise in fiscal deficit should not be a concern for the State Government, as it remained way below the FRBMA target of 3 percent of GSDP. The rise in fiscal deficit is more to do with decline in revenue surplus resulting due to lower level of revenue receipts as percentage to the GSDP. Capital outlay also was low as result of pressure on resource generation. It raises question regarding the availability of fiscal space to the State government to increase the spending in priority sectors including infrastructure.Without expanding the resource base, be it internal or higher level of transfers from the Central Government, it might be difficult to pursue a higher level of spending policy. As the borrowing limit allowed by the government of India mostly exhausted every year, the State Government needs to strengthen its resource base. The other option is to restructure the expenditure pattern by focusing more on the priority sectors in resource allocation process.

The State Government may have to address several issues including capacity constraint to undertake infrastructure building in a large scale. The capacity constraint to conceptualize projects and implement them properly and ground level bottlenecks in the implementation process have proved to be formidable problems needing serious attention. In addition to low provision of State's share in Central programs and delayed release of Central transfers, many other structural problems also held up the infrastructure projects. These include problemsin acquiring land, lack of proper coordination among the departments, and inefficiencies in project management. It is imperative that the State Government should improve its budget management practice and coordinate with the central Government for better fund flow system to enable better implementation of projects and utilization of voted funds.

5.1 Disaggregated Analysis of Revenue Receipts

Table 9 shows the detailed sources of actual and budgeted revenue receipts.The own tax revenue of the State in 2014-15 has grown by only 0.5 percent over the last year. The realized tax receipt was at the higher side of the budget estimates. It exceeded the projections marginally by Rs.30 croresonly, 6 percent of the budget estimates. Among the components of the State taxes sales tax and excise exceeded the budget projections by Rs.23 and Rs.10 croresrespectively. Although the target set in the budget was met in 2014-15, the growth over last year was meager to make any impact State finances.

The own non-tax revenue of the State was less by Rs.24 crores as compared to the budget estimates, which is 6.88 percent of the budget estimates. In fact the gain in the case of taxes and losses in the case of non-taxes almost balance each other, showing the own revenue receipts almost matching with the budget projections. While there was higher realization from interest receipts by Rs.35crores, the income from state lotteries was less by Rs.369 crores as compared to the budget. The higher interest receipts were due to increase in investment of cash balances. This rise in cash balance is related with unspent amount from the funds received for centrally sponsored schemes. The shortfall in the case of power sector in 2014-15 was rather less.

Table 9
Revenue Realisation: 2014-15

Rs.In Lakh

	2013-14	2014-15	2014-15 (BE)	Difference (Actual to BE)	Difference as % to BE	Growth
Own Tax Revenues	**52491.97**	**52755.09**	**49739.35**	**3016**	**6.06**	**0.50**
Sales Tax	28632.48	28210.06	25944.70	2265	8.73	-1.48
State Excise Duties	12064.01	13136.19	12093.00	1043	8.63	8.89
Motor Vehicle Tax	1852.17	1941.39	1881.60	60	3.18	4.82
Stamp Duty and Regi.Fees	645.47	676.56	770.46	-94	-12.19	4.82
Other Taxes	9297.84	8790.89	9049.59	-259	-2.86	-5.45
Own Non-Tax Revenue	**36159.39**	**32377.60**	**34768.48**	**-2391**	**-6.88**	**-10.46**
Interest Receipts	6702.16	6644.03	3105.00	3539	113.98	-0.87
Dividends and Profits	54.56	87.02	150.00	-63	-41.99	59.49
Police	4113.82	1759.78	5532.28	-3773	-68.19	-57.22
Public Works	468.01	365.95	567.96	-202	-35.57	-21.81
Administrative Services	1106.24	1359.42	1024.81	335	32.65	22.89
State Lotteries	47437.36	41864.03	78723.50	-36859	-46.82	-11.75
Education, Sports, etc.	137.90	121.67	134.10	-12	-9.27	-11.77
Public Health	218.51	197.33	250.00	-53	-21.07	-9.69
Water Supply & Sanitation	316.79	324.50	390.60	-66	-16.92	2.43
Urban Development	99.44	111.56	34.50	77	223.36	12.19
Forestry and Wildlife	1426.93	1144.87	1535.00	-390	-25.42	-19.77
Plantations	361.77	231.27	500.00	-269	-53.75	-36.07
Rural Dev. Program	213.07	165.35	150.00	15	10.23	-22.40
Power	9892.85	11355.75	12110.00	-754	-6.23	14.79
Road Transport	3409.63	2762.57	4300.00	-1537	-35.75	-18.98
Tourism	264.99	263.92	280.00	-16	-5.74	-0.40
Others	-40064.64	-36381.42	-74019.27	37638	-50.85	-9.19
Central Transfers	**300703**	**323632**	**451700**	**-128068**	**-28.35**	**7.63**
Tax Devolution	76262.00	80932.00	95614.30	-14682	-15.36	6.12
Grants	224441	242700	356085	-113385	-31.84	8.14

Decline of Central transfers by a whooping Rs. 1280.68 crores as compared to the budget was the real reason for the aggregate shortfall in the revenue receipts in 2014-15. While both the tax devolution and grants were less than the budget projections, the shortfall in the case of grants was considerable. The reasons for this large deviation have been discussed earlier. The Government needs to utilize an unbiased projection for budgetary resource allocation and coordinate with Central Government agencies managing the programs for better information on flow of funds.

5.2 Disaggregated Analysis of Expenditure Pattern

Although the revenue expenditure in 2014-15 shows a reasonable growth rate of 11 percent over the last year, the deviation from the budget estimates is large. The decomposedrevenue expenditure profile for the year 2014-15given in Table 10shows that the revenue expenditure fell short of the budget estimates by Rs.731 crores, This amount to 17.88percent of budget estimates in nominal terms. The deviations were in social and economic services; the general services almost matching with the projections. The gap between actual spending and the budget estimates in social services was Rs.223.97 crores and in economic services it was Rs.475.59 crores. The contraction in revenue expenditure was more due to shortfall in spending in productive economic services.

While the unspent amount wasspread under many heads in social services, this is particularly in high in education, health, housing, and welfare activities. In the economic service, three sectors where the utilization was discernibly low were the forestry sector under agriculture and allied activities, minor irrigation, rural development. In the case of forestry, non-receipt of state share and the desired funding from JICA for the biodiversity project was the major reason for deviating from the budget estimation. The implementation of this externally aided project seems to be ambitious and very challenging in scope. There are issues relating to fund flow, capacity to undertake the work, and getting reimbursement in time, which slows down the work. In the case of irrigation, lack of central funding and delay in planned infrastructure building, the revenue expenditure was reduced. In rural development sector, irregularities in fund flows under several Central schemes affected the implementation of planed activates

Table 10

Revenue Expenditure Profile: 2014-15

Rs. In Lakh

	2013-14	2014-15	2014-15 (BE)	Difference (Actual to BE)	Difference in % to BE	Growth
Revenue Expenditure	**302506**	**335664**	**408773**	**-73109**	**-17.88**	**10.96**
General Services	**103511**	**121412**	**122275**	**-863**	**-0.71**	**17.29**
Interest Payment	22116	23955	23990	-35	-0.15	8.31
Pension	26063	33308	33087	221	0.67	27.79
Others	55332	64150	65198	-1049	-1.61	15.94
Social Services	**127636**	**127972**	**150369**	**-22397**	**-14.89**	**0.26**
Education	64604	72873	78634	-5761	-7.33	12.80
Public Health	14458	18318	25829	-7511	-29.08	26.70
Water Supply & Sanitation	2219	2837	3517	-680	-19.33	27.86
Housing	17004	14461	19553	-5092	-26.04	-14.95
Urban Development	4029	3447	4128	-681	-16.50	-14.43
Information	1389	1044	1063	-19	-1.82	-24.84
Welfare of SCs, STs & OBCs	2599	2731	3957	-1225	-30.97	5.08
Labour and Employment	585	507	697	-191	-27.32	-13.33
Welfare and Nutrition	15605	9420	10360	-941	-9.08	-39.64
Other Social Services	5145	2333	2630	-297	-11.29	-54.65
Economic Services	**67819**	**82096**	**129655**	**-47559**	**-36.68**	**21.05**
Agriculture	23560	28069	42115	-14045	-33.35	19.14
Crop Husbandry	5549	9711	13268	-3557	-26.81	74.99
Animal Husbandry	3317	3069	3516	-447	-12.71	-7.46
Forestry and Wild Life	7778	8630	15000	-6370	-42.46	10.96
Food Storage	2500	2619	2759	-139	-5.05	4.79
Rural Development	9319	16648	24957	-8309	-33.29	78.65
Irrigation and Flood Control	3978	1813	14856	-13043	-87.80	-54.43
Energy	12044	13713	13466	248	1.84	13.86
Industry and Minerals	2991	3988	6518	-2530	-38.82	33.34
Transport	12774	14212	14900	-688	-4.61	11.26
General Economic Services	2829	3262	11791	-8529	-72.33	15.29
Other Economic Services	323	391	1053	-662	-62.86	21.20
Assignment to LBs	**3541**	**4184**	**6473**	**-2289**	**-35.37**	**18.16**

Therewas large shortfall in capital expenditure as compared to that of the budget estimates of the year 2014-15 (Table 11). The actual expenditure was less by Rs.636.09crores, which was about 39 percent of the budget amount. This is quite large given the size of the State budget. The capital outlay fell short of the budget estimates by large amount in all sectors – general, social, and economic services. In the case of general services,a shortfall of Rs.101.41crore was found as compared to the budget estimates. In the case of social and economic services, the shortfall was of Rs.250.39 crores and Rs. 284.29crores respectively. The sectors where major shortfall was witnessed were education, water supply and sanitation, energy, transport and tourism, public works.

Table 11

Capital Expenditure Profile

Rs. In Lakh

	2013-14	2014-15	2014-15 (BE)	Difference (Actual to BE)	Difference in % to BE	Growth
Capital Outlay	**91194.61**	**98071.03**	**161679.76**	**-63608.73**	**-39.34**	**7.54**
General Services	**16952.34**	**10951.99**	**21092.63**	**-10140.64**	**-48.08**	**-35.40**
Police	1488.72	2023.33	2777.30	-753.97	-27.15	35.91
Public Works	15463.62	8928.66	18315.33	-9386.67	-51.25	-42.26
Social Services	**26621.35**	**26981.49**	**52020.59**	**-25039.10**	**-48.13**	**1.35**
Education, sports, art & culture	4979.97	3173.98	7141.82	-3967.84	-55.56	-36.27
Medical and Public Health	9346.68	6132.81	7705.18	-1572.37	-20.41	-34.39
Water supply and sanitation, Housing and Urban Development	11114.35	17185.03	35294.12	-18109.09	-51.31	54.62
Information & Broadcasting	25.00	200.00	200.00	0.00	0.00	700.00
Welfare of SCs, STs and OBCs	186.06	139.67	910.29	-770.62	-84.66	-24.93
Social security and Nutrition	969.28	150.00	769.18	-619.18	-80.50	-84.52
Economic services	**47620.92**	**60137.55**	**88566.40**	**-28428.85**	**-32.10**	**26.28**
Agricultural and allied activities	1239.95	1161.26	1702.63	-541.37	-31.80	-6.35
Rural development	1928.69	1600.88	2637.01	-1036.13	-39.29	-17.00
Special areas Programme	1169.95	2248.61	2400.00	-151.39	-6.31	92.20
Irrigation and flood control	379.46	425.30	570.00	-144.70	-25.39	12.08
Energy	6625.45	3241.90	6420.41	-3178.51	-49.51	-51.07
Industries and minerals	411.46	705.77	345.00	360.77	104.57	71.53
Transport	29533.23	24048.18	36257.66	-12209.48	-33.67	-18.57
Tourism	6307.73	26655.65	38118.69	-11463.04	-30.07	322.59

The decline in capital expenditure vis-à-vis the budget estimates, however, may not be all by design to achieve fiscal targets. The inability to spend the available funds, non-receipt of the entire central funds as budgeted, and late receipts Central funds in some CSS programmes are the major reasons for this shortfall. Some of the budget heads under capital expenditure indicate that budget estimates were based on several Central grants, NEC projects, and NLCPR components of DONER. Under many of these projects, funds were not received during the year for which the actual expenditure fell short of the budget estimates. The predictability of availability fund has remained low. Further, the budget management system in the State has not been very efficient. Many spending departments also pointed out the fact that the State Government failed to provide the State's share in several CSS projects for which, the next installments of Central funds were not received. Given the requirement of infrastructure building in hilly State like Sikkim, forgoing large amount of Central funds due to non-provision of State share is a serious lapse in the budget management process.

The spending departments, particularly those who have the responsibility of building infrastructure in the State have also not been able to coordinate their activities efficiently even to spend the available funds. For instance, while the irrigation and flood control department was hit hard by non-receipt of funds under AIBP, the failure to provide utilization certificate in timely manner, layers of authorities involved in clearing the project proposals, and inefficiency of contractors (cooperative societies at grassroots level) have proved to be setbacks in implementing the projects. The power sector provided several reasons for decline in capital expenditure as compared to the budget projection. These include delay in clearance for acquiring forestland, delay in starting of the work, delay in utilization of previous installment, non-receipt of State share and non-receipts of Central, and NEC grants. Land acquisition has remained very complicated issue for water supply and sanitation sector, in addition to non-provision of State share. These reasons for non-spending raise pertinent questions regarding projection selection, budgeting, predictability of fund flow, and project execution.

6. Concluding Remarks

The fiscal situation of Sikkim in 2014-15 shows a decline in revenue receipts as percentage to GSDP due to slide in Central transfers as compared to the previous year. The pressure on revenue receipts resulted in restricting revenue expenditure and decline in capital outlay. While own tax revenue grew by a small margin of 0.5 percent, the own non-tax revenue declined by 10.46 percent as compared to the previous year resulting in own revenue declining by about 4 percent. The aggregate revenue shows a smaller growth rate of about 5 percent over the last year.

The State Government managed to achieve revenue surplus of about 5 percent of GSDP in 2014-15, which was once again less by about 2 percentage points than what was achieved in 2013-14. The surplus in revenue account continues to be a usual feature of the State finances of Sikkim due to large transfers from the Central Government. The revenue surplus helps the State to finance the capital outlay, which remains reasonably high in the State. Due to slow growth of revenue receipts, the capital expenditure as percentage to GSDP has declined in 2014-15. The fiscal deficit widened to 1.90 percent in 2014-15 as against a meager 0.43 percent in 2013-14. The rise in fiscal deficit, however, is not a concern as it remained below the permissible level of 3 percent to GSDP. As the fiscal deficit remained below the FRBMA target, the outstanding debt burden was reduced to

23.98 per cent relative to the GSDP. This also remained below the FRBMA target of 55.9 percent. The fiscal outcomes for the year 2014-15 conform to the FRBMA targets.

Although the targets of the FRBMA are the benchmarks for the fiscal management, the overarching objective of any government is to provide good governance and improve the quality of life of its citizens. From the fiscal management point of view, it is crucial for the Government to implement the budget as planned to optimize benefits from the economic policies. Proper implementation of agreed upon projects in various sectors, in addition to run the existing projects, improves credibility of Government policies. The delay in implementation increases the cost and it becomes difficult to provide for the cost overrun for completion of the projects. Given the fact the service provision is costly in Sikkim; the budget efficiency should be the priority of the State Government.

The deviations from the budget estimates for the year 2014-15 indicates that there is need to improve the budget management process.The large deviation from the budgeted expenditure raises questions regarding the efficiency of program management.Infrastructure building in a large scale in the difficult terrain of Sikkim requires huge improvement in capacity to conceptualize projects and implement them properly. The ground level bottlenecks in the implementation process like disputes in acquiring land, legal provisions relating to clearances for environment and forest, utilization of previous installment to facilitate further funding, and providing State'sshare of funding in time and coordination among the implementing departments are issues that need to be addressed. The delay in release of the Central funds under various schemes is one of the major reasons for lower utilization budgeted funds emergence of large revenue surplus. The State Government needs to improve its budget management practice and coordinate with the Central Government to streamline the fund flow process.